



Meeting *the* Challenge



ANNUAL REPORT

2008



WHAT'S INSIDE

Preface

- 003** Meeting The Challenge
- 003** Vision
- 003** Mission Statement
- 004** Letter from the Chairman
- 008** Notice of 10th Annual General Meeting
- 012** Location of the AGM Venue
- 013** Statement Accompanying Notice of 10th Annual General Meeting

Performance Review

- 018** Key Financial Highlights
- 019** Group Segmental Analysis
- 020** Group Financial Performance Review
- 024** Airport Performance Benchmark
- 026** Dividend Policy
- 027** Statement of Distribution
- 028** Simplified Group Balance Sheets
- 029** Statement of Workforce
- 029** Group Quarterly Performance
- 030** Group 5-Year Summary
- 031** 5-Year Financial Highlights
- 032** Share Price and Volume Traded
- 033** Financial Calendar

Perspectives

- 036** Chairman's Statement
- 056** Managing Director's Review of Operations
 - 082** Malaysia Airports Technologies Sdn. Bhd. (MA (Technologies))
 - 084** Malaysia Airports Management & Technical Services Sdn. Bhd. (MAMTS)
 - 086** Urusan Teknologi Wawasan Sdn. Bhd. (UTW)
 - 088** Malaysia Airports (Niaga) Sdn. Bhd. (Eraman Malaysia)
 - 090** Malaysia Airports (Properties) Sdn. Bhd. (MA(P))
 - 092** K.L. Airport Hotel Sdn. Bhd. (KLAH)
 - 094** MAB Agriculture-Horticulture Sdn. Bhd. (MAAH)
 - 096** Sepang International Circuit Sdn. Bhd. (SIC)
 - 098** Asia Pacific Auction Centre Sdn. Bhd. (APAC)
- 100** Safety & Security: Twin Challenges
- 104** Our Occupational Safety & Health Agenda
- 106** Green Globe 21: A League of Our Own
- 108** Building Camaraderie
- 109** Corporate Social Responsibility: A Holistic Approach
- 112** National Interest Come First

Leadership

- 116** Board of Directors
- 118** Group Senior Management

Corporate Framework

- 128** Corporate Profile
- 131** Corporate Information
- 132** Group Corporate Structure
- 134** MAHB Organisation Structure
- 136** Calendar of Events 2008
- 152** Awards and Accolades 2008
- 154** Media Highlights

Responsibility

- 158** Statement of Corporate Governance
- 191** Risk Management
- 195** Board Audit Committee Report
- 197** Terms of Reference MAHB Board Audit Committee ("Bac")
- 200** Statement on Internal Control
- 205** Statement of Directors' Responsibility

Financial Statements

- 208** Directors' Report
- 214** Statement by Directors
- 214** Statutory Declaration
- 215** Independent Auditors' Report
- 217** Income Statements
- 218** Balance Sheets
- 220** Consolidated Statement of Changes in Equity
- 221** Statement of Changes in Equity
- 222** Cash Flow Statements
- 225** Notes to the Financial Statements

Airport Operated by the Group

- 306** Airports Operated by The Group
- 308** MAHB (Malaysia Airports Holdings Bhd) Traffic 2008
- 309** Passenger Movements 2008
- 311** Passenger Movements (1999-2008)
- 313** KL International Airport Passenger Movements 2008
- 314** International Passenger Movements by Sectors at KL International Airport
- 323** Commercial Aircraft Movements 2008
- 325** Commercial Aircraft Movements (1999-2008)
- 328** All Aircraft Movements (1999-2008)
- 329** Cargo Movements 2008
- 331** Cargo Movements (1999-2008)
- 333** KL International Airport Cargo Movements 2008
- 334** International Cargo Movements by Sectors at KL International Airport
- 342** Mail Movements 2008
- 344** Mail Movements (1999-2008)
- 346** KL International Airport Mail Movements 2008
- 347** International Mail Movements by Sectors at KL International Airport
- 350** KL International Airport Mail Movements 2008
- 351** Movements at MAHB STOLports in Sabah & Sarawak 2008/2007
- 352** Airlines Operating at KL International Airport 2008 (December)
- 353** Definitions
- 354** Statistics of Shareholdings
- 357** Shareholders and Investors Information
- 358** List of Properties
- 360** Group Corporate Directory
- 363** Airports in Malaysia
 - Proxy Form



MEETING THE CHALLENGE

Competition in the aviation sector is getting stiffer. To meet the challenge, we are looking beyond the obvious to acquire the additional thrust to climb to greater heights. We are expanding our sights into non-aeronautical areas without losing focus on our core business as ultimately our airports will serve as the gateway for passengers to access our non-aviation region.



VISION

World Class Airport Business

MISSION STATEMENT

“Providing world class aviation gateways; managing cost-effective airport network and services; and exceeding the expectations of customers, shareholders and other stakeholders”

LETTER FROM THE CHAIRMAN

Dear Shareholder,

I am pleased to enclose herewith a copy of the Annual Report and Audited Financial Statements of Malaysia Airports Holdings Berhad ("the Company" or "MAHB") for the year ended 31 December 2008. The Annual Report also contains the Notice of the Tenth Annual General Meeting ("the AGM") and a map showing the location of the Meeting. The AGM will once again be held at Gateway Ballroom, Level 1, The Pan Pacific Kuala Lumpur International Airport, Kuala Lumpur International Airport, Jalan CTA 4B, 64000 KLIA, Sepang, Selangor Darul Ehsan on Thursday, 28 May 2009 at 11.30 a.m. or immediately after the conclusion or adjournment (as the case may be) of the Extraordinary General Meeting of the Company.

The Annual Report and Audited Financial Statements provide comprehensive statement of our strategic direction, latest undertakings, achievements and awards, updates on corporate restructuring exercise, governance-initiatives, as well as the Company's financial disclosures for the shareholders' attention and review. These documents can also be accessed at our corporate website at www.malaysiaairports.com.my.

For the year 2009, 10 resolutions are proposed for consideration at the AGM. The purpose and reasons for each of the resolutions are explained under the Explanatory Notes of the Notice of AGM. I hope that you will find the brief explanations helpful in order to make a better decision.

In line with the Company's dividend policy to distribute a dividend payout ratio of at least 50% of the consolidated annual net profit after taxation and minority interest annually, subject to availability of distributable reserves, the Board is recommending for the payment of a final dividend of 14.55 sen per share less income tax of 25% for the financial year ended 31 December 2008. This is subject to the shareholders' approval at the AGM, and will be paid on 29 June 2009 to the respective ordinary shareholders who are registered in the Records of Depositors on 15 June 2009.

During the year, the Board has initiated several key areas for improvement to strengthen the Board's engagement and effectiveness based on the results of the Board's evaluation findings, which include, amongst others, (1) Board to focus on guiding Management towards the successful implementation of an effective succession planning programme within the Group; (2) Board to concentrate on inculcating a high performance management culture; (3) Board to ensure more efforts are put into increasing the non-aeronautical revenue and commercial revenue by Management; (4) Airport visits for benchmarking purposes to learn from the respective airports' experience in increasing the commercial revenue; and (5) Board to identify operational matters and refrain from further deliberation via higher empowerment to Management. The achievements of the above key initiatives are highlighted under the "Statement on Corporate Governance" for your information.

At the AGM, the Board is recommending the re-election of five Directors who are due for retirement, namely, Datuk Seri Bashir Ahmad bin Abdul Majid, Datuk Alias bin Haji Ahmad, Mohd Nadziruddin bin Mohd Basri, Dato' Long See Wool and Dyg Sadiyah binti Abg Bohan, and being eligible, offer themselves for re-election. Their biographical details are enclosed under the "Statement Accompanying Notice of AGM" for your ease of reference.

I also believe that you should be able to comprehend the rest of the agenda/proposed resolutions which include, amongst others, the presentation of the audited financial statements, the proposed payment of Directors' fees, the re-appointment of the auditors, and the proposed issuance and allotment of shares, whereby brief explanations are also provided under the "Explanatory Notes" for your understanding.

The Board believes that all the proposed resolutions as set out in the Notice of the AGM are in the best interest of the Company and its shareholders and further recommends that the shareholders vote in favour of all the resolutions.

Shareholders who are unable to attend the AGM would still be able to exercise their rights to vote, by completing the Proxy Form as enclosed in the Annual Report, according to the instructions as provided in the Form, and submit it to the Registered Office of the Company at Head Office of MAB, Sultan Abdul Aziz Shah Airport, 47200 Subang, Selangor Darul Ehsan, not less than 48 hours before the time set for holding the Meeting or any adjournment thereof.

I look forward to meeting all the shareholders at the forthcoming AGM and be able to share the latest issues and activities concerning the company.

Yours sincerely,



Tan Sri Datuk Aris bin Othman

Chairman, Malaysia Airports Holdings Berhad



meeting the challenge

the challenge
to move
millions attained
from thousands
that arrive at
our doorsteps
daily



NOTICE OF

10TH ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT THE 10TH ANNUAL GENERAL MEETING OF MALAYSIA AIRPORTS HOLDINGS BERHAD (“MAHB” OR “THE COMPANY”) WILL BE HELD AT GATEWAY BALLROOM, LEVEL 1, THE PAN PACIFIC KUALA LUMPUR INTERNATIONAL AIRPORT, KUALA LUMPUR INTERNATIONAL AIRPORT, JALAN CTA 4B, 64000 KLIA, SEPANG, SELANGOR DARUL EHSAN ON THURSDAY, 28 MAY 2009 AT 11.30 A.M. OR IMMEDIATELY AFTER THE CONCLUSION OR ADJOURNMENT (AS THE CASE MAY BE) OF THE EXTRAORDINARY GENERAL MEETING OF THE COMPANY FOR THE FOLLOWING PURPOSES:

AGENDA**AS ORDINARY BUSINESS****RESOLUTION 1**

To receive and adopt the Audited Financial Statements for the financial year ended 31 December 2008 together with the Reports of the Directors and Auditors thereon.

Explanatory Note:-

Pursuant to Section 169 (1) of the Companies Act, 1965, it is the duty of the Board to present to the shareholders the Audited Financial Statements for the financial year ended 31 December 2008 together with the Reports of the Directors and Auditors for your information.

RESOLUTION 2

To declare and approve the payment of a final dividend of 14.55 sen per share less 25% income tax in respect of the financial year ended 31 December 2008 as recommended by the Directors.

Explanatory Note:-

In accordance with Article 154 of the Company's Articles of Association, the Board is recommending that the shareholders approve the payment of the final dividend. Should the above resolution be passed, the final dividend of 14.55 sen per share less 25% income tax in respect of the financial year ended 31 December 2008, will be paid on 29 June 2009 to the respective ordinary shareholders who are registered in the Records of Depositors on 15 June 2009.

RESOLUTION 3

To approve the payment of Directors' Fee for the financial year ended 31 December 2008.

Explanatory Note:-

In accordance with Article 112 of the Company's Articles of Association, the Board is recommending that the shareholders approve the payment of Directors' Fee for the financial year ended 31 December 2008 at a total amount of RM238,500.00.

RESOLUTION 4

To re-elect Mohd Nadziruddin bin Mohd Basri who shall retire in accordance with Article 129 of the Company's Articles of Association and who, being eligible, offers himself for re-election.

RESOLUTION 5

To re-elect Dato' Long See Wool who shall retire in accordance with Article 129 of the Company's Articles of Association and who, being eligible, offers himself for re-election.

RESOLUTION 6

To re-elect Dyg Sadiah binti Abg Bohan who shall retire in accordance with Article 129 of the Company's Articles of Association and who, being eligible, offers herself for re-election.

Explanatory Note for Resolutions 4 to 6:-

Article 129 stipulates that any new Director who has been appointed as a member of the Board of Directors of MAHB during the year, may only be permitted to hold office until the next Annual General Meeting ("AGM"), and at that juncture he/she shall be compulsorily due for retirement and re-election at the said AGM thereof.

RESOLUTION 7

To re-elect Dato' Seri Bashir Ahmad bin Abdul Majid who shall retire in accordance with Article 131 of the Company's Articles of Association and who, being eligible, offers himself for re-election.

RESOLUTION 8

To re-elect Datuk Alias bin Haji Ahmad who shall retire in accordance with Article 131 of the Company's Articles of Association and who, being eligible, offers himself for re-election.

Explanatory Note for Resolutions 7 and 8:-

Article 131 expressly states that in every subsequent Annual General Meeting, at least one-third of the Directors for the time being shall retire from office and the retiring Directors shall then be eligible to seek for re-election thereof.

RESOLUTION 9

To re-appoint Messrs. Ernst & Young as Auditors of the Company and to authorise the Directors to fix their remuneration.

Explanatory Note:-

Pursuant to Section 172 (2) of the Companies Act, 1965 shareholders are required to approve the re-appointment of Auditors who shall hold office until the conclusion of the next Annual General Meeting and to authorise the Directors to determine their remuneration thereof. The present auditors, Messrs. Ernst & Young have indicated their willingness to continue their services for another year.

NOTICE OF 10TH ANNUAL GENERAL MEETING

AS SPECIAL BUSINESS

To consider and, if thought fit, to pass the following Ordinary Resolution:-

RESOLUTION 10

Ordinary Resolution

- Authority to Issue and Allot Shares

"That, subject always to the Companies Act, 1965, the Articles of Association of the Company and the approvals of the relevant governmental/regulatory authorities, the Directors be and are hereby authorised pursuant to Section 132D of the Companies Act, 1965 to issue and allot shares in the Company at any time until the conclusion of the next Annual General Meeting, and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit provided that the aggregate number of shares to be issued does not exceed ten per centum (10%) of the issued share capital of the Company for the time being and that the Directors be and are also empowered to obtain the approval from Bursa Malaysia Securities Berhad for the listing of and quotation for the additional shares so issued."

Explanatory Note:-

The Ordinary Resolution proposed above, if passed, will empower the Board to issue shares in the Company up to an amount not exceeding in total ten per centum (10%) of the issued share capital of the Company, subject to compliance with regulatory requirements. The approval is sought to avoid any delay and cost in convening a general meeting for such issuance of shares. This authority, unless revoked or varied by the Company at a general meeting, will expire at the next Annual General Meeting.

To transact any other business of which due notice shall have been given in accordance with the Companies Act, 1965 and the Company's Articles of Association.

NOTICE OF ENTITLEMENT AND PAYMENT OF FINAL DIVIDEND

FURTHER NOTICE IS HEREBY GIVEN THAT subject to the approval of shareholders at the 10th Annual General Meeting to be held on 28 May 2009, a final dividend of 14.55 sen per share less 25% income tax in respect of the financial year ended 31 December 2008, will be paid on 29 June 2009 to Depositors whose names registered in the Records of Depositors on 15 June 2009. A Depositor shall qualify for entitlement to the dividend only in respect of:

- a) Shares transferred into the Depositor's Securities Account before 4.00 p.m. on 15 June 2009, in respect of ordinary transfers; and
- b) Shares bought on Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of Bursa Malaysia Securities Berhad.

By Order of the Board

SABARINA LAILA BINTI MOHD HASHIM

LS 0004324

Company Secretary

Subang

Selangor Darul Ehsan

6 May 2009

Notes to the Notice of Annual General Meeting

1. All resolutions at the Meeting will be decided on a show of hands, unless otherwise instructed.
2. A member of the Company entitled to attend and vote at the Meeting, but who is unable to attend the Meeting is entitled to appoint a proxy to attend and vote in his stead. A proxy may but need not be a member of the Company.
3. The instrument appointing a proxy shall be in print or writing under the hand of the appointer or his duly constituted attorney, or if such appointer is a corporation, under its common seal or the hand seal of its attorney.
4. The instrument appointing a proxy must be deposited at the Registered Office of the Company at Head Office of MAB, Sultan Abdul Aziz Shah Airport, 47200 Subang, Selangor Darul Ehsan not less than 48 hours before the time set for holding the Meeting or any adjournment thereof.
5. Please note that in order to attend and vote at the Meeting, a member must be registered in the Record of Depositors at 4.00 p.m. on 22 May 2009 in accordance with Article 48(2) of the Company's Articles of Association. Any changes in the entries on the Record of Depositors after the abovementioned date and time shall be disregarded in determining the rights of any person to attend and vote at the Meeting.
6. Please be reminded that the AGM is a private meeting between the directors, shareholders, proxies, duly authorised representatives and the auditors. As such, non-shareholders are barred from entering the Meeting. However, any disabled shareholder may be allowed to enter the Meeting accompanied by a person who is not a shareholder.
7. Shareholders' attention is hereby drawn to the Listing Requirements of the Bursa Malaysia Securities Berhad, which allows a member of the Company which is an authorised nominee, as defined under the Securities Industry (Central Depositories) Act, 1991, to appoint at least one (1) proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.

LOCATION OF THE AGM VENUE

LOCATION OF THE AGM VENUE

Gateway Ballroom, Level 1
The Pan Pacific Kuala Lumpur International Airport
Kuala Lumpur International Airport
Jalan CTA 4B, 64000 KLIA, Sepang
Selangor Darul Ehsan

Tel: 03-8787 3333

Fax: 03-8787 5555

Website: www.panpacific.com/KLairport/Overview.html

HOW TO GET THERE?

By Car

The Pan Pacific KLIA is 80 km drive from the Kuala Lumpur City Centre, 40 km drive from Petaling Jaya, and 30 km drive from Putrajaya/Cyberjaya via the North-South Expressway Central Link (ELITE). The signposts are visibly placed with direction to the right location. Ample parking spaces are available at the Hotel and at the short term car park, KLIA.

By Express Rail Link

The Express Rail service can be boarded at the KL Sentral Station.

ADDITIONAL INFORMATION

Mobile Phones

Please ensure your mobile phones are switched off during the Meeting.

Registration

Please register your attendance at the registration desks which are clearly located at the front entrance of the Meeting hall.

STATEMENT ACCOMPANYING NOTICE OF

10TH ANNUAL GENERAL MEETING

Statement Accompanying Notice of 10th Annual General Meeting Made Pursuant to Paragraph 8.28(2) of the Listing Requirements of Bursa Malaysia Securities Berhad.

Details of Directors who are standing for re-election/re-appointment at the 10th Annual General Meeting as per Resolutions 4, 5, 6, 7 and 8 of the Notice of 10th Annual General Meeting, respectively:

Name	Mohd Nadziruddin bin Mohd Basri
Age	41
Nationality	Malaysian
Qualification	<ul style="list-style-type: none"> • Bachelor of Sc (Econ), London School of Economics • Fellow Member of the Association of Chartered Certified Accountants • Member of the Malaysian Institute of Accountants
Position on the MAHB Board	Non-Independent Non-Executive
Date first appointed to the MAHB Board	21 October 2008
Membership of MAHB Board Committees	<ul style="list-style-type: none"> • Board Finance and Investment Committee • Board Risk Management Committee
Working Experience	<ul style="list-style-type: none"> • Chief Financial Officer, Khazanah Nasional Berhad (June 2007 – present) • Senior General Manager, Airport Operations, Malaysian Airline System Berhad (April 2005 – May 2007) • General Manager, Project Management and Assurance, Malaysian Airline System Berhad (April 2003 to March 2005) • Secondment to the Program Management Office of Malaysia Airlines System Berhad, Arthur Andersen & Co (subsequently known as Ernst & Young in 2002) (August 2001 – March 2003) • Senior Manager, Assurance and Business Advisory Division, Ernst & Young (September 1994 – July 2001)
Occupation	Company Director
Any other directorships in public companies	Penerbangan Malaysia Berhad
Securities holdings in MAHB and subsidiaries	Nil
Any family relationship with Director and/or Major Shareholder of MAHB or any companies that have entered into any transactions with MAHB or its subsidiaries	Nil
List of convictions for offences within the past 10 years other than traffic offences, if any	Nil
Number of MAHB Board Meetings attended in the financial year	1 out of 2

LOCATION OF THE AGM VENUE

Name	Dato' Long See Wool
Age	54
Nationality	Malaysian
Qualification	<ul style="list-style-type: none"> Bachelor of Arts (Honours), University of Malaya Diploma in Public Administration, Nasional Institute of Public Administration (INTAN)
Position on the MAHB Board	Non-Independent Non-Executive
Date first appointed to the MAHB Board	9 September 2008
Membership of MAHB Board Committees	<ul style="list-style-type: none"> Board Risk Management Committee Board Procurement Committee
Working Experience	<ul style="list-style-type: none"> Deputy Secretary-General (Planning), Ministry of Transport ("MOT") (November 2006 – Present) Under Secretary (Aviation), Aviation Division, MOT (May 2002 – November 2006) Principal Assistant Secretary (Airport Development), Aviation Division, MOT Assistant Secretary (Air Transport), Aviation Division, MOT
Occupation	Deputy Secretary-General (Planning), Ministry of Transport
Any other directorships in public companies	Nil
Securities holdings in MAHB and subsidiaries	Nil
Any family relationship with Director and/or Major Shareholder of MAHB or any companies that have entered into any transactions with MAHB or its subsidiaries	Nil
List of convictions for offences within the past 10 years other than traffic offences, if any	Nil
Number of MAHB Board Meetings attended in the financial year	1 out of 3

Name	Dyg Sadiyah binti Abg Bohan
Age	47
Nationality	Malaysian
Qualification	<ul style="list-style-type: none"> • Master in Business Administration, Universiti Kebangsaan Malaysia • Diploma in Public Administration, Nasional Institute of Public Administration (INTAN), Bukit Kiara • Bachelor of Science (Honours), University of Malaya
Position on the MAHB Board	Non-Independent Non-Executive
Date first appointed to the MAHB Board	25 February 2009
Membership of MAHB Board Committees	<ul style="list-style-type: none"> • Board Procurement Committee • Board Finance and Investment Committee • Board Nomination and Remuneration Committee
Working Experience	<ul style="list-style-type: none"> • Head of Special Unit, Minister of Finance II Office, Ministry of Finance ("MOF") • Deputy Under Secretary, Investment, Minister of Finance (Incorporated) and Privatisation Division, MOF (1999) • Assistant Secretary, Malaysia Civil Service, Ministry of Agriculture (1989)
Occupation	Head of Special Unit, Minister of Finance II Office, Ministry of Finance
Any other directorships in public companies	Penang Port Holdings Berhad
Securities holdings in MAHB and subsidiaries	Nil
Any family relationship with Director and/or Major Shareholder of MAHB or any companies that have entered into any transactions with MAHB or its subsidiaries	Nil
List of convictions for offences within the past 10 years other than traffic offences, if any	Nil
Number of MAHB Board Meetings attended in the financial year	Nil (appointed w.e.f. 25 February 2009)

LOCATION OF THE AGM VENUE

Name	Dato' Seri Bashir Ahmad bin Abdul Majid
Age	59
Nationality	Malaysian
Qualification	Bachelor of Arts Degree (Honours) majoring in International Relations, University of Malaya
Position on the MAHB Board	Managing Director (Non-Independent Executive)
Date first appointed to the MAHB Board	7 June 2003
Membership of MAHB Board Committees	<ul style="list-style-type: none"> Board Finance and Investment Committee Board Risk Management Committee
Working Experience	Position Held In MAS <ul style="list-style-type: none"> Management Trainee (June 1972 – November 1973) Marketing Coordinator (December 1973 – December 1974) Sales Manager Singapore (January 1975 – October 1975) Manager Penang (November 1975 – May 1978) Marketing Manager (June 1978 – May 1982) International Relations Manager (June 1982 – December 1991) Deputy Director-International Relations (December 1991 – December 1992) Director of Corporate Planning (December 1992 – August 1994) Commercial Director (August 1994 – August 1996) Senior Vice-President Commercial (August 1996 – July 1997) Executive Vice-President, Airline (July 1997 – November 2001) Aviation Advisor to the Ministry of Transport (November 2001 – June 2003)
Occupation	Managing Director
Any other directorships in public companies	Nil
Securities holdings in MAHB and subsidiaries	Nil
Any family relationship with Director and/or Major Shareholder of MAHB or any companies that have entered into any transactions with MAHB or its subsidiaries	Nil
List of convictions for offences within the past 10 years other than traffic offences, if any	Nil
Number of MAHB Board Meetings attended in the financial year	12 out of 12

Name	Datuk Alias bin Haji Ahmad
Age	61
Nationality	Malaysian
Qualification	<ul style="list-style-type: none"> • Bachelor of Arts (Honours) Degree majoring in (Economics and Sociology), University of Malaya • Diploma of Education, University of Malaya
Position on the MAHB Board	Independent Non-Executive
Date first appointed to the MAHB Board	1 December 2003
Membership of MAHB Board Committees	<ul style="list-style-type: none"> • Board Nomination and Remuneration Committee (Chairman) • Board Procurement Committee • Board Audit Committee • Board Risk Management Committee
Working Experience	<ul style="list-style-type: none"> • Assistant Secretary (Finance) (1972 – 1975) • Special Officer, Minister of Finance (1976 – 1984) • Special Officer, Minister of Trade & Industry (1984 – 1987) • Director of Vocational Training, Manpower Department, Ministry of Labour (1987 – 1988) • Deputy Secretary (Supply), Secretary for Defences Industries, Secretary of Development Division, Secretary to the Main Coordinating Committee, Secretary to the Cabinet Committee (1988 – 1998) • Federal Secretary General for Sabah (1999 – 2001) • Deputy Secretary General (Finance), Ministry of Health (April 2001 – July 2003)
Occupation	Company Director
Any other directorships in public companies	Nil
Securities holdings in MAHB and subsidiaries	Nil
Any family relationship with Director and/or Major Shareholder of MAHB or any companies that have entered into any transactions with MAHB or its subsidiaries	Nil
List of convictions for offences within the past 10 years other than traffic offences, if any	Nil
Number of MAHB Board Meetings attended in the financial year	10 out of 12

KEY

FINANCIAL HIGHLIGHTS

CONSOLIDATED INCOME STATEMENT

Year ended 31 December

	2008 RM Million	2007 RM Million	% Change
Revenue	1,513.0	1,380.0	9.6
Operating profit	430.3	404.6	6.4
Financing costs	(0.3)	(3.3)	90.9
Share of results of associates	2.4	3.6	(33.3)
Profit before tax	432.4	404.9	6.8
Income tax expense	(123.4)	(114.3)	(8.0)
Profit for the year from continuing operations	309.0	290.6	6.3
Loss for the year from discontinued operation	(3.2)	(1.3)	(146.2)
Profit for the year	305.8	289.3	5.7
Attributable to:			
Equity holders of the Company	305.2	288.9	5.6
Minority interests	0.6	0.4	50.0
	305.8	289.3	5.7

*Earnings per share attributable to equity holders of the Company (sen)

Basic	27.8	26.3	5.7
Basic, for continuing operations	28.0	26.4	6.3

CONSOLIDATED BALANCE SHEET

As at 31 December

ASSETS

	2008 RM Million	2007 RM Million	% Change
Property, plant and equipment	1,977.2	1,849.5	6.9
Investments	364.2	132.2	175.5
Non-current assets	1,243.4	1,233.8	0.8
Current assets	1,403.2	1,239.5	13.2
Asset of disposal group classified as held for disposal	4.3	—	—
Total assets	4,992.3	4,455.0	12.1

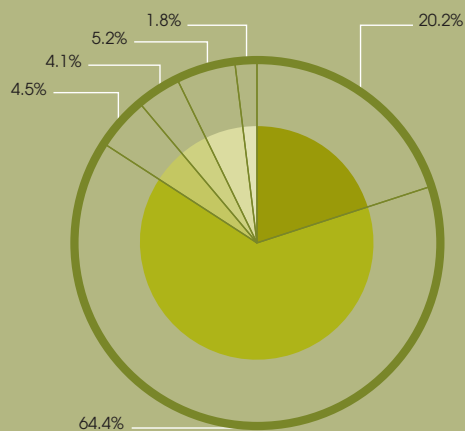
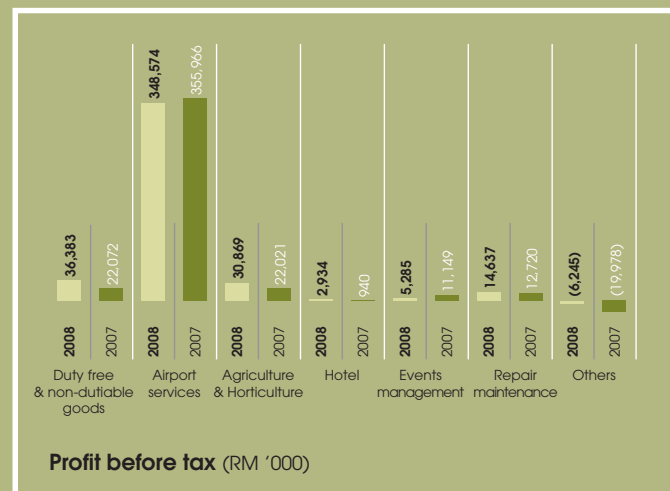
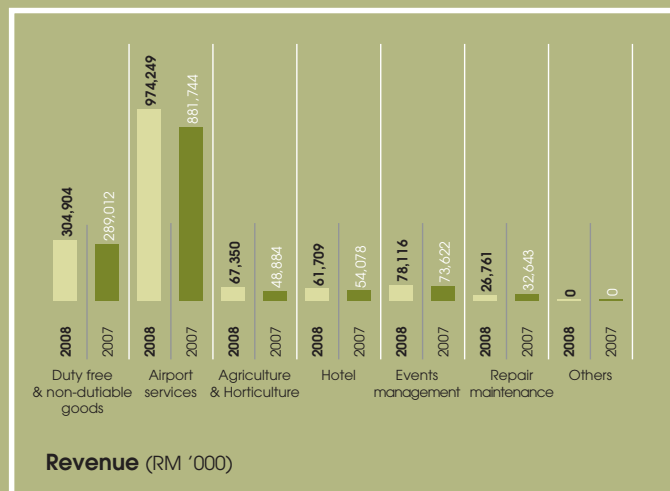
EQUITY AND LIABILITIES

Share capital	1,100.0	1,100.0	—
Share premium	822.7	822.7	—
Retained earnings	1,257.0	1,096.7	14.6
Foreign exchange reserve	(1.2)	—	—
	3,178.5	3,019.4	5.3
Minority interests	4.1	3.6	13.9
TOTAL EQUITY	3,182.6	3,023.0	5.3
Non-current liabilities	434.7	112.0	288.5
Current liabilities	1,372.3	1,320.0	4.0
Liabilities of disposal group classified as held for disposal	2.7	—	—
TOTAL LIABILITIES	1,809.7	1,432.0	26.4
TOTAL EQUITY & LIABILITIES	4,992.3	4,455.0	12.1
Net assets per share (RM)	2.9	2.7	7.4

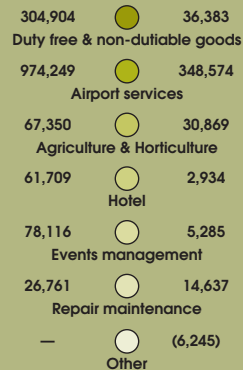
Revenue
(RM' Million)Profit before tax
(RM' Million)Earnings per share
attributable to equity
holders of the Company
Basic (Sen)

GROUP

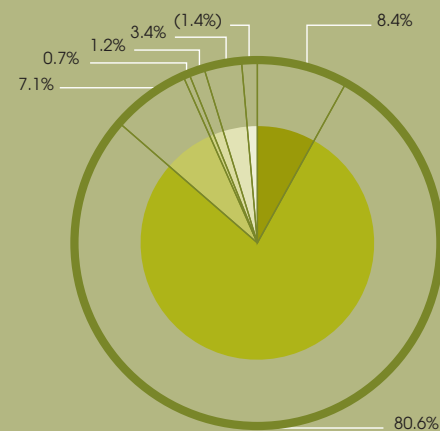
SEGMENTAL ANALYSIS



Revenue 2008 RM'000



Profit before tax 2008 RM'000



1,513,089 432,437
Consolidated

GROUP FINANCIAL

PERFORMANCE REVIEW

2008 HEADLINE KPIS

	Financial Year 2007	Headline KPI Financial Year 2008	Achievement Financial Year 2008
EBITDA	RM548 million	RM577 million	RM587 million
ROE (%)	9.94	9.75	9.86

GROUP REVENUE

For the financial year ended 31 December 2008 (FY2008), revenue grew 9.65% to RM1,513.1 million in comparison with RM1,380.0 million reported in FY2007. The increase in financial year-to-date revenue was attributed to 9.26% growth in revenue generated from airport operations and 11.81% growth in revenue generated from non-airport operations. The growth in revenue generated from airport operations were mainly due to 16.58% increase in non-aeronautical revenue coming from higher rental for advertising and rental royalty derived by retail activities resulting from the increased in passenger volume. The aeronautical revenue increased by 3.0% due to higher passenger movements. Total passenger volume at all airports grew 5.01% totaling 47.45 million for the 12 months ended 31 December 2008. This was supported by 5.12% growth in domestic passenger volume to 26.40 million and 4.87% growth in international passenger volume to 21.06 million. Total aircraft movements at our domestic and international airports also registered a growth of 9.96% with 496,271 movements.

The non-airport operations saw revenue increases in almost every segments, led by the agriculture segment which improved by 37.8% mainly due to higher total crop harvested and higher average FFB price in the financial year under review.

TYPES OF REVENUE: AERONAUTICAL AND NON-AERONAUTICAL REVENUE

The Group's revenue base is divided into aeronautical revenue and non-aeronautical revenue. Aeronautical revenue is mainly from passenger service charges, passenger security service charges, landing and parking fees, and other ancillary charges to the airlines. MAHB's non aeronautical revenue comprises revenue generated from commercial activities including operation of duty free and non-duty free outlets, management of food and beverage outlets, management and operation of parking facilities, the Airside Transit Hotel, the Free Commercial Zone at KLIA and the lease of commercial spaces.

Non-aeronautical revenue also derives from hotel operation, agriculture and horticulture activities, events management and other activities as described in the financial statements of the Group.

The non-aeronautical business continued to outperform the aeronautical business by contributing 56.9%, or RM860.6 million, to the Group's revenue and this is in line with the Group's long term plan to further grow this branch of business.

BUSINESS SEGMENTS

The Group's business segment is divided into 2 sub-groups i.e. Airport Operations and Non-Airport Operations. Airport Operations comprise of Airport Services and Duty free and Non-dutiable goods business segments. Airport Services income consists of aeronautical revenue and non-aeronautical revenue. The Non-Airport Operations comprises of Agriculture, Hotel, Event Management, Project Repair Maintenance and Auction. All Non-Airport Operations income is Non-Aeronautical revenue.

	Actual 2008 RM'000	Actual 2007 RM'000	Var %
I. Airport Operations	1,279,153	1,170,756	9.26
1. Airport Services:			
– Aeronautical	652,498	633,239	3.04
– Non-aeronautical: (Rental and others)	321,751	248,505	29.47
2. Retail and F&B	304,904	289,012	5.5
II. Non airport operations	233,936	209,227	11.81
Non-Aeronautical:			
– Agriculture and horticulture	67,350	48,884	37.78
– Hotel	61,709	54,078	14.11
– Event management	78,116	73,622	6.1
– Project and repair maintenance	26,761	32,643	(18.02)
Total Revenue	1,513,089	1,379,983	9.65

SEGMENTAL REVENUE

1. AIRPORT OPERATION

- a) **Airport services:** This business segment is tasked with operating, managing and maintaining designated airports in Malaysia and providing airport related activities. The Airport Services segment's revenue increased by RM92.51 million or 10.49% mainly due to the increase in non-aeronautical revenue by 29.47% coming from higher rental for advertising and rental royalty derived by retail activities resulting from the increase in passenger volume.

- b) **Duty free & non-dutiable goods:** The duty free and non-dutiable goods business operates duty free and non-dutiable goods outlets as well as manages food and beverage outlets at designated airports. This business segment recorded an increase in revenue by RM15.9 million or 5.5% mainly contributed from outlets operating at LCCT and higher passenger numbers.

2. NON AIRPORT OPERATIONS

- a) **Agriculture:** Agriculture business segment activities include the cultivation and sale of oil palm and other agriculture products. The agriculture segment recorded RM18.5 million or 37.8% increase in revenue mainly due to the increase in the average Fresh Fruit Bunch (FFB) price and total crop harvested.
- b) **Hotel:** The Hotel segment manages and operates the Pan Pacific Hotel KLIA. This segment registered an increase in revenue of RM7.6 million or 14.1% as a result of higher room and occupancy rates in 2008 and new engagement of airport catering business.
- c) **Event management:** The events management business manages and operates the Sepang F1 Circuit and organises and promotes motor sports and entertainment events. FY2008 saw an increase in revenue due to higher revenue from Motorcycle Grand Prix as well as higher track and facilities rental.

GROUP FINANCIAL PERFORMANCE REVIEW

GROUP PROFITABILITY

The Group registered a consolidated profit before tax (PBT) of RM432.4 million in FY2008 which is the highest level of pre tax profits posted since the Group was listed on Bursa Malaysia in 1999. The Group performance improved by RM27.5 million or 6.8% from RM404.9 million reported in FY2007. The improvement was mainly due to the overall higher revenue.

Earnings before tax, interest, depreciation and amortisation (EBITDA) improved by 7.18% or RM39.3 million compared to FY2007.

SEGMENTAL PROFITABILITY

1. AIRPORT OPERATIONS

- a) **Airport services:** PBT for Airport Services segment is lower by RM7.4 million or 2.1% despite the increase in revenue. This was due to the one off write back in the provision for pension fund amounting to RM34.4 million in FY2007 which have resulted in higher PBT for the FY2007 as compared to FY2008.
- b) **Duty free & non- dutiable goods:** PBT for Duty Free and non-dutiable goods segment is higher by RM14.3 million in FY2008 or 64.8% as compared to FY2007 mainly due to improvement in the profit margin (after direct labor, materials and overheads).

2. NON AIRPORT OPERATIONS

Major Contributors are:

- a) **Agriculture:** The agriculture business recorded PBT of RM30.9 million in FY2008 as compared to RM22.0 million in FY2007. The increase is due to the higher revenue resulting from higher total crop harvested and higher average FFB price.
- b) **Hotel:** The hotel business recorded PBT of RM2.9 million in FY2008 as compared to loss of RM940 thousand in FY2007 due to higher room and occupancy rates in 2008 and higher revenue coming from new airport catering business.
- c) **Event management:** PBT for event management segment decreased from RM11.1 million to RM5.3 million or 52.6% as compared to FY2007. Prior to FY2008, the event management company has been receiving contributions from the Government to fund the F1 Promoters Rights Fee and Broadcast Rights fee as well as F1 event operating expenses. However, effective FY2008 onwards, the Government contributions in relation to F1 rights fees were granted to a third party as the new rights holder of F1 event. As such, the event management company had to absorb higher F1 operating costs during the year in the absence of the said contributions.

ECONOMIC PROFIT

Economic Profit (EP) is used as a yardstick to measure shareholder value. EP is a measure of value created by a business during a single period reflecting how much return a business makes over its cost of capital, that is, the difference between the Company's rate of return and cost of capital.

The Group recorded an economic profit of RM115.0 million for FY2008 as compared to RM70.5 million in FY2007. The increase was attributed to the higher Net Operating Profit Less Adjusted Taxes (NOPLAT) mainly due to overall higher revenue coming from activities undertaken by the Group.

DIVIDENDS

Following the Group's improved financial performance; MAHB had declared and paid an interim dividend of 4.0% less 26% taxation per ordinary share in December 2008 amounting to RM32.6 million. The Board of Directors also proposed a final dividend of 14.55% less 25% taxation on RM1.1 billion ordinary shares, amounting to a dividend payable of RM120.0 million subject to shareholders approval.

The total dividend payment of RM152.6 million corresponds to the Group dividend policy of at least 50% of MAHB's after tax profit and minority interest, subject to availability of distributable reserves.

EARNINGS PER SHARE AND RETURN ON SHAREHOLDERS' EQUITY

The earnings per share (EPS) stood at 27.8 sen for FY2008, a 5.7% higher than 26.3 sen in FY2007. The return on shareholders' equity (ROE) however decreased from 9.94% in 2007 to 9.86% in 2008 due to higher equity attributable to shareholder's equity in 2008.

2009 HEADLINE KPIs

Target 1: Flat passenger traffic growth

	Financial Year 2008	Financial Year 2009
EBITDA	RM587 million	RM612 million
ROE (%)	9.86	10.2

Target 2: 5% contraction in passenger traffic

	Financial Year 2008	Financial Year 2009
EBITDA	RM587 million	RM590 million
ROE (%)	9.71	9.7

Malaysia Airports has also set a target for the Kuala Lumpur International Airport (KLIA) to be among the world's top five airports in terms of airport service quality.

AIRPORT PERFORMANCE

BENCHMARK

The use of performance measures in the airport industry is important because of the specific characteristics of airports. Under the Malaysia Airports' Group, Malaysia Airports (Sepang) Sdn. Bhd. manages the KL International Airport (KLIA) in Sepang which include the main terminal & Low Cost Carrier Terminal while Malaysia Airports Sdn. Bhd. manages 4 international airports, 16 domestic airports and 18 Short Take-Off Landing ports.

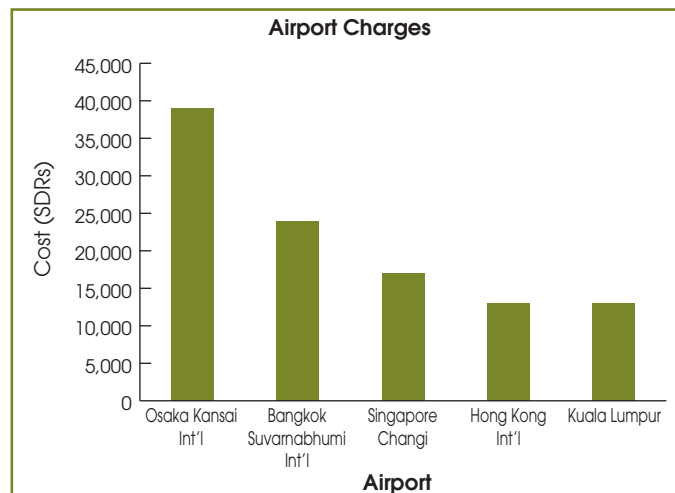
Performance indicators generally involve a comparison between some measure of input and output. The relationship between output and the amount of input required to be utilised will be useful when incorporated into performance ratios. Performance indicators are more practical to be used to monitor the performance of airports over time or in relation to budget and to compare their performance with other airports. Inter-airport comparisons tend to be more difficult because of comparability problems. There are difficulties in making such comparisons on a level playing field. Among others, this is due to:

- Differences in activities performed, especially with respect to aeronautical and commercial services;
- Level of government involvement in relation to economic and social objectives;
- Traffic mix with respect to international, domestic and general aviation operations;
- Airports cost structure with respect to fixed and variable cost;
- Accounting practices;
- Forms of ownership and management;
- Difference in development financing.

The International Civil Aviation Organisation (ICAO) produces annual airport financial statistics but the number of airports providing such information is incomplete while the financial

information on airports is not current and limited. In addition, airport operators which are listed, the available data from published accounts is for the whole Group, for example, operator Malaysia Airports Holdings Berhad, and not just Kuala Lumpur International Airport on its own but inclusive of other airports managed and subsidiaries undertaking airport related activities.

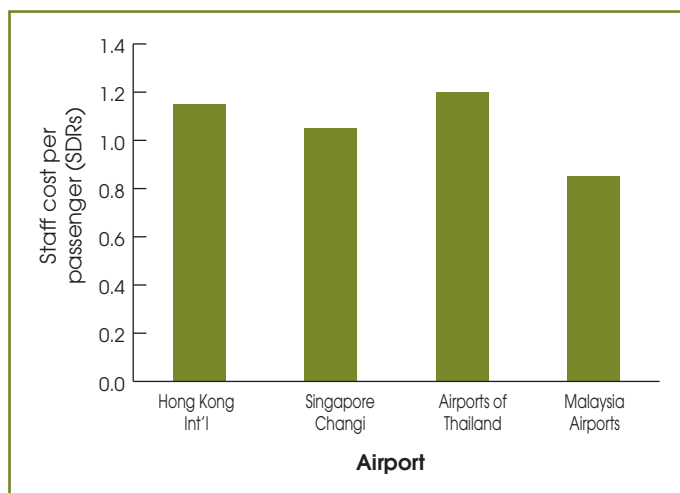
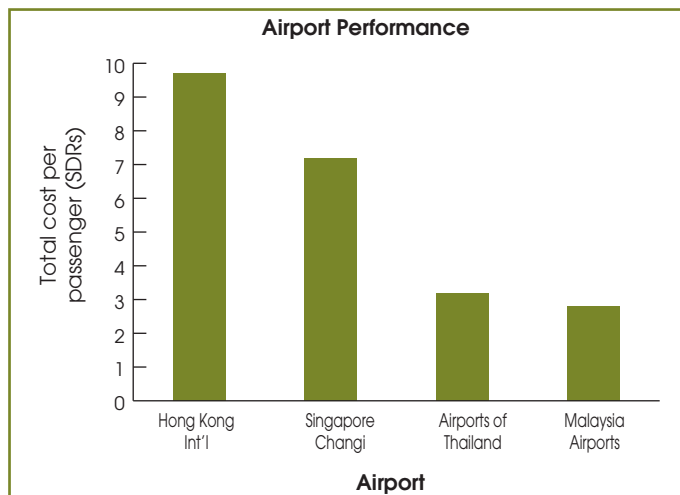
Other organisations and publications which have done airport benchmarking include Jacobs Consulting, Airports Council International, Skytrax and Air Transport Research Society. Figures from Jacobs Consulting suggest that Kuala Lumpur International Airport and Malaysia Airports compare favourably in terms of both charges and efficiency when compared to their peers. Kuala Lumpur International Airport had lower charges in 2008 than Bangkok, Hong Kong, Singapore and Japan's Osaka Kansai.



Source: Jacobs Consulting

Note: Cost measured for a turnaround by eight different aircraft types. SDR = special drawing rights. SDRs are used to account for currency differences

On a cost per passenger basis, MAHB was the lowest despite the disadvantage where Malaysia Airports also operates small domestic airports. MAHB also scored well on a staff cost per passenger.



Source: Jacobs Consulting

On the passenger traffic side, preliminary traffic data released by Airports Council International provides optimism for KLIA, which registered one of the highest growth in the region in 2008. KLIA grew by 4.1% year-on-year while most of the larger competing airports in the region grew at a lower rate. The traffic performance of the related airports is as follows:

Airport	2008	% Change
Hong Kong International Airport (HKG)	47.9 million	↑1.8
Suvarnabhumi Airport Bangkok (BKK)	38.6 million	↓6.3
Changi Airport Singapore (SIN)	37.69 million	↑2.7
Ninoy Aquino International Airport Manila (MNL)	21.95 million	↑7.3
Soekarno Hatta International Airport Jakarta (CGK)	32.17 million	↑0.6
Incheon International Airport Seoul (ICN)	30.17 million	↓4.0
KL International Airport (KUL)	27.53 million	↑4.1

Source: ACI (preliminary)

DIVIDEND POLICY

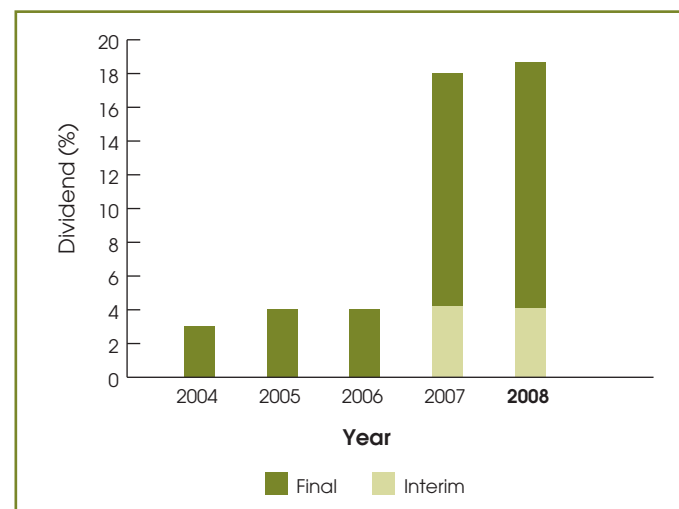
Malaysia Airports Holdings Berhad ("MAHB") adopts a dividend policy with a dividend payout ratio of at least 50% of the consolidated annual net profit after taxation and minority interest annually commencing from the financial year 31 December 2007 subject to availability of distributable reserves.

The rationale of the dividend policy:

- (i) to return excess cash of MAHB to shareholders
- (ii) improves the return on equity of the Group
- (iii) consistent with other government linked companies' best practices in respect to dividend payout.

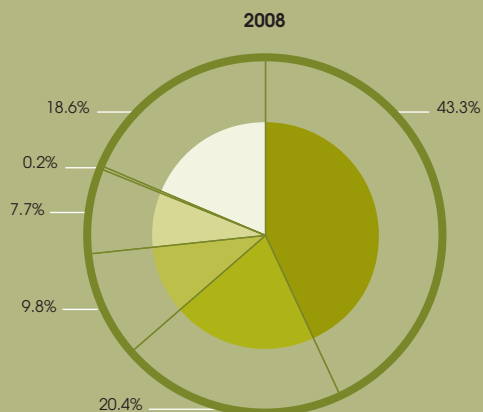
The dividend policy will enable MAHB to provide sustainable dividends to shareholders consistent with the company's earnings growth while maintaining an efficient capital structure and ensuring sufficiency of funds for future growth.

The summary of dividends declared and paid to the shareholders of MAHB for the financial year ended 31 December 2004 to 2008 are tabulated below:

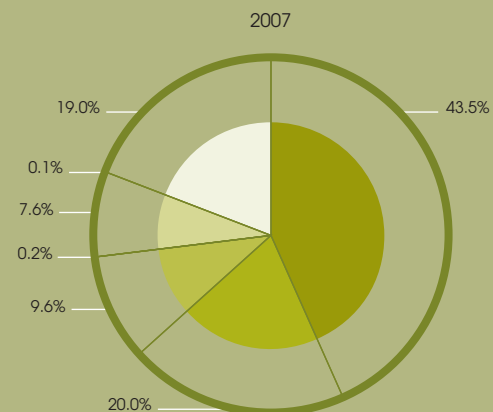


STATEMENT OF DISTRIBUTION

	2008 RM'000	%	2007 RM'000	%
Current income available for distribution	1,606.5		1,502.2	
To supplier <i>Purchase of goods and services</i>	696.6	43.3	653.8	43.5
To employees <i>Employment costs</i>	327.3	20.4	301.0	20.0
Utilisation of assets <i>Depreciation</i>	157.1	9.8	143.5	9.6
To financier <i>Finance costs</i>	0.3	0.0	3.3	0.2
To government <i>Taxation</i>	123.4	7.7	114.4	7.6
Discontinued operation Loss for the year from discontinued operation	3.2	0.2	1.2	0.1
Retained for re-investment and future growth and dividend payment <i>Current Year</i>	298.6	18.6	285.0	19.0
TOTAL ASSETS	1,606.5	100.0	1,502.2	100.0



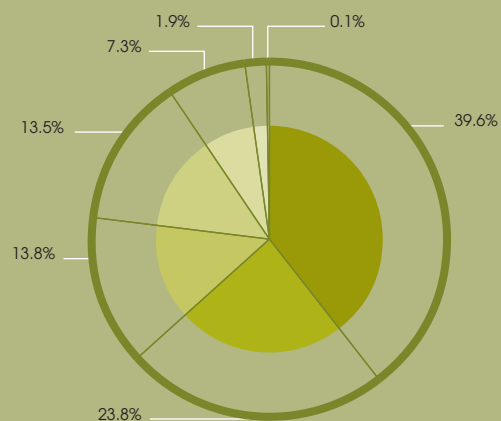
- **To supplier**
(purchase of goods and services)
- **To employees**
(employment costs)
- **Utilisation of assets**
(depreciation)
- **To financier**
(finance costs)
- **To government**
(taxation)
- **Discontinued operation**
(loss for the year from discontinued operation)
- **Profit for re-investment and future growth and dividend payment** (current year)



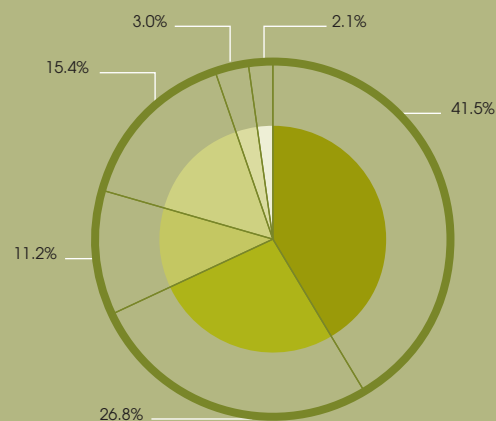
SIMPLIFIED GROUP

BALANCE SHEETS

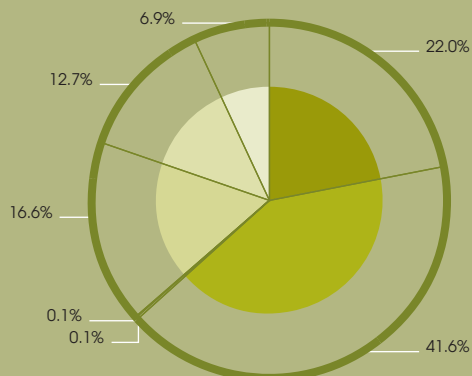
ASSETS



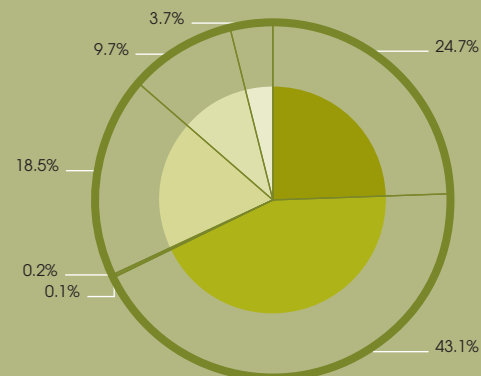
2008 RM'000	2007 RM'000
1,977,192	1,849,537
Property, plant and equipment	
1,187,777	1,192,054
Concession rights	
688,260	498,758
Trade & other receivables	
677,287	688,657
Cash and cash equivalents	
364,246	132,191
Investments	
93,219	93,753
Other Assets	
4,306	—
Asset of disposal group classified as held for disposal	
4,992,287	4,454,950
Total Assets	



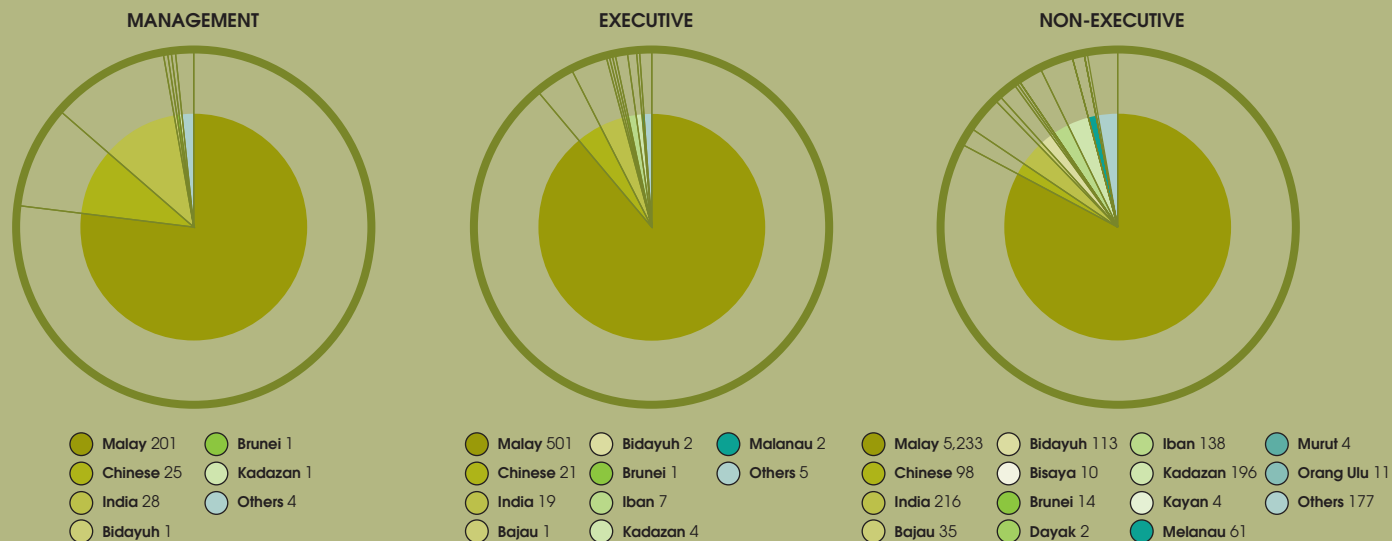
EQUITY AND LIABILITIES



2008 RM'000	2007 RM'000
1,100,000	1,100,000
Share capital	
2,079,741	1,919,427
Reserves	
4,058	3,643
Minority Interest	
3,032	9,072
Borrowings	
826,680	826,680
Concession rights payable	
634,809	431,441
Trade and other payables	
342,488	164,687
Other liabilities	
2,657	—
Liabilities of disposal group classified as held for disposal	
(1,178)	—
Foreign exchange reserve	
4,992,287	4,454,950
Total equity and liabilities	



STATEMENT OF WORKFORCE



GROUP QUARTERLY PERFORMANCE

In RM Million	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year 2008
FINANCIAL PERFORMANCE					
Operating revenue	409.9	372.2	369.1	361.8	1,513.0
Profit before tax	122.3	88.5	128.8	92.8	432.4
Profit after tax	91.6	66.5	90.1	57.60	305.8
Earnings per share (sen)	8.3	6.0	8.2	5.27	27.8

In RM Million	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year 2007
FINANCIAL PERFORMANCE					
Operating revenue	332.0	341.7	351.0	355.30	1,380.0
Profit before tax	94.1	81.4	88.1	141.30	404.9
Profit after tax	71.3	56.0	55.7	106.30	289.3
Earnings per share (sen)	6.5	5.1	5.1	9.6	26.3

GROUP

5-YEAR SUMMARY

CONSOLIDATED INCOME STATEMENT

Year ended 31 December

	2008 RM Million	2007 RM Million	2006 RM Million	2005 RM Million	2004 RM Million
Revenue	1,513.0	1,380.0	1,146.8	1,112.8	1,024.70
Profit before tax	432.4	404.9	263.3	277.1	195.6
Income tax expense	(123.4)	(114.3)	(92.4)	(94.8)	(70.4)
Profit for the year from continuing operations	309.0	290.6	170.9	182.3	125.2
Loss for the year from discontinued operation	(3.2)	(1.3)	—	—	—
Profit for the year	305.8	289.3	170.9	182.3	125.2
Attributable to:					
Equity holders of the Company	305.2	288.9	170.3	182.3	125.2
Minority interests	0.6	0.4	0.6	—	—
	305.8	289.3	170.9	182.3	125.2
*Earnings per share attributable to equity holders of the Company (sen)					
Basic	27.8	26.3	15.5	16.6	11.4
Basic, for continuing operations	28.0	26.4	15.5	16.6	11.4

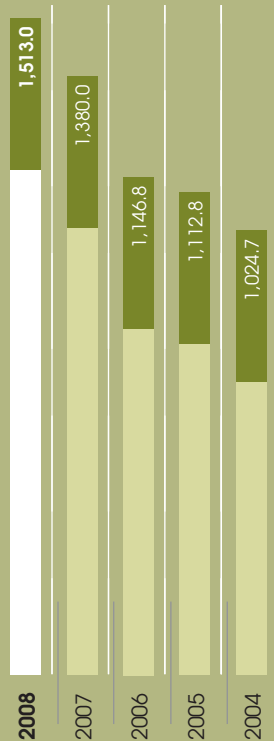
CONSOLIDATED BALANCE SHEET

As at 31 December

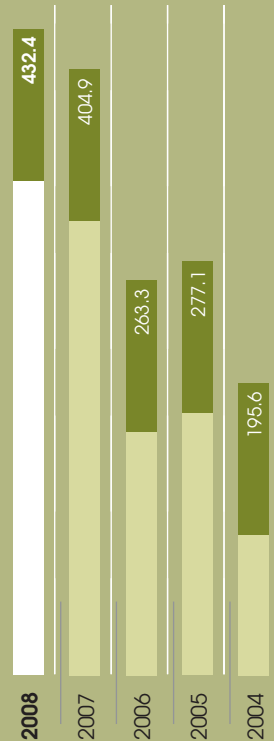
	2008 RM Million	2007 RM Million	2006 RM Million	2005 RM Million	2004 RM Million
ASSETS					
Non-current assets	3,584.8	3,215.5	3,143.7	3,061.0	3,078.2
Current assets	1,403.2	1,239.5	1,188.0	979.3	1,000.9
Asset of disposal group classified as held for disposal	4.3	—	—	—	—
TOTAL ASSETS	4,992.3	4,455.0	4,331.7	4,040.3	4,079.1
EQUITY AND LIABILITIES					
Share capital	1,100.0	1,100.0	1,100.0	1,100.0	1,100.0
Share premium	822.7	822.7	822.7	822.7	822.7
Retained earnings	1,257.0	1,096.7	872.1	733.5	574.9
Foreign exchange reserve	(1.2)	—	—	—	—
	3,178.5	3,019.4	2,794.8	2,656.2	2,497.6
Minority interests	4.1	3.6	3.2	—	—
TOTAL EQUITY	3,182.6	3,023.0	2,798.0	2,656.2	2,497.6
Non-current liabilities	434.7	112.0	129.2	207.1	1,076.7
Current liabilities	1,372.3	1,320.0	1,404.5	1,177.0	504.8
Liabilities of disposal group classified as held for disposal	2.7	—	—	—	—
TOTAL LIABILITIES	1,809.7	1,432.0	1,533.7	1,384.1	1,581.5
TOTAL EQUITY & LIABILITIES	4,992.3	4,455.0	4,331.7	4,040.3	4,079.1
Net assets per share (RM)	2.9	2.7	2.5	2.4	2.3

5-YEAR

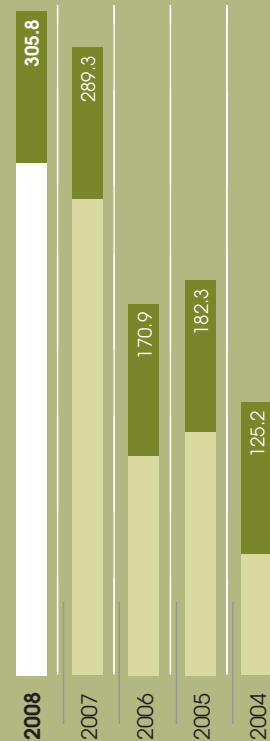
FINANCIAL HIGHLIGHTS



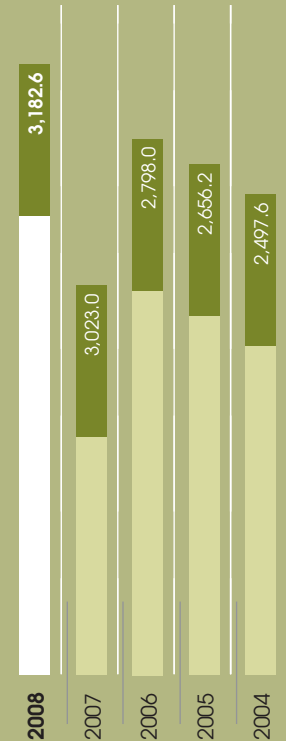
Revenue
(RM' Million)



Profit before tax
(RM' Million)



Profit for the year
(RM' Million)



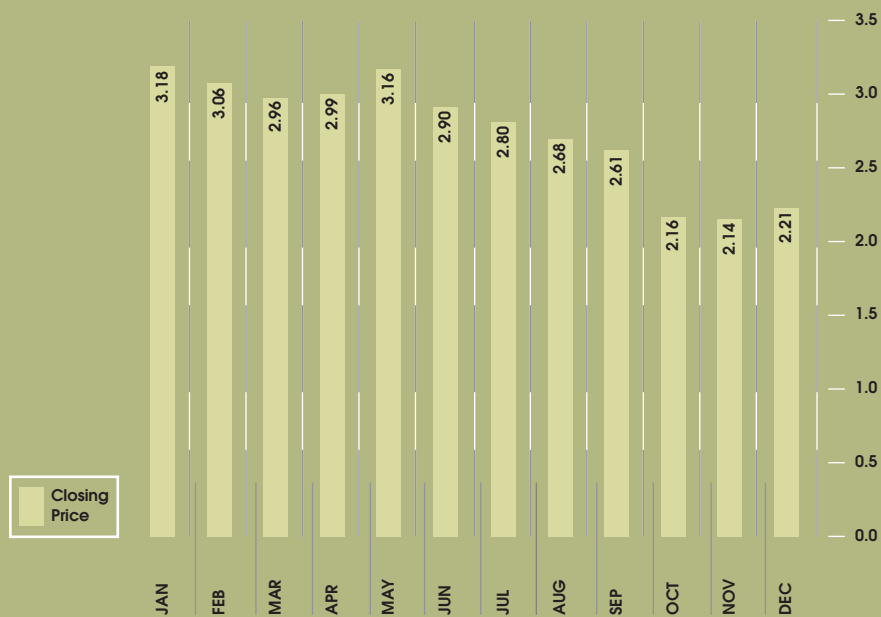
Total equity
(RM' Million)

SHARE PRICE AND VOLUME TRADED

2008 MONTHLY TRADING VOLUME & HIGHEST-LOWEST SHARE PRICE

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Volume	106,539	76,160	29,248	53,062	73,053	140,134	18,903	25,788	47,341	144,789	34,041	14,605
Highest	3.18	3.24	3.24	3.00	3.16	3.16	2.83	2.78	2.90	2.55	2.35	2.34
Lowest	2.90	3.00	2.82	2.85	2.86	2.80	2.60	2.56	2.20	2.00	1.95	2.00
Closing Price	3.18	3.06	2.96	2.99	3.16	2.90	2.80	2.68	2.61	2.16	2.14	2.21

SHARE PRICE MOVEMENT



FINANCIAL CALENDAR

28 FEBRUARY 2008

Announcement of the unaudited consolidated 4th quarter results for the twelve months ended 31 December 2007.

17 MARCH 2008

Announcement of the Headline Key Performance Indicators for the financial year ended 31 December 2008.

6 MAY 2008

Issuance of Notice of the Ninth Annual General Meeting, Notice of Book Closure for payment of final dividend and Annual Report for the financial year ended 31 December 2007.

29 MAY 2008

Ninth Annual General Meeting and the announcement of the unaudited consolidated 1st quarter results for the three months ended 31 March 2008.

13 JUNE 2008

Book Closure for determining the entitlement of the final dividend of 13.80 sen per share less income tax of 26% on 1,100,000,000 ordinary shares for the financial year ended 31 December 2007.

27 JUNE 2008

Date of payment of the final dividend for the financial year ended 31 December 2007.

28 AUGUST 2008

Announcement of the unaudited consolidated 2nd quarter results for the six months ended 30 June 2008 and the announcement of the Headline Key Performance Indicators for the six months period ended 30 June 2008.

27 NOVEMBER 2008

Announcement of the unaudited consolidated 3rd quarter results for the ninth months ended 30 September 2008 and issuance of Notice of Book Closure for payment of interim dividend for the financial year ended 31 December 2008.

15 DECEMBER 2008

Book Closure for determining the entitlement of the interim dividend of 4 sen per share less income tax of 26% on 1,100,000,000 ordinary shares for the financial year ended 31 December 2008.

23 DECEMBER 2008

Announcement of the Restructuring Plan of the Company.

29 DECEMBER 2008

Date of payment of the interim dividend for the financial year ended 31 December 2008.

12 FEBRUARY 2009

Announcement of the Government Approved Corporate and Financial Restructuring of the Company.

25 FEBRUARY 2009

Announcement of the unaudited consolidated 4th quarter results for the twelve months ended 31 December 2008 and the announcement of the postponement of the Headline Key Performance Indicators for the financial year ending 31 December 2009.

26 MARCH 2009

Announcement of the Headline Key Performance Indicators Achievement for the financial year ended 31 December 2008 and the Headline Key Performance Indicators for the financial year ended 31 December 2009.



meeting the challenge

the challenge of going the extra mile in passenger comfort, ammunities & luxury



DUTY FREE SHOP

Harrods



Tan Sri Datuk Dr. Aris bin Othman

Chairman, Malaysia Airports Holdings Berhad

CHAIRMAN'S STATEMENT

Dear Shareholders,

For the financial year ending 31 December 2008, Malaysia Airports Holdings Berhad (MAHB) was able to meet the challenges of an increasingly difficult operating environment to register another year of record revenue growth and profitability. MAHB continued to surpass its headline financial Key Performance Indicators (KPIs) for 2008, posting earnings before interest, tax, depreciation and amortisation (EBITDA) of RM587.37 million and return on equity (ROE) of 9.86%.

The highlights of 2008 included the 10th Anniversary celebrations of KL International Airport (KLIA) and the hosting of the 14th Edition of the World

Route Development Forum by MAHB, proclaimed by many to be the most successful in the series. Our list of awards and accolades continued to grow, with Pan Pacific Kuala Lumpur International Airport (PPKLIA) being voted the World's Leading Airport Hotel 2008.

MAHB has been steadily improving its standing in corporate governance in terms of compliance, best practices and transparency. The results of the annual Corporate Governance Survey, jointly organised by the Minority Shareholder Watchdog Group and Nottingham University Business School (Malaysia Campus), were used to determine the ranking of all the companies listed on Bursa Malaysia Securities Berhad in terms of their compliance with the corporate governance principles and best practices.

The governance principles adopted by the Group have been ranked in the seventh (7th) position, based on the findings of the "Corporate Governance Survey 2008". The Board has striven hard



CHAIRMAN'S STATEMENT



continuously to strengthen its performance in this area, and the position secured is an improvement from the 40th and 14th positions in 2006 and 2007, respectively.

For the past several years, the themes we have selected for our annual reports are snap-shots of how far and fast the Group has come. In retrospect, it has been a remarkable journey that has seen MAHB growing from strength to strength. At the same time, the challenges are manifold and so far, the Group has demonstrated that it has not just coped, but prospered and become accustomed to taking challenges in its stride. Last year, the Group was dealt a double whammy. The first hit was by way of escalating oil prices, but before the industry could come to grips with this, the sub-prime mortgage crisis that had its roots in the United States began to morph into a global synchronised recession, the worst in almost 80 years. The deteriorating economic conditions have had a devastating impact on the global airlines industry, and by association, the business we are in. In short, the entire aviation industry is at a critical cross-road, and our theme of 'Meeting the Challenge' could not be more appropriate.

As we brace ourselves for tougher times, the consolation is that MAHB is in a far better shape today than at any time to successfully navigate the economic turbulence. Not only do we have the financial muscle, but the structures, systems and procedures laid down over the years have positioned the Group to meet the challenges ahead.

I am pleased to present this Annual Report and audited Financial Statements of Malaysia Airports Holdings Berhad at the Group and Company level for the financial year ended 31 December 2008.

FINANCIAL PERFORMANCE

MAHB registered a record profit before taxation (PBT) of RM432.44 million for the financial year ended 31 December 2008 (FY2008). This was an improvement of 6.80% or RM27.54 million from RM404.89 million reported in the last financial year ended 31 December 2007 (FY2007).

The Group achieved a record turnover for the sixth consecutive year. Revenue grew to RM1.51 billion, which was 9.65% or RM133.11 million higher than the RM1.38 billion recorded the previous financial year.

EBITDA for FY2008 increased by 7.18% or RM39.30 million to RM587.37 million, compared with RM548.03 million posted a year earlier. Net earnings in 2008 rose 5.71% or RM16.53 million to RM305.82 million, from RM289.29 million recorded in 2007.

MAHB's revenue base can be broadly divided into airport and non-airport operations. Under airport operations, it can be further split into aeronautical and non-aeronautical operations. The latter comprises retail, food and beverage outlets and rental services. Our non-airport operations consist of event management, project and repair maintenance, hotel and agriculture and horticulture businesses.

The Group's improved overall financial performance was attributed mainly to a higher contribution from both its airport and non-airport operations. Total revenue growth of 9.65% was almost double that of overall passenger growth of 5.01%, resulting in a PBT improvement of 6.80%. This was despite a 6.95% increase in operating expenses, mainly due to higher staff-related costs, repair and maintenance.

In terms of contribution to the bottom line, non-aeronautical revenue stood at a higher proportion against aeronautical revenue at 56.88% and 43.12% respectively. For 2007, the respective contributions were in the ratio of 54.11% and 45.89%. This trend is consistent with the Group's long-term objective to grow its non-aeronautical business, especially the commercial segment.

Following higher passenger and aircraft movements, revenue generated by our airport operations segment improved by 9.26% to RM1.28 billion, largely attributed to a 3.04% or RM19.26 million improvement in aeronautical revenue.

By design, the Group's non-aeronautical segment recorded an even stronger growth of 16.58% or RM89.14 million. The significant improvement in our non-aeronautical business was contributed mainly by the retail, food and beverage (F&B) and rental services, which benefited from higher rental, royalty, increase in passenger volume and the appointment of new tenants at the Penang, Kota Kinabalu, Kuching and



CHAIRMAN'S STATEMENT

Miri airports. MAHB's own retail business grew by 5.50% to RM304.90 million, while revenue derived from rental of space and advertising grew by 29.47% to RM321.75 million.

During the year, revenue from MAHB's non-airports segment increased by 11.81% to RM233.94 million. This resulted from increased contributions from event management and hotel services, as well as a significant growth of 37.78% in the agriculture business.

The Group's strong performance is reflected in the movement of its counter on Bursa Malaysia. Compared with other listed regional airports, MAHB counter has displayed a strong defensive nature to hold its own amidst volatile market conditions. It has consistently performed well above the Kuala Lumpur Composite Index throughout 2008.

DIVIDENDS

MAHB is committed to enhancing shareholders' value, as demonstrated in the past years with a dividend payout policy to pay at least 50% of the Group's profit after tax and minority interest, subject to the availability of distributable reserves.



The Board has already announced an interim dividend of 4 sen per share and is now proposing a gross final dividend of 14.5 sen per share, subject to the approval of shareholders at the forthcoming Annual General Meeting. If approved, the total dividend of 18.5 sen per share for FY2008 will be much higher by 0.7 sen per share as compared to the total dividend paid of 17.8 sen per share for FY2007.

CORPORATE DEVELOPMENTS

On 23 December 2008, the Cabinet approved MAHB's financial restructuring plan, which will set the stage for the Group's new direction and business philosophy going forward.



In line with the restructuring plan, MAHB will emerge a leaner and more focused entity. Accordingly, MAHB will divest itself of non-core assets such as the National Exhibition & Convention Centre Sdn. Bhd. and Sepang International Circuit Sdn. Bhd., which will require the approval of shareholders. The Asia Pacific Auction Centre Sdn. Bhd. (APAC) has also ceased operations in December 2008 as part of the plan to unbundle non-core businesses from MAHB.

MAHB also proposes to grant a call option to the Minister of Finance (MoF) to require Malaysia Airports Sdn. Bhd. (MASB) to sell Sepang International Formula One Circuit to MoF. The call option is exercisable within 10 years from the date of the agreements for the proposed disposal of the non-core assets. If the call option is not exercised by the end of the 10-year period, it shall be deemed exercised on the last day of that year.

OPERATIONAL HIGHLIGHTS

The first seven months of 2008 saw impressive gains in passenger traffic recorded by the airports operated by

the Group. Despite the deteriorating global economic conditions, the succeeding months generally remained positive, albeit with slower growth. Total passenger volume across MAHB's 39 airports grew 5.01% to reach 47.45 million for the year. This was supported by a 5.12% growth in domestic passenger volume to 26.40 million and a 4.87% growth in international passenger volume to 21.06 million. Total aircraft movements across the Group's domestic and international airports also registered a growth of 9.97% to 496, 271. Although cargo traffic experienced a positive growth in the early part of the year, the onset of high oil prices followed by the economic downturn have had a subsequent negative impact. For the year, it declined by 6.49% as against 2007.

As the principal aviation gateway to Malaysia, KLIA continued to lead the field in terms of performance. Total passenger traffic rose by 4.1% to 27.53 million, while aircraft movements recorded a 9.0% growth, with the international sector registering a significant 11.6% increase. Our

unrelenting marketing efforts to woo more airlines to Malaysia continued to be productive with the addition of five new airlines operating from KLIA.

In living up to our new Mission Statement and the expectations of the travelling public, we are continually upgrading our infrastructure and facilities. High on the list of priorities are the expansion of the Low Cost Carrier Terminal (LCCT-KLIA) and the final thrust in the implementation of Retail Optimisation Plan for KLIA. Upgrading works that range from a complete makeover to the renovation of existing facilities, were also carried out at various airports namely, Sultan Mahmud Airport in Terengganu, Batu Berendam Airport in Melaka, Lahad Datu Airport and Kota Kinabalu International Airport (both in Sabah), and Labuan Airport in Wilayah Persekutuan Labuan.

Our journey towards excellence continued to be manifested in the certification of the Group's key operating units to the foremost quality assurance systems, which include Aerodrome certification and ISO 9000. To date, all key operating units have been certified to ISO 9001:2000. Efforts to obtain ISO 14000:2004 certification for

CHAIRMAN'S STATEMENT

environmental management systems and OHSAS 18001 for Occupational Safety and Health Management System have started at all five international airports. The long term plan is to have the key operating units certified to an integrated system of QMS ISO 9001, EMS ISO 14001 and OHSAS 18001. Technology permeates almost every aspect of our operations, and it has always been MAHB's objective to harness its power and potential to deliver the best in terms of efficiency and cost-effectiveness. MAHB is also working closely with IATA to implement the various components of the Simplifying the Business Programme (StB).

In the less than perfect world we live in, the safety and security of our airports remains a paramount concern. That is why we have continually reviewed our safety and security systems to ensure that what we have in place are always several steps ahead of miscreants. MAHB is one of the pioneers amongst airports in supporting the Green Movement and during the year, we strengthened our resolve in this area. Till now, KLIA remains the only airport in the world to carry the coveted Green Globe 21 Certification. The Group is currently taking steps to make all its airports environmentally friendly, starting

with the international airports. In practising corporate social responsibility, the Group's Vendor Development Programme and educational programme under the tagline Beyond Borders, have taken off.

The Group has also ventured into the huge and relatively untapped airport consultation segment in the overseas market. MAHB has currently extended its management expertise to four international airports i.e. two in India and one each in Kazakhstan and Turkey. The Group only started managing and operating the Astana International Airport in Kazakhstan in May 2007. However, just one year later, in May 2008 Astana International Airport won the Best Airport in the Commonwealth of Independent States (CIS) Countries Award 2007 for the one million passengers category. Our overseas operations have been a source of recurring revenue since 2001, and in 2008 contributed some RM17.33 million to the bottom line.

The year under review brought MAHB its share of awards and accolades. PPKLIA joined the ranks of World's Best when it was voted the World's Leading Airport Hotel by World Travel Awards 2008. It also maintained its standing as the Best

Airport Hotel in Asia 2008 by Business Asia Magazine, a title it has won for an unprecedented seven times. KLIA was ranked fourth in the Skytrax World Airports Awards. Skytrax is a UK-based aviation research specialists.

As you are no doubt aware, KLIA was accorded the title of World's Best Airport in the 15-25 million passengers per annum category for three consecutive years, from 2005 to 2007. In the 2007 ranking, KLIA was also placed second in both Overall and Best Airport in Asia-Pacific Region categories. All these results have been audited and verified by the Airport Council International (ACI), the world airports governing body. However, for 2008, although it was confirmed that KLIA has followed the standard fieldwork procedures, its scores could not be replicated during the Airport Service Quality (ASQ) results. As such, both parties agreed that it was best that KLIA's results for 2008 be excluded from the annual ranking as it would be too late to attempt to reconcile the results.

Recognition and acknowledgement that MAHB has indeed arrived comes in many forms. It is a reflection of MAHB's standing within the industry, when Malaysia won the bid to host Routes

forum, bringing the largest networking event for the aviation industry for the first time in its 14-year history. By all accounts, Routes KL was a resounding success, attended by over 2,500 delegates representing airports, airlines and related aviation companies from all over the world. At this event, MAHB won the Host Achievement Award for its pioneering route development work and for leading the way in building airport-airline relationships in Asia. We are also honoured that MAHB has been elected to the ACI Asia Pacific Regional Board and appointed a Member of ACI's World Governing Body.

A MANIFOLD CHALLENGE

Managing the Group's system of airports to the high standards we have set ourselves is a multi-dimensional task and represents one of the biggest ongoing challenges. It is one thing to have a world-class infrastructure, but this must be matched by the other prerequisites, namely the systems, processes and people. Among the myriad of challenges that we encounter, I will draw your attention to four critical areas. I have already captured the essence of some of the other challenges we face, and these, I must emphasise, are no less important in our

efforts to strive for excellence. They will be dealt with by the Managing Director in his report.

The LCCT Imperative

The rapid rise of LCCT-KLIA as a key player in the global aviation industry has considerably boosted Malaysia's competitive position as an aviation hub. Planned as a two-phase project, the first phase of LCCT-KLIA was built in 2005 on a fast-track basis at a cost of RM108.0 million. The 31,601 sqm terminal was designed with a capability to handle 10 million passengers per annum (mppa), with the possibility for further expansion of up to 15 mppa. In the nine months since commencing operations in March 2006, LCCT-KLIA handled 4.6 million passengers. The phenomenal traffic growth continued in the years that followed, and by 2007, it was already handling 8 million passengers, increasing by 31.7% to 10.1 million passengers in 2008. The increase in passenger traffic volume was largely driven by the rapid growth of low-fare travel and the introduction of new routes and long-haul operations by AirAsia Berhad.

By 2007, it was evident that LCCT-KLIA would exceed its capacity at a much faster pace than expected. One of MAHB's priorities in 2008 was the Phase

2 expansion of LCCT-KLIA to cater to the increased passenger load and to accommodate more low-cost airlines that have expressed interest to set up their bases in Malaysia. The number of budget airlines landing at LCCT-KLIA has now increased to six, namely AirAsia, Thai AirAsia, Indonesia AirAsia, AirAsia X, Tiger Airways and Cebu Pacific Airways.

Construction of the RM160.0 million new wing under Phase 2 began in 7 April 2008 and will expand the total floor area in the existing terminal by 103% to 64,067 sqm. Designed to enhance passenger comfort level and overall airport experience, the additional floor space will be utilised to accommodate more retail and F&B outlets as well as other amenities, such as prayer room (surau) and shower facilities. The new international arrival hall has commenced operations since 15 December 2008. For the convenience of passengers, six baggage carousels have been configured to expedite baggage handling. Going through customs and immigration clearance will also be faster with the provision of additional counters. When fully operational in March 2009, the extended terminal will have the capacity to handle 15 mppa.

CHAIRMAN'S STATEMENT

Meanwhile, the National Airport Master Plan Study, after considering several locations, has identified a site for the permanent LCCT at KLIA. The project will be carried out in two phases, with an estimated cost of around RM2.0 billion. Locating the new LCCT at KLIA has the following distinct advantages:

- Ensures competitive growth of KLIA to emerge as a significant hub in the region by fully capitalising on two reasonably developed market segments (full service and LCC)
- Promotes efficient and cost-effective terminal operations, whilst meeting the needs of passengers and the airport community at large
- Facilitates passenger convenience and connectivity between LCCT and KLIA as the two terminals are only 1.5 kilometres apart
- Offers avenues for efficient integrated ground transportation to offer the best transfer capabilities for passengers and airlines

- The KLIA Master Plan has already integrated infrastructural and land area requirements to cater for a long-term passenger traffic of 80 to 100 mppa. To date, the utilisation rate is less than 30%
- The Master Plan includes the development of a new LCCT to handle up to 45 mppa, which will be integrated with the current infrastructure and Main Terminal Building (MTB) of KLIA for seamless connectivity.

The permanent LCCT will be developed by MAHB using its own funds. When Phase 1 is completed by the third quarter of 2011, the new Terminal Building will have a total area of 150,000 sqm to accommodate a traffic flow of 30 mppa. Given the large floor space, the comfort level of travellers is improved, with an allowance of some 15 to 20 sqm per person. Other key features include a third runway for operational efficiency, full parallel taxiways for runways 2 and 3 for quick turnaround and a parking apron capable of accommodating at least 60 aircrafts of various sizes and configurations. The new LCCT will also focus on efficient layout plans for concession areas set aside for retail and F&B outlets. To ease congestion, a

separate immigration area will be provided to process immigrant workers. There will also be transfer areas to facilitate ease of connections, provision for landside rail and airside transfer to existing KLIA Main Terminal. Under Phase 2 development, the capacity of the new LCCT can be further expanded to accommodate passenger traffic of 45 mppa.

The Commercial Thrust

A long-standing challenge of the Group is to exploit the full revenue potential of its Commercial Services Division (CSD). CSD's revenue base is derived mainly from its retail and F&B operations and the provision of hospitality services and lounges, and is the major contributor to the Group's non-aeronautical revenue. MAHB has set a target of 50:50 with respect to aeronautical vs commercial revenue to be achieved by 2010. To achieve this target, a far-reaching plan to provide travellers with the ultimate shopping and dining experience at KLIA and selected airports has finally been completed in 2008.

At KLIA, this is being realised through the Retail Optimisation Project (ROP) at the Satellite Building and the Duty Free Mall at Contact Pier International (CPI).

A great deal of research, planning and preparation has been invested in the ROP to ensure optimum results. To minimise disruptions to airport operations, it was decided that the project would be undertaken in four phases, beginning with the East Zone, followed by the South, North and West Zones. The physical transformation of the East Zone began in May 2008 and during the five months of renovation works, every effort was made to ensure that travellers would not be inconvenienced. Thus, various retail and F&B outlets were temporarily relocated to other parts of the Satellite Building so that travellers would continue to enjoy the complete range of offerings at KLIA. Although temporary passage ways were constructed to allow passengers to reach their respective departure gates, they were comfortably lit and air-conditioned.

The unveiling of the East Zone on 9 December was a much-anticipated event that did not disappoint. The retail facade now sports a definitive new look that is more contemporary, but still retains a distinctive Malaysian flavour. Attention has been given to maximising retail and F&B space to improve the penetration rate to raise sales opportunities. Travellers also have more

choices to tempt their wallets with the presence of new outlets such as the world-renowned Harrods, Dome Café, L'Occitane, our own Eraman Malaysia and many more. All this comes with a new level of customer service excellence stemming from CSD's conviction that 'The journey begins and ends with the customers in mind, delivering end-to-end customer experience while building capabilities and revenue'. In building a profitable and sustainable business, CSD has set its goals high, aiming not only to meet but to exceed customers' expectations. This is in line with the proposal put forward by the Cross Functional Team (CFT) set up by MAHB under the Government-Linked Companies (GLC) transformation agenda to shift towards a more customer-centric organisation. Work on the remaining zones is progressing on schedule, with full completion expected by August 2009. By then, the number of outlets at the Satellite Building would be increased to 87, of which 56 are retail, 19 F&B and the remaining 12 being service outlets.

Like ROP, other major development at CPI promises to elevate the shopping experience for travellers in terms of ambience, variety and pricing. The Duty Free Mall@CP was opened to the public

in December 2008 offering duty-free fare of cigarettes, liquor and chocolates. The CPI development will take the shape of a lifestyle mall and is targeted for completion by mid-2009. The mall is strategically located near the aero train station, where regional and international travellers converge. It will be managed by Malaysia Airports (Niaga) Sdn. Bhd., better known as ERAMAN Malaysia, a wholly owned subsidiary of MAHB. Incorporating Malaysian 'batik' as the main decorative element, a great deal of attention has gone into creating the right ambience for the ultimate shopping experience. By the time it opens its doors for business, it will feature the best ever retail mix of lifestyle apparel and accessories, such as elegant watches and time pieces, and a wide array showcasing the best of Malaysian handicrafts and souvenirs. For the young and young at heart, the 'Kidz Smart Tunnel' will be irresistible, the specialty being an exclusive selection of toys as collectors' items.

While putting the physical structures in place, CSD has been addressing the softer elements to meet the challenges. The Division has redefined its Mission Statement and aspires to become a 'regional leader of an airport commercial model as a lifestyle

CHAIRMAN'S STATEMENT

destination and/or community hub while ensuring sustainability and improving stakeholder values'. This has imbued the Division with a new sense of purpose and urgency.

Going forward and to serve as a roadmap, five key transformation strategies have been formulated to achieve commercial excellence and ultimately, to meet MAHB's corporate aspirations:

- Customer Experience Transformation as the fundamental thrust that will strengthen customer relationship management and cultivate brand satisfaction and loyalty
- Airport Commercial Model Transformation as the main integrator in creating a holistic strategy for the transformation of commercial practices and activities in accordance to airport classification and customer profile. To this end, five airport commercial models and airports have been identified for pilot projects to be launched in 2009
- Product Transformation aimed at achieving optimum product categorisation to yield maximum financial performance, enhance value proposition and customer experience

- Partners Transformation to strategise developing concessionaire value while maintaining a sustainable partner relationship
- People Transformation aimed at crafting an optimal structure of a high performance organisation with a business mindset to achieve effective and profitable management of commercial activities.

All these are part of key initiatives put forward by CSD that will lead to an increase in productivity, revenue and strengthen its core business capabilities. Through these initiatives, MAHB is looking to changing the popular perception of airports as mere transportation hubs. By thinking creatively and outside the box, major airports can be a gourmets' haven, shoppers' paradise, meeting centres, or a place for relaxation and entertainment. In short, airports can become lifestyle destinations. Where viable, domestic airports can also be developed as community hub with service as the main attraction. These are all exciting possibilities that will be developed over the next several years and they represent only the tip of the iceberg. The possibilities are almost limitless and you can expect more from us. The full potential of CSD as a major revenue earner may soon be realised.

The March of Technology

To a large extent, MAHB's success may be attributed to its ability to utilise Information Technology (IT) to meet the exacting demands of the modern aviation industry. KLIA is one of the most technologically advanced airports, being the first airport in the world to use the revolutionary Total Airport Management System (TAMS). Many aspects of an airport's operations depend upon IT efficiency. Through TAMS all the various bespoke systems in an airport are integrated and interconnected with one another to yield process efficiency.

Given the high degree of automation in MAHB's airports, one of the biggest challenges is that of availability and this can only be assured through a rigorous maintenance programme. The deliverables are measured in terms of the efficiency of services and timeliness of information to serve the needs of travellers and other airport users. In data usability, the data flow processes would involve the airlines, ground handlers, air traffic controllers, airport employees, government agencies and retailers.

Appropriate information is extracted and interchanged from and to the various bespoke systems. This provides common information leading to higher operational efficiency. The corroborative functions between systems provide the same data throughout, and based on event-driven scenarios, changes that occur are reflected through the integrated system, thus providing the right data for operations and consistency for operational information.

Since the incorporation of MAHB, the technological advancements in the airport business have been evolving rapidly. KLIA is already 10 years old and although it is ageing gracefully, one should expect varying degrees of technological obsolescence with the passage of time. In the last year or so, the network infrastructure has been upgraded to provide high capacity throughput to the extent of having almost real time updates between two data centres as well as a high degree of availability for users. The user group includes MAHB and also airlines, agencies, retailers, cargo agents, ground handlers and others of the airport community that operate out of KLIA.

The upgrading of technology in our airports is being carried out at several levels in the interest of efficiency, cost effectiveness and to give a substantial add-on value to passengers. In serving the needs of the airlines, MAHB has implemented SITA's CUTE (Common Use Terminal Equipment) systems at our major airports. SITA is a leading provider of information and telecommunication solutions to the aviation industry. With CUTE in place, MAHB and its airline partners have reaped the benefits of greater operational flexibility and a reduction in costs. CUTE is a common software, hardware and network solution for airports that enables airlines and handling agents to access their own systems from workstations and printers shared by all users. It also supports passenger processing applications such as departure control and boarding systems, as well as airport operations systems such as flight information displays. The CUTE system has also been implemented at Kota Kinabalu and Penang International Airports. The Flight Information Reporting Tool (FLIRT) system is another component that has been deployed at our airports. It provides passenger statistics for all flights, departures and arrivals as well as transit and transfer data. To date, 18 airlines have adopted FLIRT and this has

reduced manual processing work for passenger service charges. In addition, some 22 Common Use Self Service kiosks have been introduced at KLIA to expedite check-in and reduce queues.

In preparation for the forthcoming new generation aircraft, MAHB has implemented WiFi technology at the apron in KLIA to facilitate data communication between aircraft and the back-office systems. The WiFi service has also been extended to LCCT-KLIA. In terms of services, the upgrading of the various components of TAMS is targeted at achieving process efficiency, thereby leading to more effective cost management. The implementation of voice response technology for flight information systems is another element to create value for passengers and users at KLIA. We are also deploying technology to enhance the surveillance systems across MAHB's airports to boost security. Meanwhile, Penang International Airport is undergoing a major upgrade of its IT infrastructure and is on its way to become a fully integrated airport in the region.

Other IT components due for implementation are for the operational information system/airport operations

CHAIRMAN'S STATEMENT

database (OIS/AODB). The function of AODB will enable the collation of operational information to a single view for airport operations management. It will be implemented in KLIA first, before it is extended to other airports, to provide the same efficiency and standards. Over the next three years, the IT components of baggage handling system will be improved to allow better baggage tracking. IT has an important bearing on safety and in this regard, MAHB is upgrading the IT components for the Airfield Ground Lighting Systems (AGL). This upgrading will lead to better manage and usage and mitigate any adverse impact of technology obsolescence. On the security front, the upgrading and replacement of close circuit television (CCTV) cameras has started. The access control upgrading has been completed, while the concept of camera analytics is being incorporated into the CCTV system to provide better coverage and with recording capabilities.

Acquiring the appropriate technologies to meet our requirements is in itself a major challenge, given the various options available on the market. IT governance plays an important role in acquisition of technology. Technology sourcing is done with prior scanning of

industry best practices and proven technology, guided by the prime objective of delivering solutions that align to the Group's business needs. Other factors, such as the cost of ownership, maintainability, scalability and growth concerns are all part of the overall equation. Appropriate governance measures are taken to ensure the challenge is met.

Leveraging on our Human Capital

MAHB's human capital plays a central and decisive role in meeting the challenge and shaping its corporate future. In 2008, MAHB invested a sum of RM7.6 million in its manpower training and development programmes. A total of 509 programmes were conducted in 2008, benefiting some 6,496 participants. As yet another manifestation of the Group's emphasis on human resource development, we have invested RM370,000 to upgrade the training facility at the Engineering Complex. It is now equipped with three training rooms and two laboratories, furnished with x-ray machines, airfield ground lighting and industrial automation facilities.

In 2008, the Human Resource Division (HRD) continued to implement several strategic initiatives to prepare the

Group's human capital to meet its current and future requirements at home, and increasingly in the international marketplace. Towards this end, MAHB has adopted a two-pronged strategy focused on (1) strengthening leadership practices and (2) intensifying performance management.

Strengthening Leadership Practices.

The Group has participated in Khazanah Nasional's Leadership Development Audit and Accelerated Leadership Programme under the Orange Book initiative to develop leadership capability. This initiative rests on four main pillars, namely leadership capability building, professional capability building, career development programmes and other programmes.

Leadership capability building is a deliberate and rigorous structured approach to identify potential leaders from within the Group. As a holistic developmental programme, it focuses on the development of identified potential talents and successors to be leaders of tomorrow, thereby ensuring leadership continuity.

This is being achieved through the following programmes:

- Developing the Leadership Within
- Leadership Challenge Programme
- 360 degrees Leaders Programme
- Leadership Excellence and Practice Programme
- Accelerated Leadership Development Programme

All five programmes took a total of 30 days to complete. It included a two-week, full-time residential stint to accelerate and intensify the leadership identification and development process. A total of 15 potential leaders for Level 1 (General Managers) and another 12 for Level 2 (Senior Managers) were identified and were assessed for their readiness to assume higher positions. From the 15 potential successors, five have been identified to be ready to move up the corporate ladder, with the rest only ready within the next one to two years. Of the 12 potential successors for the Senior Manager post, four have been categorised to be ready, with the rest only ready within the next one to two years. Through these exercises, MAHB has identified a significant pool of personnel suitably qualified to occupy the senior positions, as and when the need arises.

Professional capability building is another approach adopted by MAHB to equip its airport managers with the required knowledge, skills and capabilities to meet world standards. This is especially important now that MAHB has become an international player. Participants are hand-picked to attend three-year Airport Management Professional Programme (AMPAP) that is jointly conducted by ACI and ICAO. Upon successful completion of the programme, the participant will be accredited as an International Airport Professional, a status that is accorded to other professions such as lawyers, doctors and accountants.

AMPAP is designed to increase the knowledge and capabilities of airport management staff and promotes professional excellence in airport management. In 2008, MAHB registered five airport managers to pursue this programme.

Career Development Programmes (CDP) addresses the competency building of high-fliers with the potential to helm the Group at some future date. These high-potential candidates are identified based on the bi-annual performance assessment and are offered one of several CDP programmes, according to their respective core functions or

disciplines. The CDP is offered in collaboration with a reputable local university, and on completion of the year-long programme, successful candidates are presented with a certified Diploma.

Among the programmes offered under the CDP, the Airport Manager Development Programme has been specifically designed to develop a pool of Airport Managers to meet MAHB's present and future needs. As a result of this programme, MAHB now has an additional pool of 28 certified airport managers. Three other Specialist Development Programmes were offered in 2008. The Airport Engineering Development Programme was designed for engineering staff, with 28 staff members graduating with a Diploma in Airport Engineering. Staff from the commercial sector can attend the Airport Commercial Programme, and in 2008, a total of 21 graduated with Diplomas in Airport Commercial. 37 MAHB staff are presently attending the Certificate in Management Accounting Programme, offered by the Chartered Institute of Management Accountants (CIMA). As its name suggests, the General Management Development programme is a generic course, and a total of 23 staff graduated with a Diploma in Management last year.

CHAIRMAN'S STATEMENT

In addition to the above, MAHB's training efforts are supplemented by other programmes, such as the Employee Exchange Programme (EEP), Talent Exchange Programme (TEP) and the Management Trainee Programme (MTP).

The EEP has been designed to expose MAHB staff on an attachment basis to other high performance airports and GLCs. In 2008, two staff were sent for a 3-month stint at the award-beating Incheon International Airport in Korea. The objective is to enable our staff to gain new insights and increase their knowledge on airport operations, management and practices. In July 2008, Khazanah Nasional introduced the TEP with the objective of exposing and increasing the knowledge base of high potentials from different industries and companies among GLCs. Two high potential candidates from MAHB are currently participating in this 2-year programme. Last year, MAHB recruited four fresh graduates under the MTP, to be developed into well-rounded management personnel to serve the future needs of the Group.

While looking at collaborative efforts with external agencies, within the Group itself we have a pool of talents with an

abundance of knowledge and experience that can be passed on to the new generation of employees. In this regard, HRD has identified 39 'subject matter experts' drawn from various departments. These home-grown experts are developing the subject content ranging from airport operations to crisis management that will be used as training curriculum modules. Our subject matter experts have already extended their expertise to other airports with MAHB involvement, such as the ones at New Delhi and Hyderabad. MAHB has already generated RM11.0 million from these training contracts, and this only represents the beginning of what could be a lucrative business in the future.

The Group has also participated in the Human Resource (HR) Capability Building project under the auspices of Khazanah Nasional. The aim of this project is to develop a robust and consistent HR capability process that can be used across the K-9 (the nine Khazanah shareholding companies) organisations to assess the current and required level of HR proficiency for the different staff levels and career tracks.

Intensifying Performance Management

During the year, HRD continued with efforts to intensify performance management throughout the Group. This was achieved by ensuring the sustainability of the Balanced Scorecard KPIs, through rigorous performance setting and assessment and by establishing stretched targets.

We continue to emphasise inculcating a culture of excellence that would in turn create a high performance organisation. One of the initiatives in this area is the implementation of Consequence Management, which is combination of policy, process and procedure of managing poor performance. Again, this is a deliberate approach adopted by the Group to manage the consistently below average and poor performers through development programmes, specifically tailored to address their particular needs. This is in line with the Blue Book initiative of Intensifying Performance Management under the Government Linked Company (GLC) Transformation Programme.

CONSOLIDATING OUR STRENGTHS

The Group moves forward to face a more challenging operating environment from a position of relative strength and this is reflected in the quality of its balance sheet. Our financial house is in order with strong revenue and PBT numbers, and because we have practised strict fiscal prudence to prepare for rainy days, our cash and bank balances have been consistently maintained above RM600.0 million for the past two years. At end-2008, MAHB has reserves of RM677.0 million, which is sufficiently healthy to meet operating commitments. Our gearing has been kept at a very manageable level of only 6% in 2008 due to low borrowings against the Group's net assets. This means that we can afford to take on external debts for capital expenditures, particularly the construction of the permanent LCCT.

Nevertheless, this does not mean we can afford to be complacent. This is despite the fact that MAHB is an old hand in dealing with crises, having successfully navigated through the Asian financial crisis of 1997 and the fall-out of the Severe Acute Respiratory Syndrome (SARS), 9/11, Iraqi War and the Avian Flu outbreak, to name the few. All these pale by comparison with the current financial crisis, which is far more global

than even the Great Depression of the 1930s. It calls for a new way of thinking and focused action. But with the benefit of hindsight, we have incorporated an arsenal of lessons into our strategies and management practices.

As outlined in previous reports, steps have been taken over the years to strengthen and build resilience within the Group under the GLC Transformation Programme. The goal is to create regional champions and high-performing companies among Malaysian GLCs. As one of the GLCs, MAHB has set up a Transformation Management Office (TMO) to spearhead these initiatives as well as to serve as a catalyst of change. Guided by the GLC transformation manual or better known as the colour books, TMO has implemented initiatives such as the Continuous Improvement Programme (CIP) via Cross Functional Teams (CFTs) to drive the Group forward in achieving its targets. At the same time, the seeds for a high performance culture were sown. Although the transformation process is still work in progress, we are already seeing the desired results. For instance, going by our track record and the awards won, MAHB is already a world-class entity having proven to the world it is at par with any other international organisation in its field.

Although the Group is in a stronger position to face the challenges, the transformation process under TMO continued in 2008 with the creation of 56 new initiatives to drive CIP. These initiatives covered a range of areas that included improving operational procedures, optimising manpower requirements through the use of appropriate technologies and multi-tasking, and developing strong Information Communication Technology (ICT), among others. In the face of the deteriorating economic conditions, the CFT also looked into cost-saving strategies and identified potential opportunities for the Group to generate additional revenue.

To complement the efforts of TMO, MAHB has adopted the value management (VM) approach to manage costs, notably the Group's capital expenditure. Incidentally, we were the first GLC to officially take on board the VM approach. In August 2008, we also embarked on the LEAN methodology to improve operational performance while reducing wastages. This was launched at KLIA but will eventually be extended to other airports. Other initiatives such as Value Engineering, Knowledge Management, One Page Strategy and Risk

CHAIRMAN'S STATEMENT

Management have been rolled out and adopted to strengthen internal capabilities. We are confident that these and other measures yet to be implemented would serve as cushion to the prevailing economic headwinds.

A CONSERVATIVE OUTLOOK

Many corporations have already written off 2009 as a year to forget, but MAHB can still look forward to a year of growth and profitability. However, if the economic turmoil deepens and persists, it might put a dent on the record-breaking pace set in previous years. The crux of the problem is that no one knows with any degree of certainty how deep the crisis will cut and when recovery can begin. It is further complicated by the fact that this is as much a crisis in confidence that must be won over before recovery can set in. The general consensus is that this is not likely to happen until some time in 2010.

The International Monetary Fund expects global growth to be below zero for 2009, the first time the international economy was likely to shrink since World War II. In line with global trends, the Malaysian economic growth has been revised downwards to be between 1% and -1% for 2009. This will have a

negative impact on the aviation industry. OAG (Official Airline Guide) has projected a cut in capacity across the globe, including the Asia Pacific region where capacity is expected to fall by 1%. Passenger and cargo movements, whose performance is a function of economic growth, are likely to be dragged down further at both international and domestic levels. Rising unemployment worldwide would affect discretionary spending and this is likely to depress demand for air travel. The airline industry is already hurting, and depend on airports to provide support to cushion the impact of the downturn. MAHB has already responded with a 50% rebate on landing charges for 2009, although our rates are already among the lowest in the region. However, we take into account the symbiotic relationship we have with the airlines and we are working on other incentives to assist them.

Amidst this slew of grim data, there are reasons to be optimistic about our future. Nations all over the world are on the same page, as they struggle to get their economies back on track. Led by the G20 (Group of 20) countries, trillions of dollars are being injected into stimulus programmes. In Malaysia, our Government has recently announced a

stimulus package of RM60.0 billion to be injected over the next two years. History has proven that economies will eventually recover. It is therefore a matter of time before the stimulus packages begin to kick-in to jump-start the economic recovery process.

We are also encouraged by the rapid growth of LCCT business, which has seen a double digit year-on-year increase in traffic growth since commencing operations in 2006. Demand from LCC sector will remain strong in 2009, and this will offset somewhat an expected decline in the full service sector. MAHB also expects an improvement in non-aeronautical revenue with the additional retail space at the Satellite Building and CPI. This will come from two principal sources – rental revenue from an increase in numbers of retail shops and with more product and service offerings, it is hoped that this will encourage travellers to spend more.

The coming financial year will mark the start of a new and important chapter for MAHB Group. The financial restructuring plan approved by the Cabinet in December 2008 is expected to contribute positively to the future earnings capability of MAHB. This, perhaps, is the best reason for optimism.

ACKNOWLEDGEMENTS

There were several changes in the Board's composition during the financial year 2008. Dato' Zaharaah binti Shaari resigned from the Board on 28 August 2008, and her Alternate, Dato' Long See Wool also resigned from the Board on the even date. Subsequently, Dato' Long was appointed as Director on the Board on 9 September 2009. However, Dato' Long has to vacate the office of director on 19 January 2009 due to his inability to attend the number of the Board of Directors' Meetings that would fulfill the 50% requirements of the total Board of Directors' Meetings held during the financial year 2008 in accordance to Para 15.05(3)(c) of the Listing Requirements of BMSB. The inability was due to his tight schedule as he had to represent the Government at several meetings overseas organised by ICAO. Notwithstanding thereto, Dato' Long was re-appointed as the Director on the Board on 20 January 2009.

In addition, Eshah binti Meor Suleiman resigned from the Board on 1 September 2008, and Siti Zauyah binti Md Desa resigned as her Alternate on the even date. Datuk Latifah binti Datuk Abu Mansor was appointed on the Board on 1 September 2008, to replace Eshah binti Meor Suleiman, whilst Siti Zauyah binti Md Desa was re-appointed

as her Alternate. Subsequently, Datuk Latifah had tendered her resignation on 13 January 2009 and Siti Zauyah also resigned from the Board on the even date. Thereafter, Dyg Sadiah binti Abg Bohan was appointed on the Board, and her Alternate, Anis Rizana binti Mohd Zainudin @ Mohd Zainuddin was appointed on 25 February 2009.

Further, Dato' Ahmad Fuaad bin Mohd Dahalan resigned from the Board on 24 September 2008. In his place, Mohd Nadziruddin bin Mohd Basri was appointed on the Board on 21 October 2008.

The Board expressed its appreciation to Dato' Zaharaah binti Shaari, Eshah binti Meor Suleiman, Dato' Ahmad Fuaad bin Mohd Dahalan, Datuk Latifah binti Datuk Abu Mansor and Siti Zauyah binti Md Desa for their contribution and guidance to the Company and the Board, and wished them every success in all their undertakings.

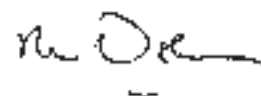
The management and staff of MAHB work as a team and has proven its mettle in clearing past hurdles. Meeting today's challenges will not be easy, but when the challenge is toughest, our team has always risen to the occasion and delivered. A lot more is expected of our people, and there is no room for

laggards. However, I am confident they have what it takes to see the Group through this difficult period and bring it to a new phase of growth and profitability.

At times like these, we need the support, understanding and forbearance of our shareholders, customers, business partners, airlines and other members of the airport community. They have never failed us, and we will continue to depend on their cooperation. MAHB enjoys a good working relationship with the Ministry of Transport, Ministry of Finance, Khazanah Nasional Malaysia, Tourism Malaysia, Immigration, Customs & Quarantine Department, Fire and Police Department. This has made all the difference in a challenging year.

As we move into a more unsettling year, I call upon all of you to continue with your contribution, commitment and support so that together we can again meet the challenge.

Thank you.



TAN SRI DATUK DR. ARIS BIN OTHMAN
Chairman



meeting the challenge

the challenge
of our services
geared in keeping
customers
pointed in the
right direction



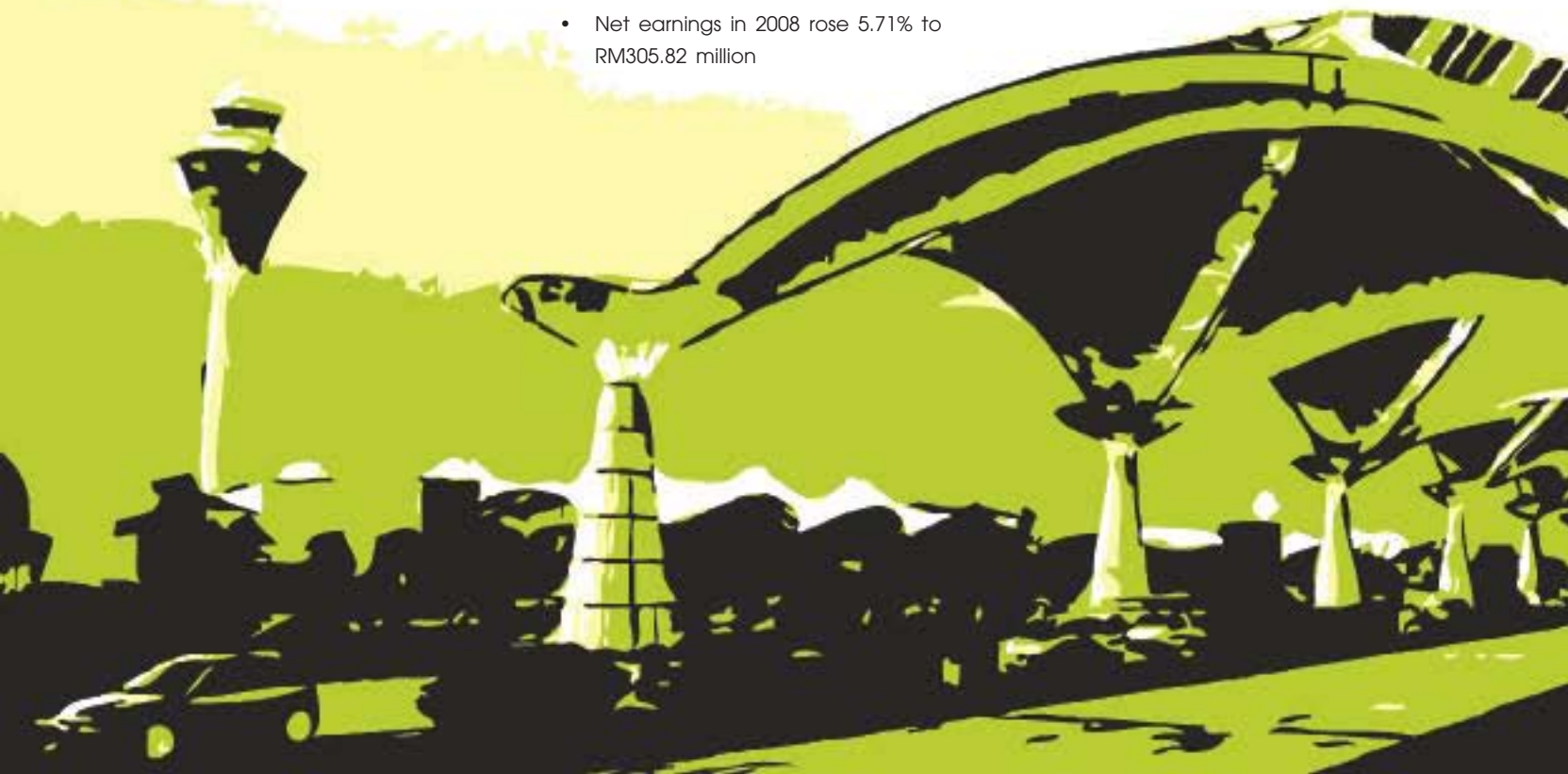
MANAGING DIRECTOR'S

REVIEW OF OPERATIONS

The commendable financial performance of Malaysia Airports Holdings Berhad (MAHB) for the year ended 31 December 2008 (FY2008) brought some welcome relief amidst an almost daily dose of dismal financial results. The Group's financial performance was matched on the operational front with satisfactory results turned in by both the aeronautical and non-aeronautical sectors.

The highlights of the year are summarised as follows:

- MAHB has surpassed its headline financial Key Performance Indicators (KPIs) for the year under review ended 31 December 2008 (FY 2008)
- Revenue rose by 9.65% to RM1.51 billion for FY 2008
- Earnings before interest, tax, depreciation and amortisation (EBITDA) grew by 7.18% to RM587.37 million
- Net earnings in 2008 rose 5.71% to RM305.82 million
- KL International Airport (KLIA) celebrated its 10th Anniversary on 28 June
- MAHB successfully hosted the 14th World Route Development Forum in October
- MAHB ranked 7th in terms of corporate governance in a survey by the Minority Shareholder Watchdog Group (MSWG), an improvement from the 14th position in 2007





Dato' Seri Bashir Ahmad bin Abdul Majid

Managing Director, Malaysia Airports Holdings Berhad

MANAGING DIRECTOR'S REVIEW OF OPERATIONS

- Pan Pacific Kuala Lumpur International Airport (PPKlia) was voted World's Leading Airport Hotel in 2008 World Travel Awards, four months after being voted Asia's Leading Airport Hotel
- PPKlia maintained its status as Best Airport Hotel in Asia by Business Asia Magazine for a total of eight years
- Klia was voted fourth among the top airports in the world in Skytrax World Airport Survey
- Klia recertified to Green Globe 21 for fifth successive year
- New Terminal 1 facility at Kota Kinabalu International Airport (KKIA) commenced operations
- KKIA named Malaysian Society for Occupational Health & Safety Bronze Award Winner for 2007
- Astana International Airport in Kazakhstan managed by MAHB won Best Airport in the Commonwealth of Independent States (CIS) Award 2007 for the one million passengers category

- MAHB unveiled the first phase of Klia Satellite Retail Optimisation Project
- Low Cost Carrier Terminal (LCCT-Klia) new international arrival hall commenced operations
- On 23 December 2008, the Cabinet approved MAHB's financial restructuring plan

At MAHB, we are fully cognizant of the challenges facing the industry, and the challenges that the Group itself must face and overcome. Dark clouds have cast a shadow on the global financial landscape and this presents a whole new set of challenges. Tough times notwithstanding, MAHB is determined to stay the course and fulfil the promise of its Mission Statement, and in doing so meet our ultimate objective of increasing shareholder value.

OPERATING ENVIRONMENT

Two major developments dominated the operating environment in 2008. During the first half of the year, global airports generally recorded robust growth, but by June the unprecedented hike in oil prices and subsequent rising air fares resulted in air traffic growth beginning its downward spiral. Higher fuel prices forced airlines to cut down on capacity and air routes to contain rising operating costs. By September, the cause of the traffic decline was no longer tied to oil, but to a financial market crisis that had its beginning in the United States and quickly spread to the rest of the world. According to the Airports Council International (ACI), worldwide passenger traffic was down by 6.0% in December 2008 compared with the previous year. Freight traffic, a leading economic barometer, declined even more steeply with a 25.0% drop in international freight for the month.

From the preliminary ACI statistics, world passenger traffic is expected to record a negative growth of 0.6% in 2008, which is a drastic decline from the 7.4% recorded in 2007. Capacity grew by 3.5% resulting in a full year average

load factor of 75.9%, down from the 77.3% recorded in 2007. The regions hit hardest by the downturn were Asia Pacific, Europe and North America. Asia Pacific was badly affected by a fall in international traffic, although domestic travel held up relatively well. The downward slide in cargo traffic was even more precipitous. After a volatile first half of 2008 due to the steadily rising cost of fuel, cargo volume dropped significantly by the last quarter. Total freight traffic for the year is projected to fall by 4.3%, a decline led by Asia Pacific which experienced a 24.0% drop in cargo traffic for the month of December alone. In the face of the economic downturn, airlines are expected to register losses amounting to USD5 billion in 2008.

ACI forecasts that the downturn will continue to be played out during 2009, with the first signs of recovery in late 2009 and early 2010. Airports know, from many years of experience, that once the economic down cycle has run its course, we can anticipate a rapid upsurge in demand for aviation services. That is why MAHB must maintain a long term focus in spite of these uncertain times and be ready to capture the upside of the economic recovery.

AERONAUTICAL OPERATIONS

TRAFFIC GROWTH

Given the dismal global picture, MAHB's system of airports has performed relatively well by comparison. Total passenger movements rose 5.0% to 47.45 mppa in 2008. International traffic grew by 4.9%, while the domestic sector recorded growth of 5.1%. Cargo movements experienced positive growth in the early part of the year, mainly due to the very low base in 2007. However, it was subsequently affected negatively in turn by high oil prices and the economic downturn. For the year, cargo traffic contracted by 6.5%, with the international and domestic sectors registering negative growth of 7.0% and 3.5% respectively. Total aircraft movements grew by 10.0%, with 496,271 aircraft flying in and out of Malaysian airports. The international sector recorded a 9.1% growth, while the domestic sector registered a higher growth of 10.4%. The increase in aircraft movements was mainly contributed by the operations of new airlines such as Tiger Airways, Jetstar Asia, Silk Air, Air Niugini, Best Air, Sriwijaya Air, MASwings and Cebu Pacific. Another contributing factor was the introduction of new

international routes and additional frequencies by Air Asia and by community airlines such as Firefly (Peninsular Malaysia) and MASwings (Sabah and Sarawak) and other airlines.

The country's main aviation gateway, KL International Airport (KLIA), saw a 4.1% increase in passenger traffic to 27.5 mppa. International passenger traffic experienced a 4.6% growth, while domestic traffic grew by 3.0%. Total cargo freight increased marginally by only 0.8%, with international freight registering a 1.2% growth. However, cargo movements in the domestic sector shrank by 3.3%. The Low Cost Terminal Carrier-KLIA (LCCT-KLIA) accounted for 10.1 mppa in 2008, a year-on-year increase of 31.7%.

In terms of sectoral performance, the Middle East and the Central Asia segments continued to remain buoyant, both growing by 17.6% from the previous year. Passenger movements from Southeast Asia and Northeast Asia grew by 9.3% and 5.6% respectively. The biggest contraction was the North American segment, which declined by 28.2%. Other double digit declines were the South American and European markets.

MANAGING DIRECTOR'S REVIEW OF OPERATIONS

The national carrier, Malaysia Airlines (MAS) accounted for 18.3 million pax or 38.7% of the passenger traffic at MAHB's airports. AirAsia Berhad is catching up fast, accounting for 18.3 million passengers or a 38.7% share, up from 34.7% in 2007.

Capacity provision in 2008 was at an all-time high at airports operated by the Group. Based on the Official Airline Guide (OAG) analysis, global seat capacity offered in 2008 increased by a mere 0.3% compared with 2007. It was otherwise in Malaysia, with both domestic and international capacity increasing in the range of 10.0%. There was also a significant increase in low cost capacity. In furtherance to the open skies initiative among ASEAN nations, the Singapore-Kuala Lumpur sector was significantly opened up, paving the way for a large number of flights by AirAsia Berhad, Tiger Airways and Jetstar Asia. The open skies arrangement has also brought MAHB's regional hubs into sharper focus. In 2008, over 60 new frequencies to Malaysian airports were opened up, adding more than 200 flights per week. During the year, new routes were opened to Penang, Kota Kinabalu, Kuching and Langkawi.

MARKETING ACTIVITIES

With the support from the Government and our unrelenting marketing drive, we succeeded in bringing in five new airlines to start servicing the Malaysian route, namely Tiger Airways, Jetstar Asia, SilkAir, Air Niugini and Best Air. Tiger Airways is Singapore's first low fare service and since 20 November, has commenced its low fare service to Kuching. This is in addition to the five daily flights it operates between Singapore and Kuala Lumpur. Jetstar Asia, another Singapore-based low-cost carrier, has announced 21 weekly flights to KLIA. SilkAir has arrangements with Singapore Airlines to offer up to 30 flights a weekly between Singapore and Kuala Lumpur. Air Niugini, the national carrier of Papua New Guinea, made its inaugural flight from Port Moresby to KLIA on 29 October. The latest international airline to land at KLIA is Best Air, a private airline from Bangladesh. Since 6 November, it began operating five flights weekly into KLIA.

At the financial year end, there were some 56 airlines operating at KLIA, offering connectivity to some 111 destinations worldwide. Incidentally,

Quantas Airways and Singapore Airlines have nominated KLIA as their alternate A380 aerodrome in case of traffic diversion.

INFRASTRUCTURE UPGRADING

MAHB already has one of the best airport systems in the region and it is a constant challenge to ensure the facilities and services provided are world class and meet the growing needs of the 21st Century. Over the past 15 years, MAHB has spent over RM1.0 billion of its own cash reserves for the building and upgrading of airports.

Several upgrading projects were completed in 2008. They included the Sultan Mahmud Airport at Kuala Terengganu, where the scope of work called for the construction of a terminal building, central utility building, control tower and other related works. The terminal building was officially handed over to MAHB on 26 June and can now accommodate a peak traffic flow of 1.5 mppa. At Lahad Datu Airport in Sabah, the newly renovated building was officially opened by the Deputy Transport Minister on 26 November. The floor area of the terminal building has been doubled at a cost of RM1.6

million. The international airport at Kota Kinabalu also has a new terminal building, which was commissioned on 19 August. The floor area has been increased to 112,350 sq m and has a design capacity to accommodate 9.0 mppa.

Upgrading works at Batu Berendam Airport in Melaka are still underway. The scope of work involves redevelopment of new terminal building to 5,110 sq m, increasing the length of the runway and apron parking facility to accommodate larger aircraft. Other facilities in the terminal building will be improved at a total cost of RM131.5 million. At other airports, the rehabilitation of the runway and taxiway at Subang Airport has started for targeted completion in 2009. Penang International Airport is undergoing a series of upgrading works carried out in various packages that includes rehabilitation of the taxiway and toilet upgrading (which were completed in January 2009), and rehabilitation of parking apron that is expected to be completed by August 2009. Other projects set for take-off include the proposed design, construction and rehabilitation of the parking apron at Kuching International Airport, rehabilitation of airfield pavement at Bario and Long Banga

short take-off and landing port (STOLport) and the upgrading of infrastructure and building facilities at the Alor Setar Airport, which started in January 2009 and expected to complete in July 2009.

LCCT EXPANSION

It has always been MAHB's intentions for the existing LCCT-KLIA to be a temporary terminal, and AirAsia Berhad, having been involved in its design process, was fully aware that should its business grow, a new terminal would be built. Phase 1 was intended to handle up to 10 mppa, a figure that was expected to be breached only around 2010. However, the growth of LCC business has been nothing short of phenomenal and passenger traffic as at end-2008 was already close to capacity numbers. MAHB therefore decided to embark on Phase 2 on a fast track basis, with construction works initiated in April 2008. The expansion of LCCT-KLIA will also cater to the operations of AirAsia X which has started long-haul flights using wide body aircraft such as A330 or A340. Based on the combined projected passenger volume of AirAsia Berhad and AirAsia X, MAHB has decided to expand the LCCT to cater

for a growth of up to 15 mppa until the year 2015. The expansion of the LCCT apron calls for an additional six A320 bays and the conversion of an existing bay to accommodate A330 aircraft safely.

Meanwhile, MAHB is going ahead with the building of a new permanent LCCT to be located at KLIA. The location of the new LCCT was determined by the National Airport Master Plan in a study jointly conducted by Netherlands Airport Consultancy BV and KLIA Consultancy Services. Relevant Government agencies and airlines were also consulted for the study.

The planning and design of the permanent LCCT presents major challenges, because it has to suit the business model of the low cost carrier that requires only basic terminal amenities. It is not easy striking a fine balance between cost-effectiveness and service excellence, but our primary goal is to ensure that passengers are comfortable and that the new terminal will provide excellent operational efficiency. In building the new LCCT, MAHB will take into account inputs not only from AirAsia Berhad but all potential airlines using the terminal.

MANAGING DIRECTOR'S REVIEW OF OPERATIONS

When Phase 1 is completed by the third quarter of 2011, the present LCCT will then be reverted to its original intended role as a cargo handling terminal.

SIMPLIFYING THE BUSINESS

MAHB is implementing the International Air Transport Association's (IATA) Simplifying the Business (StB) initiative. IATA is the global trade organisation whose mission is to represent, lead and serve the air transportation industry. The StB programme aims to change the way the industry operates, resulting in better services for passengers and lower costs for the industry. This is particularly relevant in today's economic climate, which has adversely affected airlines and airports alike.

The StB programme comprises various components such as Common Use Self-Service (CUSS) ticketing kiosks, Bar-Coded Boarding Passes (BCBP), Baggage Improvement Programme (BIP) for baggage handling improvement and IATA e-freight, a project that aims to eliminate the use of paper documents for air cargo shipments. MAHB's plan is to implement the StB programme at KLIA first before extending it to our other airports.

CUSS was rolled out in 2007 at KLIA, and as a shared kiosk facilitates convenient passenger check-in whilst allowing multiple airlines to maintain branding and functionality. As an airport operator, MAHB benefits by way of improved capacity utilisation, limiting the need for expensive infrastructure development whilst improving the process flow for both airlines and passengers. Implemented in 2007, BCBP takes advantage of the efficiencies offered by the industry's conversion to 100% electronic ticketing. By reducing the need for check-in counters, the use of airport space can be improved as throughput is increased in a capacity-constrained environment. Launched in 2008, the BIP programme ensures that passengers and their baggage are reunited at their final destination by improving the baggage handling processes by integrating systems, improving read rates through better bar code labels and ensuring that messages needed to keep baggage flowing are available at the right time. The IATA e-freight project aims to foster an industry-wide electronic, paper-free environment.

Apart from IATA, MAHB is also collaborating with Societe Internationale de Telecommunications Aeronautiques

(SITA), an aviation Information Technology (IT) specialist. AirportConnect Open is SITA's latest generation of IATA CUTE-compliant common use passenger processing system. Its introduction at KLIA and Penang International Airport will significantly boost our customer service levels, whilst enabling us to realise cost efficiencies over a period of time. The other activity which SITA is introducing is making KLIA a 'SITA Hub', allowing airlines back offices to be connected to KLIA infrastructure and be connected to their host system through SITA communication services. Other programmes that have been adopted include FLIRT, a system to facilitate faster billing and better statistics. It is designed to help consolidate an airline's operational data with an airport's information system.

MANAGEMENT SYSTEM CERTIFICATION AND AERODROME CERTIFICATION

In striving to be world-class, MAHB subscribes to a certification programme for its airports and key operating units. To date, all key operating units have been certified to the ISO 9001:2000 quality management system, as well as four international and 15 domestic airports. The certification programme at

KLIA has been carried out by divisions, namely Aviation Security (AVSEC) and Airport Fire and Rescue Services (AFRS) from 1999, Engineering from 2000; Operations from 2003 and Free Commercial Zone (FCZ) from 2005. Other subsidiaries and units that have been certified are Urusan Teknologi Wawasan Sdn. Bhd. (UTW) since 2000, Malaysia Airports Management & Technical Services Sdn. Bhd. (MAMTS) since 2001, Malaysia Airports Technologies Sdn. Bhd. (MA Technologies) since 2001, Malaysia Airports Training Centre (MATC), Penang since 2003 and Malaysia Airports (Niaga) Sdn. Bhd. (better known as ERAMAN Malaysia) since 2004. A total of 28 operating units and subsidiaries have been certified as at the end of 2008.

More than 35 annual surveillance and re-certification audits were conducted by SIRIM in the course of 2008, with no reports of any major non-conformances. Under the stewardship of the Group's Corporate Quality Management (CQM) Division, MAHB has conducted its own internal corporate quality audits. Refresher courses were also organised to ensure the system in place conforms to the standards by ISO 9001:2000. There is also an ongoing process by the certified subsidiaries and units to implement the

latest version of quality management system, ISO 9001:2008. MAHB aims to achieve group-wide certification by the end of 2009, and efforts are already underway to certify the remaining identified operating units, namely MAHB Corporate Headquarters, MAB Agriculture-Horticulture Sdn. Bhd. (MAAH), K.L.Airport Hotel Sdn. Bhd. (KLAH) and Malaysia Airports Properties Sdn. Bhd. (MA(P)).

In addition to ISO certification, all five international airports have been awarded Aerodrome Certification by the Department of Civil Aviation. This is mandatory under the Airport Standard Directive as issued by the Director General as well as Annex 14 of the International Civil Aviation Organisation. MAHB aims to have all its domestic airports certified as well and with the Limbang Airport certified in March 2008, the number of domestic airports that have received Aerodrome Certification now stands at eight.

The long-term plan is to have all key operating units certified to an integrated system of QMS ISO 9001, EMS ISO 14001 and OHSAS 18001; and MAHB is already working towards this objective. Additionally, we are striving for industry-specific Management System

Certification such as the Roundtable for Sustainable Palm Oil (RSPO) for MAAH and ISO 22000 Food Safety Management System (FSMS) for ERAMAN Malaysia.

DRILL AND SIMULATION EXERCISES

MAHB regularly conducts emergency exercises involving an aircraft crash or a fire just like the one conducted at KLIA on 25 August. However, we are always challenging ourselves to anticipate and deal with various emergency scenarios. Having experienced the outbreak of Severe Acute Respiratory Syndrome (SARS) and Avian flu, MAHB in collaboration with the agencies operating at KLIA conducted a simulation exercise in early 2008 to test the response plan in the eventuality of an outbreak of pandemic influenza. The exercise tested the emergency communication procedures, response of agencies, screening procedures, suspect handling procedures and the aircraft management process (cleaning, disinfection and baggage handling).

The other exercise that was conducted in October aimed to test the business resilience strategy of KLIA in the event of a catastrophe. This Business Continuity Management (BCM) simulation exercise

MANAGING DIRECTOR'S REVIEW OF OPERATIONS



is believed to be the first and largest of its kind for an airport in this region and focused on the recovery activities should the main passenger terminal become inoperative. The exercise tested the capabilities and coordination of 600 participants, representing six major airlines and eight airport agencies, transferring operations from the main terminal to an alternative terminal. Although the BCM exercise is not mandatory under any civil aviation requirements, MAHB will continue to organise exercises like these simulating different scenarios to enhance the airport's contingency plans.

OVERSEAS VENTURES


MAHB's overseas ventures are already yielding results by way of generating a steady revenue stream for the Group. We have extended our management expertise to four international airports,

namely, the Rajiv Gandhi International Airport (RGIA) in Hyderabad, Indira Gandhi International Airport (IGIA) in Delhi (both in India), Istanbul Sabiha Gokcen International Airport (SGIA) in Turkey and the Astana International Airport (AIA) in Kazakhstan.

MAHB has an 11% stake in GMR Hyderabad International Airport Ltd (GHIAL), the company appointed to operate and develop RGIA. On 23 March 2008, RGIA in Hyderabad officially commenced operations. MAHB holds a 10% shareholding interest in Delhi International Airport Ltd (DIAL), the company appointed to operate and develop IGIA. MAHB's scope of work in the restructuring and modernisation of IGIA involved expansion of the Domestic Terminal, refurbishment of the International Terminal and the construction of a new runway and Integrated Terminal with a handling capacity of 30 mppa. On 24 February

2008, MAHB provided training in airport operations related areas to 188 staff from IGIA.

On 4 February 2008, MAHB won a bid together with Limak and GMR to develop SGIA on a build-operate-transfer basis. MAHB holds a 20% equity stake in the consortium, which will develop, manage and operate the airport over the concession period of 20 years. The ground breaking ceremony for the new terminal was held on 3 May 2008. When completed in 2010, the new terminal building will cater passenger flow up to 15 mppa.



In Kazakhstan, MAHB is managing AIA under a trust management arrangement for a period of 10 years. The management model of the AIA is similar to Malaysia Airports Sdn. Bhd.'s whereby all requirements for the development and upgrading of the airport are identified by AIA and all costs are borne by the Government of Kazakhstan. On 27 May 2008, AIA was named Best Airport in CIS for 2007 for the category of one mppa and above.

The airport consulting segment remains relatively untapped and can be potentially lucrative. On the strength of its track record and overseas experience, MAHB continues to receive proposals to manage airports in the

MANAGING DIRECTOR'S REVIEW OF OPERATIONS

Middle East, Africa and China. We are carefully evaluating these proposals and weighing our options before making a decision.

COMMERCIAL OPERATIONS

MAHB's Commercial Services Division (CSD) has been charged with two important responsibilities. First, to transform KLIA into a preferred shopping hub in the region and second, to increase the contribution of its commercial activities to Group revenue. The near completion of Retail Optimisation Project (ROP) at Satellite Building and Lifestyle Mall at Contact Pier International (CPI) during the year under review brings CSD a step closer towards achieving these major objectives. The scope of CSD's operations cover the management of commercial space for retail outlets, food and beverage (F&B) facilities, lounges, offices and storage areas, private sector packages, hotels and car park facilities. All marketing and promotional activities across MAHB's airports are also handled by the division.

RETAIL OPTIMISATION PROJECT

A lot of hard work and resources that have been invested in ROP have finally come to fruition in 2008. And the results will not disappoint even the most jaded or discerning world traveller. The unveiling of new East Zone under the first phase on 9 December has lifted shopping and dining experience at KLIA to an elevated plane. In a departure from the stereotype concept of airport shopping, a refreshing and appealing lifestyle environment has been created, and this is complemented by a wide array of new product offerings along with superior customer service.

By spreading the retail and F&B outlets, travellers are encouraged to explore all four wings of the Satellite Building. The mezzanine level is undergoing a major makeover to allow for more F&B space. Travellers will soon be spoilt for choice, with a tantalising array of Japanese, Italian, Mediterranean and Malaysian cuisine to choose from. Floor space has also been set aside for the introduction of new services, such as a cigar lounge, hair salon and many more.

With ROP, MAHB also aims to give travellers a lasting impression of KLIA. We have created a jungle trail at the natural landscaping area of the Satellite Building to give visitors an opportunity to get a unique first-hand experience of what it is like to be in the midst of a natural rain forest.

The entire ROP is targeted for completion by mid-2009. By offering more retail space for rental and with more product offerings at competitive prices, the plan is for CSD to boost its revenue earnings from 2009. However, given the current fragile economic conditions, we are aware that this will depend to a large extent on passenger numbers.

CONTACT PIER INTERNATIONAL

The transformation of CPI has been no less impressive and provides travellers with an additional avenue for shopping and dining. International passengers departing and arriving at KLIA can now enjoy an open concept shopping mall that spans the entire central area of the CPI. The Duty Free Mall@CP commenced operations in December 2008 and is operated by ERAMAN Malaysia. Strategically positioned to tap the traffic flow, the mall combines a

contemporary design tastefully accentuated with a touch of local flavour using the Malaysian batik as the main decorative element. The result is arresting, and with a tempting array of duty-free items, the mall is an irresistible draw to passing passengers. Come March 2009, the mall would be enlivened by a 'Kidz Smart Tunnel', a place that the young can call their very own. The young at heart would no doubt be drawn to an exclusive selection of toys as collectors' items. By mid-March 2009, the mall will also feature the best ever retail mix of lifestyle fashion apparel and accessories, elegant timepieces and the best of Malaysian handicrafts and souvenirs.

TERMINAL 1, KOTA KINABALU INTERNATIONAL AIRPORT (KKIA)

KKIA is one of the busiest airports within MAHB stable. Until now, the revenue potential of commercial operations at this airport has not been fully exploited despite the growing passenger numbers. To tap into this flow, Terminal 1 of KKIA, which caters to mainstream airlines, has undergone major renovation works carried out in two phases.

Phase 1 has been completed with operations commencing on 19 August 2008. Besides the duty-free offerings one expects of an international gateway, new shopping outlets have been introduced tempting travelers with chocolates and confectionaries, perfumes and cosmetics, accessories, books and magazines, gifts and souvenirs and even dried and frozen seafood, one of the specialities of Sabah. On the F&B front, travellers can choose from Asian Delights, Starbucks, McDonalds or Kopitiam. The present numbers of 21 retail and nine F&B outlets will be doubled when Phase 2 is completed in 2009.

STRATEGIC PACKAGE DEALS

To expand its revenue base, CSD is continually striving to diversify and develop its F&B offerings in the interest of traveling public. This is being achieved through strategic package deals with various business partners. Through this initiative, the fast-food chain McDonald's has commenced operations at three airports, namely Penang International Airport, Kuching International Airport and the Labuan Airport. In the small Federal Territory of Labuan, the opening of the first

McDonald's outlet at the airport was a cause for much excitement among the local community, drawing large crowds that created traffic jams within the airport compound.

SHOPPING CAMPAIGNS & PROMOTIONAL ACTIVITIES

CSD's advertising and promotional activities are an integral part of the shopping and dining experience in MAHB's airports, lending an air of excitement and creating a fiesta-like ambience. The 5th installation of KLIA Shopping Campaign was launched on 26 August, with 'Three Contests within an Ultimate Contest' offering prizes totaling some RM2.7 million in cash and kind. Meanwhile, the magic continued with the aptly themed 'Magic 10 Celebration' in conjunction with KLIA's 10th Anniversary. This campaign featured a series of contests, rewarding big spenders with a range of attractive prizes.

CSD has also initiated promotional campaigns at other international airports, such as KKIA. The 'KKIA Spend & Win Shopping Campaign' launched on 20 January 2009, follows in the

MANAGING DIRECTOR'S REVIEW OF OPERATIONS

footsteps of the many successful campaigns conducted at KLIA. More campaigns are set to follow and these will be extended to other international airports as well.

KEY INITIATIVES

Guided by a new Mission Statement that provides a clear direction of where the Division is heading in support of MAHB's corporate directives, CSD is still a work in progress. With the structures now in place, CSD has rolled out new strategies to achieve commercial excellence.

Through the transformation strategy covered by the Chairman, CSD has charted three distinct phases of development. Over the next two years, Phase 1 will focus on driving a customer-centric approach in strengthening internal capabilities and generating revenue, ultimately leading to improved efficiencies and revenue generation.

The key initiatives to be implemented under Phase 1 are as follows:

- Manage five key processes, namely tender process, package deals formulation, Point of Sales (POS) and System Analysis and Program Development (SAP) systems, product benchmarking and customer service index to achieve total customer experience
- Build and strengthen business intelligence and customer experience management capabilities through system reengineering and loyalty programmes
- Strengthen service elements in coupling of product and service offerings
- Focus on core products and airside retail development to further enhance revenue generation
- Build relationship and contact management capabilities for a more efficient and effective relationship with strategic business partners
- Establish clear segregation of functions between business and operations to optimise workforce expertise and experience

- Establish airport commercial model at selected airport as a pilot study to assess its viability

The effective implementation of these key initiatives under Phase 1 will ultimately lead to an increase in productivity, revenue and also strengthen CSD's core business capabilities. MAHB believes that this is the best approach given the present economic landscape, which is expected to bottom up some time within 2009 or early 2010.

AN EVENTFUL YEAR

Two events stood out in what was a busy and memorable corporate calendar. MAHB marked the KLIA's 10th Anniversary with a year-long celebration. It was kicked-off in early January with the launch of the KLIA 10th Anniversary Campaign by the Minister of Transport. As befitting an airport of world-class stature, the KLIA was given its own identity and brand image with a special 10th Anniversary logo and its own theme song appropriately titled 'Soaring High'. Throughout the campaign, KLIA was transformed into a carnival-like ambience highlighted by shopping campaigns, give-aways, strolling musicians and surprise gifts for the 191 millionth international and 65 millionth domestic passengers. The celebrations reached its zenith on 28 June, when 15 KLIA Awards were presented to outstanding service providers and operators in various award categories. These awards are meant to serve both as an incentive and reward to all KLIA business associates and partners to strive for excellence. As mementos of KLIA's milestone, special commemorative stamps and medallions were issued. At the awards ceremony, MAHB also

launched two coffee-table books. The first, entitled 'The Malaysian Aviation Saga' traces the nation's history of aviation to its present day. The other, called 'Colours of KLIA – Imagine, Explore, Discover' features water-colour sketches by six Malaysian artists.

The other event of the year was the World Route Development Forum (Routes) held in Asia for the first time in its 14-year history. The Routes forum is the world's largest and most important annual airline and airport networking event. Routes facilitates and encourages the role of airports in the development of air services by organising global and region-specific airline-airport networking forums. In the long preparation leading to Routes KL in October 2008, MAHB has been working closely with Tourism Malaysia to ensure that all delegates have an authentic experience of Malaysia. This was the ideal opportunity for route planners from all over the world to evaluate for themselves the tremendous potential Malaysia has to offer and the importance of Kuala Lumpur as a tourist destination. It is at this forum that many airlines make decisions whether to fly to a particular country or city. Airlines also have the opportunity to review the performance of existing routes and discuss the levels

of capacity offered, together with any marketing support opportunities that may be available.

By all accounts, Routes KL was a resounding success. Even before the event was brought to Malaysia, almost all exhibition booth spaces were sold out as early as September 2007. More than 2,500 delegates, representing airports, airlines and related aviation companies from all over the world were at the event. As the host showcasing Malaysia's aviation community, MAHB put up a visually stunning exhibition booth that drew tremendous crowds. Heads of industry and experts of the aviation world took time to browse through the exhibits and information panels at our booth. Behind the scene, MAHB's marketing team met with hundreds of airline delegates in pre-scheduled, face-to-face table-top meetings. These meetings were in addition to the intensive networking at the Welcome Reception and other specially planned networking events.

Routes KL may be over, but now the hard work begins. The vital follow-up work to the contacts made at the event is just beginning. This is when the rubber meets the road, the true measure of the success of the event.

MANAGING DIRECTOR'S REVIEW OF OPERATIONS

The results will be seen in the number of new airlines we can win over to fly to Malaysia.

Apart from Routes, MAHB was also the first Asian host for the third Airport SAP User Group (SUG), a worldwide conference for airports and airport authorities. The annual SUG conference held on 13 May, constitutes a platform for networking and information exchange among participating airports and to focus on software development for the airport business using SAP (systems, applications and products) in data processing. The SUG community comprises a record number of 65 airports and authorities from around the world.

The year under review continued to bring MAHB its share of awards and accolades from the aviation and related travel and hospitality industries. Pan Pacific Kuala Lumpur International Airport (PPKLIA) was voted the World's Leading Airport Hotel in a survey conducted by 2008 World Travel Awards. This award came barely four months after PPKLIA was named Asia's Leading Airport Hotel by this influential awards programme. The World Travel Awards is one of the most prestigious and comprehensive awards programme

for the travel industry. PPKLIA also maintained its ranking as the Best Airport Hotel in Asia for the eight consecutive year. In the World Airport Survey conducted by UK-based aviation research organisation, Skytrax, KLIA was placed 4th among the top airports in the world. The results were compiled by Skytrax after more than 8.2 million questionnaires were completed by passengers across the world during the 10-month survey period. Other awards won by the Group include Certificates of Merit from the Chartered Institute of Management Accounting and the National Annual Corporate Report Awards. The Group's efforts in the occupational health and safety arena won recognition from the Malaysian Society for Occupational Safety & Health (MSOSH) when Kota Kinabalu International Airport was selected by a panel of auditors as the MSOSH OSH Bronze Award Winner for 2007.

The Chairman has already explained why KLIA's ranking was excluded in the ACI-ASQ airport customer satisfaction benchmark programme. We are of course disappointed because all of us have tried very hard to maintain our standing. However, we are not going to be discouraged. If anything, it has only strengthened our resolve to try even harder the next time around.

PUTTING OUR BEST FOOT FORWARD

The challenges the Group is confronted with are manifold and multi-dimensional and it stems from the fact that we wear several hats. As custodian of the country's system of airports, we need to serve the nation's interest and those of its people. As a public-listed company, MAHB has to look after the interests of its many stakeholders and this includes its business partners, financiers, associates, customers and of course our shareholders to whom we are committed to increasing shareholder value over the long-term. This has to be balanced with the hat we wear as a corporate citizen, where our objective is to play a meaningful role in paying our dues to society. As a citizen of the world, we need to play our part in helping the global efforts in combating one of the greatest planetary challenges of all times – saving the earth from continued environmental degradation. Last but not least, as a corporate entity, we owe it to ourselves to reach the heights that the Group is capable of achieving. This is a moving target and is perhaps the biggest challenge of them all.

SAFETY & SECURITY

Some of the Group's most pressing challenges have already been discussed in the Chairman's Statement. On the operational front, I have already highlighted some of the challenges we face and how we are responding to them. Taking up from where I left off, the safety and security of MAHB's airports remains one of our biggest challenges. Our record so far has been commendable, but this is because we are constantly vigilant, investing money and resources to keep abreast of new technology and innovations in the airport security industry. KLIA has already been audited under the International Civil Aviation Organisation (ICAO) Universal Security Audit Programme and certified to be in full compliance with ICAO Standards and Recommended Practices. In 2008, KLIA Airside passed the ICAO/Department of Civil Aviation (DCA) audit for the second time with no non-compliances. On our own initiative, we have also employed the services of an independent security consultant, Airlock Aviation Pte Ltd from the United Kingdom, to carry out a comprehensive audit of the security system in KLIA. The report was duly submitted to the Ministry of Transport and DCA to certify that KLIA has met all international civil aviation security requirements. For the

past several years, KLIA has also consistently maintained a top five ranking in the ACI-ASQ survey, where security is one of the important parameters.

When the stakes are so high, MAHB relies heavily on technology to stay ahead of the game. But as the Chairman noted, keeping abreast with technology is itself a significant challenge. As the modus operandi of terrorists become more sophisticated and unpredictable, the airport security business has grown tremendously. At the same time, we are also building bigger airports and this has broadened the scope and areas of security control, necessitating additional investments in procuring security equipment and increasing security personnel. In the post 9/11 era, new rulings and procedures imposed by ICAO have caused further constraints on the available security resources. Incidentally, MAHB's airports were among the first in the world to effectively implement ICAO's ruling on liquids, aerosols and gels.

KLIA is among one of the pioneering airports to introduce the inline baggage screening system, complemented by the latest in x-ray screening equipment. MAHB is also upgrading the closed

circuit television (CCTV) system at KLIA to provide adequate coverage of all key areas. The new CCTV system will incorporate analytics technology that allows images to be systematically reviewed in real time. With analytics, any untoward incident will be highlighted to operators manning the screens, triggering a security alert. In addition, MAHB has invested in other technologies such as explosive detection equipment, video badging system, Card Application Life Cycle Management System (CALMs), Access Control & Alarm Monitoring System and Biometric technology.

THE ENVIRONMENTAL IMPERATIVE

As a key player in this unique industry, MAHB has a longstanding green commitment that is shown evidently in both KLIA's construction as well as the management of KLIA. KLIA continues to be the only airport in the world that is officially awarded the Green Globe 21 Certification. KLIA has earned this certification four times in a row, setting a global benchmark which shall be continually raised.

MANAGING DIRECTOR'S REVIEW OF OPERATIONS

In 2008, as an extension to Project Green Planet (PGP) that was launched in 2007, KLIA continues with its quest towards being the world environmental friendly airport by organising 'Walk the Environment' (WtE) campaign. One of the activities that was organised, participants were to pledge a tree for RM10 and plant it anywhere within KLIA's boundary. The tree was then labeled with its scientific name and the pledger's name. The pledger was also given a certificate to commemorate them with the pledge.

In addition to that, in commemorating World Environment Day, MAHB has named a patch of forest area within the airport perimeter, KLIA Green Park. The park houses about 400 unique trees and is occasionally used for educational and recreational purposes.

In line with the four-pillar strategy that was endorsed during ICAO Assembly 2007, MAHB was committed to take measures in reducing its carbon footprints. Steps are being taken to make all 39 airports environmentally sustainable, starting with the international airports. Penang International Airport will be the second airport after KLIA to go green. KLIA has also embarked on initiatives to be

carbon-neutral although no target date has been set. As a first step, we have already engaged a consultant to ascertain the airport's carbon emission level, a study that will take at least six months to complete.

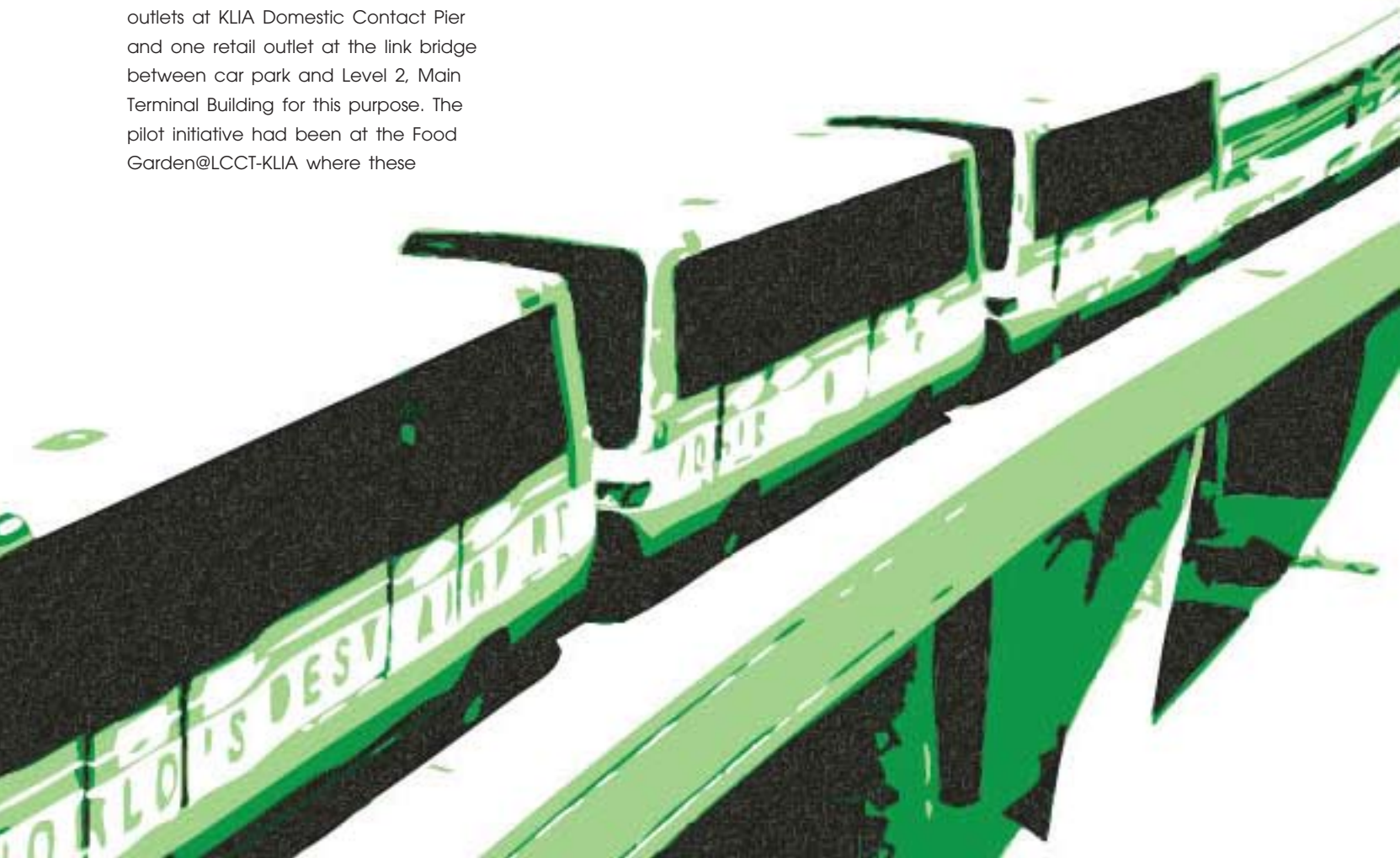
PAYING OUR DUES TO SOCIETY

Like the green movement, corporate social responsibility (CSR) is the latest catch-phrase. MAHB has long acknowledged its tangible value and it has been an integral part of our operations and identity since the early days. CSR extends beyond any legal duty to comply with legislation. We feel honour-bound to practice CSR on a routine basis to improve the life for our employees and their families, as well as for the local community and society at large. The Group supports various charitable causes such as the flood-relief efforts in Johor and Kelantan, or to some charity organisations, where a sizeable sum is donated each year from small change collected from travellers at boxes strategically placed at KLIA. The longer-term projects, however, are the true test of our commitment to CSR.

You may recall that MAHB is participating in Khazanah Nasional Berhad's CSR initiative launched as 'Projek PINTAR' (Promoting Intelligence, Nurturing Talent, Advocating Responsibility). We have since given it our own identity and rebranded it to 'Beyond Borders', which was launched at our nine adopted schools in July 2008. During the year, MAHB organised an English language workshop aimed at elevating English proficiency for Mathematics and Science teachers in our adopted schools. In October, the inaugural Beyond Borders Awards was held to honour the schools which participated in Beyond Borders' interschool competition. Beyond Borders' 2008 ended with a motivational talk "Crossing the Border" for Year 6 students focusing on their preparation for secondary school.



Another CSR effort that has longer-term implications is our Entrepreneur Vendor Development Programme (EDP) launched in 2007. Under the EDP, MAHB will help Bumiputera entrepreneurs develop their businesses at KLIA and LCCT. We have allocated five F&B kiosks at Food Garden@LCCT-KLIA, two F&B outlets at KLIA Domestic Contact Pier and one retail outlet at the link bridge between car park and Level 2, Main Terminal Building for this purpose. The pilot initiative had been at the Food Garden@LCCT-KLIA where these



MANAGING DIRECTOR'S REVIEW OF OPERATIONS

entrepreneurs are closely monitored and evaluated regularly to bring them up to par with other operators at KLIA.

By mid-2009, the F&B outlet for the EDP at the Contact Pier Domestic will commence operations. Also, expected to begin business during the same period is an open concept retail outlet at the link bridge between the car park and the Main Terminal Building, offering local products such as dried foods, apparels, cosmetics and chocolates.

OCCUPATIONAL HEALTH & SAFETY (OHS)

In its holistic approach to CSR, the Group has implemented an occupational health and management system to address changing legislation and to protect its workforce. To provide a framework that would allow the Group to consistently identify and control its health and safety hazards, we are certifying key operating units to OHSAS 18001:2007. This is an internationally recognised assessment specification for occupational health and safety management standards. Although our subsidiary, Malaysia Airports Technologies Sdn. Bhd. have obtained their certification for OHSAS 18001:1999 since 2003 and to upgrade it

to OHSAS 18001:2007 this year, Malaysia Airports Sepang Sdn. Bhd. is currently leading our airports towards the certification process by having themselves certified to OHSAS 18001:2007 in June 2008.

MAHB has also collaborated with the National Institute of Occupational Safety and Health (NIOSH) to implement Malaysia Airports Safety Passport System Programme (MASPS). This is an occupational safety and health induction training programme designed and customised for the airport industry. It provides the appropriate training and assessment to ensure that MAHB contractors acquire the appropriate occupational health and safety knowledge required for their jobs as well as to fulfil legislative requirements and the Company's OHS policies. The primary objective of the MASPS is to reduce accidents and operational downtime, and hence, increase productivity.

MEETING THE CHALLENGE

Learning to cope with the economically tough times may yet be the hardest challenge of all. The global credit

crunch has humbled many an organisation. Venerable old names have collapsed or been taken over by others. Yet, time and again, it has been proven that corporations that do survive the challenge will come out all the much stronger. This is a wake-up call for those of us who took economic growth for granted and that the good times would go on forever. Still, it is not all bad news. Tough times also create opportunities. Now is the chance to insist on performance and results. It is a chance to test new ideas, to be creative and think outside the box to see where savings can be made, which in normal times would probably be overlooked. The question we need to ask ourselves is, 'How best can we make the most of the current situation?' MAHB is definitely not short on opportunities or the talents to identify them.

MAHB is fortunate in that we are going into the economic downturn from a position of relative strength and this is best reflected in the quality of our balance sheet. We have a business model that has proven resilient, but it might require some recalibration should the recession cut deeper or is prolonged. Thanks to the transformation programme launched in May 2004 as a series of coloured books, Government-

Linked Companies (GLCs) are significantly more resilient now than five years ago. Nonetheless, we are not taking anything for granted and across the Group, every effort is being made to see where we can further strengthen the solid foundations that have already been laid.

GLC TRANSFORMATION JOURNEY

One of the most important avenues is through our ongoing GLC transformation journey. Integral to the Yellow Book initiative is the implementation of MAHB's Continuous Improvement Programme (CIP) driven by eight Cross Functional Teams to develop comprehensive action plans for areas that require improvement. As a result, some 56 new initiatives were introduced in the course of 2008.

The Spend Management CFT has identified several compressible reduction opportunities that contributed towards RM87 million savings in 2008. Areas that the team focused on were materials, maintenance, administrative and utility costs, doubtful tax, depreciation, tax planning, capital expenditures and fixed assets. CFT members also formed a Budget Challenge Committee (BCC) to challenge the operating expenditure

(OPEX) budget of the various divisions and subsidiaries. After 10 budget challenge sessions, the BCC was able to deliver a total of RM117.0 million in savings. A Value Management team was also set up to look into the budget for capital expenditure (CAPEX) and was able to secure CAPEX savings of more than RM60.0 million for 2008.

The CFTs also identified potential opportunities that MAHB can explore to generate a new revenue stream of RM3.0 billion by 2012. The key revenue drivers would be from both aeronautical and non-aeronautical streams which include, higher margin retail products, land development, retail optimisation and rental of advertising space. To prove that this is achievable, the team has already succeeded in delivering RM19.9 million in PBT for 2008, exceeding the original target of RM11.0 million PBT.

The CFTs have also introduced initiatives that will enhance operational procedures, optimise manpower requirements through the adoption of appropriate technologies and multi-tasking. CIP has also resulted in the inculcation of new cultures within the organisation, namely the culture of openness, high performance and cross functional working relationships.

LEAN MANAGEMENT

As part of our effort in our transformation journey to promote organisational effectiveness, Lean Steering Committee was formed in 2008 to discuss and review the implementation of Lean programme at MAHB. Twenty appointed Lean practitioners from various divisions and subsidiaries attended a Lean development programme to equip them in facilitating the inculcation of Lean Management culture across the Company.

PROCUREMENT CONTRACTS

Guided by Khazanah's Red Book, MAHB is striving to take the lead in procurement best practices by shifting away from traditional procurement approach and procedures to one that emphasises a strategic business partner relationship. To achieve this objective, MAHB is developing a comprehensive procurement strategy, focusing on dynamic contract management and sustained supplier relationship.

Taking the cue from CFTs, MAHB has already achieved savings close to 10% from the operation and maintenance and supplies contracts negotiated

MANAGING DIRECTOR'S REVIEW OF OPERATIONS

during the year. This is in addition to the RM62.0 million achieved through value management introduced in 2008.

The Group has also adopted a more analytical approach in its procurement strategies. A high level spend data and Pareto analysis was conducted in 2008 to derive the top five spend data in respect of product categories, business units and suppliers. This was further analysed to give a spending pattern of the Group. Some of the Red Book key levers were substantiated with measurable results. Our achievements include the incorporation of a code of ethics in the conduct of procurement contained in the newly revised procurement policies and procedures.

Moving into 2009, the Group will focus its attention on:

- Negotiations and reverse auction (e-bid) for cost savings
- Implementation of a VDP through a centralised single vendor and panel vendors sourcing
- Enhance strategic relationships with top spend vendors

ENGINEERING BEST PRACTICES

Airport infrastructures, specialised systems and facilities are huge and with cost effective management, we can achieve substantial cost savings. The Airport Engineering Division (AED) is focusing on three main areas in moving towards engineering best practices, namely inculcating a maintenance culture, ensuring system reliability and enhancing competency levels.

AED is inculcating a maintenance culture by adopting the 5S programme. Loosely translated from the Japanese language, the 5S is in reference to Sort, Set in order, Shine, Standardise and Sustain. The results one can expect from a 5S programme are improved profitability, efficiency, service and safety. The engineering divisions of KLIA, Kuching and Penang International Airports have all embarked on this programme, which will be extended to the other airports in stages.

To ensure system reliability, MAHB has adopted preventive approaches to lower recurring repair costs in the long-run. Our focus was on system operational availability, with a success rate of 99%. A plant maintenance optimisation programme was introduced for the baggage handling system and tracked transit system. The parts replacement programme is an ongoing activity for the specialised airport systems and equipment to ensure systems availability and serviceability, taking into consideration the obsolescence of spare parts and technology advancements. Lean Six Sigma methodology was used as one of the analytical techniques for the systems and process improvement programme in addition to root cause analysis, failure mode effect analysis and quality control circles. Eight projects were undertaken in 2008, resulting in cost savings of RM2.0 million.

A School of Engineering was set up with explicit targets to enhance the technical knowledge and skills of engineering personnel. Renovation works for the classes and workshops were completed in December 2008, with the first intake of students in January 2009.

VALUE MANAGEMENT

Other tools at our disposal include the implementation of value management (VM), which is a proven management technique that deploys a systematic and multi-disciplinary approach to gain optimum value in products, systems and services without compromising on quality and reliability. VM covers value planning, value engineering and value analysis in line with the Institute of Value Management Malaysia's rules and regulations. At MAHB, VM is applied at the Procurement Activities, Systems and Procedures (PASP) stage prior to the commitment of any budget. The Group's VM methodology uses a systematic job plan to analyse the PASP and hence, develop a number of alternatives to achieve the desired objectives. By practicing VM principles, MAHB has achieved a 27% saving in CAPEX amounting to RM62.0 million.

VALUE ENGINEERING

An offshoot of VM, Value Engineering (VE) is a systematic method to improve the value of goods, products and services by using an examination of function. VE is concerned with optimising the conceptual, technological and operational aspects of a project's deliverables. It utilises a series of proven techniques during the implementation phase of a project to identify and select the lowest lifecycle cost options in design, materials and procedures to achieve the desired level of performance, reliability and customer satisfaction.

KNOWLEDGE MANAGEMENT

This is another management tool that can be used to improve business efficiency. MAHB's knowledge management efforts are focused on achieving corporate objectives such as improved performance, comparative advantage, innovation, sharing of lessons learnt and the continual improvement of the organisation.

OFF THE DRAWING BOARD

Even though we are watching costs and practising financial prudence, MAHB will continue to expand capital expenditure on mission-critical and committed projects in the coming year. FY2009 will see the completion of the ROP and the extension of the existing LCCT-KLIA. Other priorities include the ongoing upgrading of the Penang International Airport and for work to begin on the permanent LCCT at KLIA.

Recently upgraded into a Code F airport, KLIA's spur line project is set to take off with the recent award of a contract to begin construction. The present aero trains operating between the Main Terminal Building and Satellite A are fast approaching the 1.6 million-kilometre milestone, when the trains need to be overhauled. The spur line project consists of the construction of an elevated spur guide-way leading from Satellite A to a new Operation, Maintenance & Storage Facility and thereon towards the future Satellite B building. The project also necessitates the purchase of three new aero trains to cater for current and future requirements.

MANAGING DIRECTOR'S REVIEW OF OPERATIONS

Unlike many other airports, KLIA is blessed with a huge land bank and this presents a unique opportunity for the airport to reach its full potential. A total of 2,730 acres have been identified to be developed into an Air City dubbed as KLIA Aeropolis. This is set to transform KLIA into a multi-modal, multi-functional enterprise that will eventually become a diversified city providing significant opportunities for employment, shopping, trading, exhibitions, business meetings, leisure and tourism.

The land use proposal for KLIA Aeropolis consists of the following components:

- Commercial components, which includes office parks, retail/commercial centres, exposition/convention centres, hotels, service apartments, theme park, medical centre and training centre
- KLIC Multimedia Super Corridor (MSC) Free Zone, which will house time-sensitive manufacturing activities, a logistics centre and commercial units
- Agro-tourism components, which will consist of land lots to be developed for agro-tourism to complement existing plantation and related retail activities

Approval for KLIA Aeropolis layout master plan has been obtained from the relevant authorities and we are currently developing the main infrastructure master plan to support the proposed development.

The anticipated development time-frame for Aeropolis is between 10 to 15 years, depending on the national and global economic situation. The focus during the immediate term is to provide main infrastructure facilities to cater for the initial phase of the development proposal which includes purpose-built corporate offices, training institutions, specialty retail outlets, golf courses, hotels, an International Exposition Centre and the MSC Free Zone.

A Request For Proposal (RFP) have been issued in the last quarter of 2008 for developers/investors to participate in the various development components and discussions are on going with several parties in moving forward with the proposals.

Revenue from these land development activities will be from recurring land lease, real estate rental income and royalty from selected business activities. During the medium term, this income will be required for the provision of main infrastructure costs but for the long term, this real estate income will be a source of sustainable recurring income.

DEVELOPMENT OF MIAC AT LAPANGAN TERBANG SULTAN ABDUL AZIZ SHAH

The development of Malaysian International Aerospace Centre (MIAC) at Lapangan Terbang Sultan Abdul Aziz Shah, Subang is taking shape as scheduled with various completed and development of on going projects. In December 2008, the construction of an aero structure component assembly facility for Spirit AeroSystems was completed. Spirit AeroSystems is the world's largest supplier of commercial airplane assemblies and components and this Subang facility is their first in Asia. They offer a diverse line of products and services for aerospace design, build, support and spares/repair needs.

The transformation of Subang Terminal 3 into a modern general and corporate aviation hub is progressing as scheduled and is targeted to be fully completed by mid June 2009. The transformed Terminal will be known as Subang Skypark. The component of the terminal is made up of:-

- Fixed Based Operation (FBO) facilities
- Corporate aviation facilities
- Community airline facilities

Additional space for retail and F&B outlets together with new banking facilities and commercial offices have been incorporated over and above the check in and departure facilities.

Next in the pipeline to be developed in the second half of 2009 is Regional Aircraft Centre (RAC) consisting of hangarage and maintenance repair and overhaul (MRO) facilities for corporate and private jets. A 30 acres site has been earmarked at the southern end of the runway at LTSAAS. Once developed, this RAC will cater for maintenance and warranty issues as well as a maintenance base for various private aircrafts makes located within or visiting the region.

Malaysia Airports is also in discussion with helicopter companies for the setting up of integrated helicopter facilities within MIAC development in accordance with the MIAC master plan. All existing helicopter operations will be relocated to this proposed new helicopter centre once completed.

OUTLOOK & PROSPECTS

The performance of the national and global economies has a significant bearing on passenger and cargo traffic. The International Monetary Fund has projected that world growth in 2009 will fall to its lowest rate in more than 60 years. Despite wide-ranging policy actions taken by Governments across the globe, financial strains remain acute, pulling down the real economy. Although the OAG predicts continuous cuts in capacity, MAHB is expected to remain in positive territory with respect to aircraft movements. However, this may not be so if as airlines continue to accumulate losses due to lack of demand. The airlines industry expects airports to provide support to cushion the effects of the economic crisis, and MAHB has already responded with a 50% rebate on landing charges for 2009.

This scenario will have an impact on MAHB's revenue for 2009 as passenger traffic is the determining factor for aeronautical and a portion of the non-aeronautical revenue. We also expect the price of crude palm oil (CPO) to be volatile, hovering within the range of RM1,600 to RM2,000 per tonne, which is lower than the price fetched in 2008. The lower price of CPO is attributed to a combination of shrinking demand and higher output from other oil palm growing countries.

MAHB is therefore banking on its commercial initiatives programme under the ROP to help make up the revenue short-fall. By offering more retail floor space for rental, and with more outlets offering a bigger spread of goods and services, we hope to increase spending per passenger.

Throughout 2009, the Group's strategy will be to continue to emphasise on cost control initiatives, non-aeronautical revenue enhancement at all airports, optimisation of manpower by multi-tasking and maintaining a lean workforce, continuous improvement programmes to ensure business sustainability, exceed customer expectations in service levels, enhance competency of staff, improve the

MANAGING DIRECTOR'S REVIEW OF OPERATIONS

efficiency of maintenance activities by practicing predictive and preventive maintenance of facilities and equipment.

Looking beyond the gloom, we must also recognise that aviation is a resilient industry. It is true that it is now hurting and badly at that. Even in bad times, people still want to fly and the advent of the LCC has made that possible even in this economic climate. Time and again, it has been proven that economies will recover, and with that, the aviation industry will pick up rapidly.

It is still early days for the ASEAN open skies programme. But there are already signs that the new increasingly deregulated environment will provide the platform for more important changes and new opportunities still to

come. There has been an uptick in passenger numbers, though it has not been large. The number of services is still limited, but the frequency will improve over time. Passengers have certainly benefited with far more choices and lower fares. But if you look at the bigger picture, there is as yet a largely untapped market in terms of intra-ASEAN travel. The proportion of air travel is still very small when compared to the size of the ASEAN population. This means there is a lot of room for growth.

FY 2008 was a challenging one and the fact that MAHB was still able to perform commendably was because we had the help and support of several quarters. The management and staff of MAHB performed admirably, proving they have what it takes to see the Group through an even more

challenging year ahead. I also wish to express my gratitude to our business partners, airlines, members of the airport community, various government agencies, customers and of course, our shareholders.

I thank all of you. We face the future with confidence, because we know we can continue to rely on your understanding of all we are trying to achieve and thereby gain your support and cooperation.



DATO' SERI BASHIR AHMAD BIN ABDUL MAJID

Managing Director

Malaysia Airports Holdings Berhad



MANAGING DIRECTOR'S REVIEW OF OPERATIONS

MA TECHNOLOGIES

MALAYSIA AIRPORTS TECHNOLOGIES SDN. BHD.

MA Technologies provides Information Technology (IT) solutions for the Group and manages the infrastructure for all tenants and government agencies operating at KLIA. In discharging its responsibility, the company's goal is to cost-effectively manage the quality of its service delivery, leveraging on innovation to transform and continually improve its client's processes through IT to allow for greater efficiency and easier access to information.

One of the contributing factors to the success of KLIA is that it is one of the most technologically advanced airports in the world. State-of-the-art technology ensures that the airport is managed and operated in the most efficient manner, especially at this time and age when both passengers and airlines are demanding better services. Through IT, MAHB is meeting this challenge, while achieving greater cost effectiveness through increased operational efficiency and productivity, among others. MAHB continues to expand IT competencies not only at KLIA but at all the other airports to ensure their relevance well into the 21st Century.



In preparation for the advent of new generation aircraft, MA Technologies has implemented the Wireless Fidelity (WiFi) Mesh Network at the KLIA Apron. This will make the airport ready for 'Gatelink Services', which is a terrestrial data communication solution via wireless connectivity between the aircraft at the gate and its remote ground application server(s). The infrastructure also enables mobility solutions for other airport users to support their business processes.

In meeting the technological challenge, MA Technologies is looking beyond the operational needs of airports. As an example, the 'e-FCZ' system has been rolled-out and is now deployed by freight forwarders operating at the Free Commercial Zone (FCZ) at KLIA and Penang International Airport. The system facilitates online 'ZB' declaration, billing generation and preparation of manifest balancing of in/out cargo from and to the FCZ, thereby improving service delivery.

The introduction of a Flight Information Speech System has enhanced the service level at KLIA. Flight information is now available round the clock directly to users through voice-enabled information-on-demand services. In the key area of airport security, MA Technologies has incorporated the use of analytics in the camera surveillance system. Analytics allow for images to be systematically reviewed in real time in the event of suspicious behaviour patterns or incidents. With more than 1,000 cameras installed at strategic locations at KLIA alone, alarms can be triggered to highlight any untoward incidents captured on 40 screens randomly showing to operators.

MA Technologies continues to expand its business portfolio and revenue base. The company is already providing IT solutions to the Department of Civil Aviation (DCA), Meteorological Department, National Heart Institute (IJN), Public Works Department (JKR)

and Lembaga Tabung Haji among others. By banking on the knowledge and experience of its staff, MA Technologies has steadily enhanced the range of products and services it can offer. This has strengthened its competitive edge across targeted vertical and horizontal markets.

During the year, MA Technologies earned re-certification to the ISO 9001:2000 internationally recognised quality management system. It is also one of the few organisations within Malaysia that has embraced the Integrated Management System (IMS) as a means to achieve business consistency in terms of quality deliverables and to systematically manage an organisation's risks. The IMS combines ISO 9001 (Quality Management System), ISO/IEC 27001 (Information Security Management System) and OHSAS 18001 (Occupational Health and Safety Management System) into one management system and is part of a continuous improvement programme to streamline various controls and facilitate deliverables.

To further differentiate itself in a competitive marketplace, MA Technologies is establishing an MSC-status company through KLIA.com. MSC certification will confirm our status as a company undertaking research and development activities. Through this initiative, MA Technologies is moving away from just being another system integrator to become a developer of core airport products through a dedicated company. The MSC company will produce a range of airport-centric products such as operational information systems, airport operations databases and Flight Information Display systems. At present, MAHB is relying on third parties to provide these systems. With our own in-house capabilities, we can extend these systems to airports not only within the Group but to export them to other countries.



MANAGING DIRECTOR'S REVIEW OF OPERATIONS

MAMTS

MALAYSIA AIRPORTS MANAGEMENT & TECHNICAL SERVICES SDN. BHD.

An ISO-certified company, MAMTS is MAHB's consulting arm for all airport development projects undertaken by the Group at home and in its overseas ventures. An ongoing challenge for MAMTS is to ensure that all these projects are managed efficiently and effectively.

Over the years, MAMTS has built up its expertise and experience through strategic partnerships with leading names in the business. As a strategic partner to ADB Siemens, a world leader in aeronautical ground lighting (AGL) systems and Rapiscan Systems for X-Ray machines, MAMTS has expanded the breadth and depth of its services to provide the following:

- Latest technological advancements in the ADB AGL and Rapiscan Systems.
- Standardised training and maintenance programmes for both systems
- Ensure that the ADB AGL system will be fully audited and certified in line with aerodrome certification requirements

- Ensure more efficient operation and maintenance of the ADB AGL system and Rapiscan X-Ray system, resulting in lower overall operation and maintenance costs
- Train MAHB personnel in the operation and maintenance of the two systems

With the technology and the know-how, a major project implemented during the year was the supply, delivery, installation, testing and commissioning of the Rapiscan RAP 628XR X-Ray machine for the LCCT expansion project at KLIA. The RAP628XR is the latest model of baggage X-Ray machines supplied to airports in Malaysia.

MAMTS continued to play an important role in providing cleaning consultancy services for KLIA and LCCT. This has enabled KLIA and LCCT to achieve a very creditable performance level of 97% and 92% respectively for cleaning services. In recognition of its expertise, the company has been retained as a consultant for cleaning and waste disposal services for RGIA. This also

involved providing specialised training programmes in these two areas for the staff of GMR Hyderabad International Airport Ltd.

MAMTS is also providing consultancy services to monitor the service level standards at four other international airports at Penang, Kuching, Kota Kinabalu and Langkawi. Under the Airport Customer Satisfaction Performance Programme, service levels at these airports are benchmarked against the best in the world. By knowing our strengths and weaknesses, remedial action can be taken wherever necessary.

As MAHB takes to the world stage, it depends on MAMTS to take the lead in providing its management expertise for various airport development projects around the globe. These include Rajiv Gandhi International Airport (RGIA) in Hyderabad and Indira Gandhi International Airport (IGIA) in New Delhi, both in India, Istanbul's Sabiha Gokcen International Airport (SGIA) in Turkey and the Astana International Airport (AIA) in Kazakhstan.



MANAGING DIRECTOR'S REVIEW OF OPERATIONS

UTW

URUSAN TEKNOLOGI WAWASAN SDN. BHD.

UTW is a certified ISO 9001:2001 operation and maintenance (O&M) company with a proven track record in providing Total Facility Management services. The company has provided O&M services to some of the country's biggest projects, including KLIA, Sepang International Circuit (SIC), Kuala Lumpur City Centre (KLCC), Port of Tanjung Pelepas and Perbadanan Putrajaya.

UTW's customer base has expanded over the years. In its dealings with its clients, UTW subscribes to the language of partnership, establishing strong and lasting business ties based on meeting and indeed, exceeding customers' expectations. By ensuring customer satisfaction, UTW has achieved an excellent record of repeat businesses.

Despite an increasingly competitive environment, the year under review has been a successful one for UTW. The company has added yet another feather to its cap when it secured a new contract to provide facility maintenance for Bursa Malaysia Sdn. Bhd.'s stock exchange, one of the city's most iconic landmarks. A strategy to diversify the scope of its services has

also paid off, with the company now engaged by the Malaysian government to provide building auditing for government offices in the peninsula's central region.

Backed by its track record and experience, it also secured a contract to provide testing and commissioning services for all M&E equipment at the Malaysia International Aerospace Centre (MIAC). Behind the scenes, UTW also plays an important role in helping ensure that the KLIA remains one of the best airports in the world by ensuring service availability of 99.99% throughout the year. To gain an edge over the competition, UTW has designed a specialised predictive maintenance programme that includes vibration analysis and thermography inspection. This programme is a value-added service aimed at prolonging an asset's life span.

Meanwhile, UTW's subsidiary, Airport Automotive Workshop (AAW) has carved out its niche in the market, positioning itself on the strength of service, competitive pricing and promotional activities. AAW provides maintenance

services for light, commercial and specialised vehicles such as runway sweeper and maintenance cradle. By getting it right the first time, the company hopes to retain customers' loyalty and ensure repeat businesses.

Moving forward, UTW will continue to rely on its systems in place and experienced workforce as a strong foundation to build upon. Like all the other companies within the MAHB stable, UTW has taken on the challenge of increasing revenue and profitability. UTW will explore the possibility of venturing into new revenue streams not only from the Government and GLCs, but also hospitals and other establishments in the private sector.





MANAGING DIRECTOR'S REVIEW OF OPERATIONS

ERAMAN MALAYSIA

MALAYSIA AIRPORTS (NIAGA) SDN. BHD.

ERAMAN Malaysia is a pioneer in the Malaysian airport retail business, blazing a trail by introducing avant-garde lines and innovative retail concepts. It is also the first airport retailer in the country to be certified to the MS ISO 9001:2000 quality management system, the scope of registration covering the provision of Frontline Services for Airport Retail Operations.

With more than 10 years of experience, ERAMAN Malaysia is the largest airport retailer in Malaysia. Operating more than 30 outlets, consisting of emporiums, open concept lifestyle malls, high fashion & accessories boutiques, kiosks and airport shops, under its wing occupying a total retail space of around 84,761 sq m spread across MAHB's system of airports at KLIA, LCCT-KLIA Penang International Airport, Kuching International Airport, Kota Kinabalu International Airport (Terminal 2) and Labuan Airport.

In line with other airports around the world, MAHB's objective is to increase the contribution of its commercial businesses to the Group's bottom-line. Revenue from commercial businesses is mainly generated from operating duty-free shops and rental of space. To this end, MAHB aims to increase KLIA's revenue contribution from its commercial activities from the present 35% to 50% by the year 2010. MAHB is also trying to promote KLIA as the region's preferred aviation shopping hub. Playing its part in meeting these objectives has been the major challenge for ERAMAN Malaysia.

The upgrading of the Contact Pier at the Main Terminal Building is an important part of MAHB's overall plan to enhance the shopping experience at the KLIA in terms of ambience, variety and pricing. Undertaken in phases to minimise disruptions to airport operations, the first phase of the project was completed in December 2008. This phase covers a total area of 6,398 sq f and encompasses two Duty Free Emporiums located at the H and G wings of the Contact Pier. Embellished with a new look more in sync with the 21st Century, and with aisles sufficiently wide to accommodate carts and

trolleys bags, the newly-opened emporiums will ensure that duty free shopping will never be the same again. Covering a total area of approximately 19,000 sq f (when it completed), the mall will bring the shopping experience at KLIA to a new level, second to none in the Asia Pacific region. While it will carry the usual duty free items such as liquor, cigarettes, chocolates and the like, these have been attractively displayed to tap the tourist dollar. The emporiums also offer premium luxury items such as cigars and top-of-the-range liquor and wines.

Shopping campaigns, such as the one launched to mark KLIA's 10th Anniversary, have always been an integral part of the airport shopping experience lending an air of festivity and colour. At the Kota Kinabalu International Airport, the 'KLIA Spend & Win' campaign was organised to coincide with Chinese New Year and Valentine's Day. The opening of the new emporiums at the Contact Pier coincided with the second round of the KLIA Shopping Campaign launched on 9 December, with the theme, 'The Magic Continues'.

The Lifestyle Mall will be contemporary and yet distinctively Malaysian, with local batik as the main decorative



element. Wood-paneled platforms, garden chairs and tables, and the mall's walkthrough concept accentuated by wooden pergolas and open frontages reinforce the lifestyle concept. Not only has it been designed to be a feast for jaded eyes but it will also provide retail therapy for a hitherto, largely untapped market at the Contact Pier.

Retailers have also not been short of ideas to take full advantage of the mall's choice location. Both Cadbury's and Hershey's promise eye-catching displays, tracing their respective product's history and pedigree. For travellers who are unable to see the real thing, M&M has plans for a chocolate replica of the iconic Petronas Twin Towers.

The new mall promises something for everyone, including the younger travellers. A 5,000 sq f 'Kidz Smart Tunnel' will cater to the needs of these travellers with a choice array of toys,

games and sweets. Toy collectors and aficionados will no doubt be drawn by the prospects of owning one-of-a-kind collectors' items, available nowhere else. ERAMAN Malaysia has partnered with giants in the toy industry such as Mattel and Hasbro to offer their latest and best.

Given its vast knowledge and experience in the business, ERAMAN Malaysia was also involved in KLIA Satellite Retail Optimisation Project, another ambitious plan undertaken by MAHB to enhance the shopping experience at KLIA and increase the yield from its commercial activities. In a move to broaden its revenue base and capitalise on its experience of having successfully managed F&B outlets at KLIA and LCCT-KLIA, ERMAN Malaysia is planning to expand its F&B business to other international airports in the country.

MANAGING DIRECTOR'S REVIEW OF OPERATIONS



MA(P)

MALAYSIA AIRPORTS (PROPERTIES) SDN. BHD.

The principal sources of revenue during the year in review were from parking and hotel charges and also the rental of commercial space for retail, office, advertising and promotions. Total revenue generated for 2008 amounted to RM24.45 million, a 21% decline from M30.82 million posted the previous year. The decline was mainly attributed to a 44% reduction in parking collections, which nonetheless, continued to be the main contributor (62%) to the company's total revenue. Other sources of revenue were derived from the rental of commercial space (26%) and hotel charges from ATH (12%). For the year, Malaysia Airports (Properties) registered a profit before tax of RM15.10 million, which is 2% higher than RM14.85 reported in 2007.

For the year, the company achieved an occupancy rate of 87% for the commercial area in the Terminal Building. At SCAF, the occupancy rate for retail premises and offices was 70%. ATH recorded a respectable occupancy rate of 68% in 2008. The 80-room hotel has proven convenient for passengers with awkward layover times.

Malaysia Airports (Properties) continued to play its role in helping achieve the corporate goals of increasing non-

aeronautical revenue and improving the Airport Service Quality (ASQ) rating for KLIA. To this end, the company has launched several initiatives to enhance the facilities and services provided at KLIA:

- Rectification works of a piping system at the short term car park (STCP) at a cost of almost RM0.5 million
- Introduction of a long term parking system at the STCP and LCCT-KLIA for travellers who wish to park their cars for more than three days
- Expansion of the parking area at the LCCT-KLIA to accommodate 400 parking bays
- Introduction of Touch 'n Go facility at KLIA and LCCT-KLIA

Like other operating units within the Group, Malaysia Airports (Properties) has taken on the challenge to achieve performance excellence. This has already paid dividends in one area, when in a survey conducted by ASQ recently, it was accorded third place for the Best Car Park Airport facilities Worldwide. The company is now going for ISO 9001 certification in a bid to achieve continual overall improvements.

Malaysia Airports (Properties) was established under MAHB's Commercial Division to manage and operate the Airside Transit Hotel (ATH), car park facilities and the Southern Common Amenities and Facilities (SCAF) at KLIA. A more recent function added to its portfolio is the management of the Genting Permai Resort located in Genting Highlands, where MAHB has reserved four apartments for the use of its staff. With effect from 1 September 2008, the management of ATH and carpark facilities has been transferred to MA (Sepang) Sdn. Bhd.. Malaysia Airports (Properties) will focus on the non-passenger related activities to maximise revenue generation.

MANAGING DIRECTOR'S REVIEW OF OPERATIONS



KLAH

K.L. AIRPORT HOTEL SDN. BHD.

KLAH's Pan Pacific Kuala Lumpur International Airport (PPKLIA) celebrated its tenth year of operation in June 2008 and it could not ask for a better birthday present than the slew of awards bestowed upon the 5-star international hotel. Having been crowned Asia's Leading Airport Hotel, the icing on the cake came four months later when it was voted World's Leading Airport Hotel by World Travel Awards 2008.

PPKLIA has also maintained its status as the Best Airport Hotel in Asia 2008 by Business Asia Magazine, a title it has won for an unprecedented eight times, of which seven were awarded consecutively since 2002. This award was established by the Australian-based Business Asia magazine in 1998 and encompasses some 95 hotels across 14 countries in the Asia Pacific region. Winners are picked by popular votes in a poll published in the magazine as well as online.

The World Travel Awards (WTA) has been hailed as the Oscar-equivalent of the travel industry. They are without doubt, the most prestigious and comprehensive awards programme for the travel, tourism and hospitality industry. Now in its fifteenth year, the awards are regarded as the very highest achievement that a travel product could ever receive. For the 2008 awards, votes were cast by 167,000 travel professionals in over 160 countries, with winning categories covering all sectors of the industry.

These awards say a lot about PPKLIA's unwavering commitment and continual quest to give its best to its guests. This has translated into a generally better performance in 2008 in terms of hotel occupancy, hotel revenue and operating profit. Hotel occupancy rate grew marginally in 2008 to 66.6% against 65.5% achieved previously. Total hotel revenue rose by 14.1%, while gross operating profit improved by 4.2%. For the year, PPKLIA achieved an average room rate of RM355.34, an increase of 3.7% from the previously recorded rate of RM342.53.

The coming financial year is already shaping up to be a challenging one against the backdrop of a global economic slowdown, which is having repercussions on the global travel and hospitality industry. This will impact on the occupancy rate, which is expected to level out in 2009, moderating the increase in the company's projected revenue and gross operating profit. However, by maintaining the same high standards of excellence it has become synonymous with, PPKLIA is confident it can weather a more difficult operating environment and hold its own against the competition. The hotel is presently upgrading its web booking system and has invested in a new and more efficient energy system that would reduce its electricity bill by about RM0.5 million per annum.

MANAGING DIRECTOR'S REVIEW OF OPERATIONS

MAAH

MAB AGRICULTURE-HORTICULTURE SDN. BHD.

MAHB has an ample land bank, a luxury not enjoyed by many other airport operators. Some of the land bank has been earmarked for future airport-related development. However, about 7,888.52 hectares located around KLIA, Subang Airport and the Kota Bharu Airport are presently utilised for agriculture and horticulture activities. Besides generating a steady revenue stream for the Group, the planting of oil palms on approximately 7039.68 hectares of land around KLIA helps reduce noise pollution, in line with the Group's green initiatives.

MAAH's principal activity is the cultivation and management of the Group's oil palm and coconut plantations. To get the most out of its plantation crops, MAAH has instituted a systematic replanting programme over the years. As at end-2008, the total immature areas planted with oil palm was 566.96 hectares.

2008 was another good year for this sector of MAHB's non-airport operations. Higher palm oil prices, better yields and improved estate management have all had a positive impact on revenue. For the year in review, MAAH achieved a turnover of RM72.8 million, a 33.3% increase from RM54.6 million posted in 2007. The sale of oil palm fruit bunches accounted for 92.5% of turnover, while the remaining 7.5% was contributed by horticulture activities, notably the provision of landscaping services within MAHB Group.

Given our huge land bank, MAHB has plans to commercially utilise its reserved land, especially areas around KLIA with a view to increasing its income. The company is looking into the viability of developing the idle land into oil palm and coconut plantations at other airports, among other options.

As part of its continual improvement process, MAAH is in the process of certifying the organisation to ISO 9001:2008 (Quality Management System).





MANAGING DIRECTOR'S REVIEW OF OPERATIONS



SIC

SEPANG INTERNATIONAL CIRCUIT SDN. BHD.

Befitting its world-class standing, the Sepang International Circuit (SIC) has proven to be popular venue for all motor sports events, local and international. As one of the world's first purpose-built 'designer race tracks', SIC has served as the model for subsequent facilities in China, Bahrain and Turkey.

Topping the 2008 calendar of events was the 10th edition of the Formula One (F1) Petronas Malaysian Grand Prix. F1 racing is the world's third most watched sporting spectacle, and it is no different in Malaysia. The bulk of SIC's revenue comes from F1-related events and the 10th Anniversary F1 race held in March attracted a record 126,690 enthusiasts on race day. A survey conducted in 2008 showed that 81% of international visitors arriving in Malaysia during the month of March came solely for the F1 event. After F1, the most

popular events staged at the circuit were the MotoGP and the Super GT, which brought in crowds of 50,152 and 31,016 respectively.

Other notable events held at the circuit included the 9th edition of the Merdeka Millennium Endurance Race, Polini Malaysian Motorcycle Grand Prix and the A1 GP World Cup of Motorsports. On top of these, SIC was also the venue for the multiple rounds of the MSS, Drag Race and Motocross, all of which attracted sizeable crowds of spectators.

Apart from being a conventional racetrack, the Sepang circuit has become a popular venue for testing, track days, product launches and gatherings in between races. SIC's long-term goal is to turn the circuit into a multi-faced venue for concerts, exhibitions and conventions.



MANAGING DIRECTOR'S REVIEW OF OPERATIONS

APAC

ASIA PACIFIC AUCTION CENTRE SDN. BHD.

In line with MAHB's intentions to streamline its business activities, a decision was made to cease the operations of APAC from December 2008. Since beginning operations in 2000, APAC has to date conducted over 480 auctions with a total sales value of RM760.0 million.

APAC has established itself as the premier integrated auction centre in the region, with dedicated facilities to cater for a variety of goods ranging from heavy equipment, industrial machinery, trucks, motor vehicles, office equipment to household items. It was also appointed the official auctioneer by the government to dispose of redundant and surplus assets. The facilities also served as a venue for major international exhibitions, among which included the highly successful Defence Services Asia Exhibition & Conference held bi-annually.







MANAGING DIRECTOR'S REVIEW OF OPERATIONS

SAFETY & SECURITY:

TWIN CHALLENGES