

# **EXECUTION OF THE NEW OPERATING AGREEMENTS AND NEW LEASE AGREEMENTS BETWEEN THE GOVERNMENT OF MALAYSIA AND MALAYSIA AIRPORTS HOLDINGS BERHAD**

## **1. INTRODUCTION**

We refer to the announcements dated 3 February 2017, 12 April 2019 and 9 February 2023, in relation to the Operating Agreements (“OA”) between the Government of Malaysia (“the Government”) and Malaysia Airports Holdings Berhad (“MAHB” or “the Company”).

The Board of Directors of MAHB is pleased to announce that the Company has entered into Operating Agreements and Lease Agreements with the Government on 18 March 2024 (“Effective Date”) which affirm the operation, management, maintenance and development of 39 airports and short take-off and landing airports (“STOLports”) until 11 February 2069 (“New OAs”) under two operating frameworks as follows:

- i. Operating Agreement and Lease Agreement for KL International Airport (“KLIA”) between the Government, MAHB and Malaysia Airports (Sepang) Sdn. Bhd. (“MA Sepang”) (“OA For KLIA”); and
- ii. Operating Agreement and Lease Agreement for Designated Airports between the Government, MAHB and Malaysia Airports Sdn. Bhd. (“MASB”) (“OA For Designated Airports”).

(MA Sepang and MASB are collectively referred to as “Operators”, whereas the Government, MAHB and MA Sepang / MASB are collectively referred to as “Parties”)

The Operating Agreements and Lease Agreements signed on 12 February 2009 (“First Operating Agreements”) are terminated with the execution of the Mutual Termination Agreement of Operating Agreement for KLIA and the Mutual Termination Agreement of Operating Agreement for Designated Airports on the Effective Date.

The First Operating Agreements are superseded by the New OAs, together with the Lease Agreement for KLIA and Lease Agreements for Designated Airports (“New Lease Agreements”), respectively.

Pursuant to the New OAs, the Malaysian Aviation Commission (“MAVCOM”) has also approved the issuance of the Aerodrome Operator’s Licences (“AOL”) for MA Sepang and MASB. The renewed AOLs allow MA Sepang and MASB to operate the 39 airports up to 11 February 2069.

## **2. RATIONALE FOR THE NEW OAs**

On 21 December 2016, the Government granted approval-in-principle for the extension of the First Operating Agreements for an additional period of 35 years, subject to the negotiation of the relevant new terms and conditions by the Parties.

The signing of the New OAs thereby formalises the acceptance of the agreed-upon framework and terms and conditions by the Parties and affirms the extension of the Operating Period up to 2069.

The New OAs provide flexibility to MAHB and the Operators to undertake strategic and essential investments aimed at improving airport capacity, facilities and infrastructure as needed, as well as enabling better airport service levels as a whole. The conducive commercial terms with a clear investment return mechanism support a balanced and sustainable development trajectory for MAHB and the airports under its network, which serve as an important economic development lever for Malaysia.

### **3. SALIENT UPDATES TO THE NEW OAs**

MAHB, MA Sepang and MASB's operating rights granted in the First Operating Agreements continue to be unchanged in the New OAs, save for the terms and conditions being further enhanced or augmented for more clarity, including the following salient updates:

#### **3.1 Development Capital Expenditure ("Capex")**

Apart from the Government, MAHB may undertake Development Capex subject to the mutual agreement of the parties on the following:

- i. the agreed pre-tax positive fair and reasonable returns to MAHB, considering the risk profile of the project and other relevant considerations such as funding costs, Capex planning and costs, operating expenditures and traffic projections;
- ii. the Capex Recovery Model that the Parties can explore, among others, are as follows:
  - a) the airport development fund ("ADF");
  - b) through project financing from the capital market, support by a back-to-back agreement between the Parties;
  - c) funds provided by the Government; or
  - d) any other bankable financing model agreed between the Parties; and
- iii. the operations, commercial and financial terms.

#### **3.2 User Fee and ADF**

Revenue from commercial activities, non-aviation services and aeronautical services carried out by the MAHB Group in its operations of KLIA and other airports in Malaysia ("User Activities") will be subject to User Fee. The Parties will review the User Fee Percentage on a three-year cycle, or any other mutually agreed period.

Under the First Operating Agreements, 100% of User Fee derived from the User Activities is payable directly to the Government. Under the New OAs, 50% of the Passenger Service Charges component that is taken into account in the calculation of User Fee will now be channeled to the ADF.

#### **3.3 Marginal Cost Support Sum ("MARCS")**

Save for MARCS-Passenger Service Charges, all other MARCS mechanisms are retained as per the First Operating Agreements without any significant changes. Under the New OAs, the MARCS-Passenger Service Charges mechanism has now been replaced by the enhanced Passenger Service Charges Compensation mechanism.

#### **3.4 Aviation Service Charges ("ASC") consisting of Passenger Service Charges and Aircraft Landing and Parking Charges ("LPC")**

The Gazetted and Benchmark ASC rates shall be determined by MAVCOM in accordance with the Malaysian Aviation Commission Act 2015 ("Act 771") and for the purposes of the New OAs, the Benchmark ASC rates for Passenger Service Charges and LPC, among others, shall have regard to:

- i. the costs of supplying the Aviation Services;
- ii. the need to promote competitive charges;

- iii. any relevant benchmarks including international benchmarks for prices, costs and return on assets in comparable industries;
- iv. the financial implications which may arise from the determination of the Benchmark ASC Rate;
- v. the consumer and investor interests;
- vi. the return on assets for the Operator;
- vii. any other factors that MAVCOM considers relevant; and
- viii. such other matters (if any) stipulated in Act 771.

Details on the ASC during the First ASC Tariff Cycle are further elaborated in Section 5 below.

### **3.5 Airport Network**

The Government acknowledges that KLIA and all Designated Airports are intended to be managed and operated as a network with cross-subsidisation among the airports.

### **3.6 Change In Circumstances**

In the event of a Material Adverse Effect, the Government shall engage with MAHB and the Operators to mutually agree the new revised agreed terms to be reflected in the New OAs to address the Material Adverse Effect, if necessary.

### **3.7 Industry Restructuring**

In the event the Government restructures or reorganises the aviation industry in Malaysia which may result in:

- i. clustering, carving out, divestment of airports; or
- ii. closure of existing airports or terminals; or
- iii. the restructuring of the ownership of any of the facilities,

MAHB and the Government shall mutually agree upon the new revised agreed terms to be reflected in the New OAs.

## **4. INFORMATION ON NEW LEASE AGREEMENT**

The Federal Lands Commissioner (“FLC”) and MA Sepang entered into the Lease Agreement on KLIA Lands, and FLC and MASB entered into the Lease Agreements for Designated Airport Lands on 12 February 2009. MA Sepang and MASB were granted the right by the FLC to use and occupy the KLIA Lands and Designated Airport Lands (“2009 Lease Agreement”), which was co-terminus with the First Operating Agreements.

Pursuant to the termination of the First Operating Agreements, the FLC, MA Sepang and MASB have subsequently entered into New Lease Agreement on KLIA Lands and New Lease Agreements for Designated Airport Lands to be co-terminus with the New OAs.

On 17 November 2022, a supplemental agreement to the First Operating Agreements was entered into to exclude certain parcels of KLIA Land (“KLIA Aeropolis Development Land”) and on the same date, the Government had entered into KLIA Aeropolis Agreements in respect of KLIA Aeropolis Development Land.

## **5. PROPOSED ASC FOR THE FIRST ASC TARIFF CYCLE (“RP1”)**

The proposed ASC for RP1 in Section 5.1, is as per MAVCOM’s RP1 Decision Paper, published on 12 March 2024 and will be effective from 1 June 2024 to 31 December 2026.

As part of determining the Passenger Service Charges under RP1 of the New OAs, MAVCOM has also introduced a new Transfer Passenger Service Charges.

Together with the revision of ASC rates for RP1, tariffs for LPC rates, and all other ASCs, including airport pass charges, airside vehicle permits, as well as airside driving permits, will be adjusted to account for inflation.

MAVCOM had also introduced the Loss Capitalisation Mechanism to allow the Operators to recover a proportion of efficient RP1 losses over a period of time. Apart from allowing the Operators to recover the losses, the mechanism is also to incentivise the Operators to invest prudently and efficiently. The mechanism is further detailed in Section 5.1 below.

### **5.1 Loss Capitalisation Mechanism (“LCM”)**

The LCM will be applicable to allow MAHB and the Operators to recover a proportion of regulatory losses in RP1 over ten years, beginning 2027. The losses refer to the difference between:

- (a) the economic costs that MAHB actually incurred over RP1 (the actual economic costs); and
- (b) the revenue that MAHB actually earned over RP1 from the imposition of aviation service charges (the actual airport-related revenue).

whereby MAHB and the Operators will be able to recover 90% of its efficient RP1 losses if the actual economic costs is higher than the actual airport-related revenue.

The economic costs will be derived from MAHB’s and the Operators’ actual costs incurred over RP1, consisting of the aggregation of the following building blocks:

- i. A return of capital invested - yearly regulatory amortisation and depreciation costs;
- ii. A return on capital invested - a fair rate of return (“WACC”) on capital invested (consisting of Concession Assets and Rights and Property, Plant and Equipment);
- iii. Operating expenses; and
- iv. The tax obligations that would be incurred by a benchmark efficient firm.

### **5.2 Cost-Based Regulation From 2027 Onwards**

MAVCOM had also announced that it will adopt a cost-based regulation from 2027 onwards as part of the Long Term Framework for the Regulation of Aviation Services Charges. MAVCOM will be adopting a building block model to determine MAHB’s and the operators’ allowed revenue from the provision of aviation services, having regard to projections of efficient capital and operating costs of providing those services, including a reasonable return on efficient capital invested in the business.

## **6. FINANCIAL EFFECTS**

The execution of New OAs is expected to contribute positively to the future earnings, earnings per share and net assets per share of MAHB Group and is not expected to have any material effect on share capital, substantial shareholders' shareholdings and gearing of the Company for the financial year ending 31 December 2024.

## **7. APPROVAL REQUIRED**

The New OAs are not subject to the approval of the shareholders of the Company or any regulatory authorities.

## **8. INTEREST OF DIRECTORS AND MAJOR SHAREHOLDERS AND PERSONS CONNECTED TO THEM**

None of the directors of the Company or its major shareholders and/or persons connected to them has any interest, direct or indirect, in the New OAs and the New Lease Agreements.

This announcement is dated 18 March 2024.