

Passenger Traffic Snapshot, January to December* 2014

Total	2014	2013	% YOY	2014	2013	%YOY
	December			Year- to-date		
KLIA	4,839,006	4,822,221	0.3%	48,918,988	47,498,157	3.0%
Other Airports	3,420,191	3,410,581	0.3%	34,403,324	32,088,927	7.2%
Total	8,259,197	8,232,802	0.3%	83,322,312	79,587,084	4.7%

International	2014	2013	% YOY	2014	2013	%YOY
	December			Year- to-date		
KLIA	3,450,284	3,272,078	5.4%	34,785,390	32,958,854	5.5%
Other Airports	527,963	546,305	-3.4%	5,351,466	5,297,754	1.0%
Total	3,978,247	3,818,383	4.2%	40,136,856	38,256,608	4.9%

Domestic	2014	2013	% YOY	2014	2013	%YOY
	December			Year- to-date		
KLIA	1,388,722	1,550,143	-10.4%	14,133,598	14,539,303	-2.8%
Other Airports	2,892,228	2,864,276	1.0%	29,051,858	26,791,173	8.4%
Total	4,280,950	4,414,419	-3.0%	43,185,456	41,330,476	4.5%

* December is preliminary data, where main variations, if any, lie largely from the non –scheduled or charter flights at smaller airports

KLIA Main & klia2 Passenger Traffic Snapshot, January to December** 2014

Airport	2014	2013	% YOY	2014	2013	%YOY
	December			Year- to-date		
KLIA Main						
Total	2,424,105	2,387,693	1.5%	24,897,598	24,811,355	0.3%
International	1,845,143	1,808,723	2.0%	18,982,606	18,940,840	0.2%
Domestic	578,962	578,970	-	5,914,992	5,870,515	0.8%
klia2						
Total	2,414,901	2,434,528	-0.8%	24,021,390	22,686,802	5.9%
International	1,605,141	1,463,355	9.7%	15,802,784	14,018,014	12.7%
Domestic	809,760	971,173	-16.6%	8,218,606	8,668,788	-5.2%

** December comparison is on same airline basis

Aircraft Traffic Snapshot, January - December 2014

Total	2014 December	2013	% YOY	2014 Year- to-date	2013	%YOY
KLIA	31,417	29,994	4.7%	339,680	325,537	4.3%
Other Airports	42,191	37,485	12.6%	451,897	412,319	9.6%
Total	73,608	67,479	9.1%	791,577	737,856	7.3%

International	2014 December	2013	% YOY	2014 Year- to-date	2013	%YOY
KLIA	20,963	19,540	7.3%	227,360	210,817	7.8%
Other Airports	5,112	5,360	-4.6%	60,250	61,034	-1.3%
Total	26,075	24,900	4.7%	287,610	271,851	5.8%

Domestic	2014 December	2013	% YOY	2014 Year- to-date	2013	%YOY
KLIA	10,454	10,454	-	112,320	114,720	-2.1%
Other Airports	37,079	32,125	15.4%	391,647	351,285	11.5%
Total	47,533	42,579	11.6%	503,967	466,005	8.1%

2014 Traffic Performance

The system of airports operated by MAHB Group recorded 83.3million passenger movements in 2014, a growth of 4.7% over 2013. This is the first-time that passenger movements exceeded the 80million mark. Despite the unprecedented Malaysia Airlines' aircraft incidents that affected sentiment and traffic performance from May 2014, there was a progressive recovery in the air travel market, towards the end of the year. The first four months performance registered an average year-on-year growth of 17.0% which deteriorated to an average contraction of 0.4% for the next eight months after the MH370 incident. December 2014 continued to register highest passenger movements as in previous years. December 2014's performance with 8.2million passengers translating into a positive growth of 0.3% over December 2013 was better than expected. December's average load factor of 76.5% was the highest recorded for a month in 2014, which potentially portends to recovering industry demand in 2015 as this occurred at the same time when industry supply in the form of aircraft traffic movements grew by an even more robust 9.1% over December 2013.

In 2014, international passenger traffic increased by 4.9%, while domestic movements increased by 4.5%. Several airports registered double-digit growth varying from 13.5% to 48.4% for 2014 including Alor Setar, Kota Bharu, Kuala Terengganu, Ipoh, Lahad Datu, Langkawi, and Subang. Langkawi, Penang and Subang airports each achieved a new milestone by surpassing the 6million (Penang Airport) and 2million (Subang and Langkawi airports) movements marks respectively. Aircraft movements recorded a growth of 7.3% while cargo movements grew by 8.0%, registering a volume of

1,011,904 metric tonnes. This is the highest cargo volume handled by the Malaysia Airports system since 2006.

KLIA recorded 48.9million passengers, 3.0% above 2013. Apart from the negative incidents, KLIA's growth was also affected by the shift in airlines' domestic operations for direct flights between the domestic airports, as compared to previously, where connections to domestic airports were mainly through KLIA. KLIA Main recorded a decrease in growth by 3.0%, handling 24.9million passengers, while the combined eight months' performance by klia2 and four months by LCCT ("klia2/LCCT") increased by 10.1% with 24.0million passengers in 2014 over 2013. Prior to klia2's commencement in May, KLIA Main recorded an average of 17.2% year-on-year growth up to April but it declined to negative 11.2% for the next eight months. The decline registered for KLIA Main was cemented by the expected transfer of Lion Air and Malindo Air operations to klia2. KLIA registered 339,680 aircraft movements for 2014. Cargo movements was 758,060 metric tonnes, the highest ever handled at KLIA. As at end of 2014 a total of 62 airlines operated from KLIA to 126 destinations.

2014 December Traffic

MAHB registered 8.2million passenger movements in December 2014, an increase of 0.3% over December 2013. International sector increased by 4.2% while the domestic sector declined by 3%. The international movements experienced the highest growth since June 2013. However, the domestic sector continued the declining trend. Average load factor for December was recorded at 76.4%, the highest for the year.

2014 KLIA traffic

Year-on-year KLIA December passenger traffic increased by 0.3%. International movements increased by 5.4% while domestic movements registered a decline of 10.4% compared to December 2013. Passenger traffic at KLIA Main declined by 3.0% whilst klia2 increased by 10.1%. On a like-for-like basis, if Lion Air and Malindo Air had not transferred its operations to klia2, KLIA Main would have recorded a positive 0.3% growth while klia2 would have recorded a lower 5.9% growth. These are very important points to understand that KLIA Main would have registered a highly resilient marginal growth in 2014 despite the unprecedented Malaysia Airlines and even AirAsia Indonesia incidents without the expected transfer of Lion Air and Malindo Air to the other terminal. Aircraft movements increased by 4.3% with an average load factor of 77.9%. The high average load factor for 2014 can be read as strong potential for further growth in 2015, assuming all other material factors had remained the same.

The expansion of Firefly and Malindo Air at Subang Airport is accommodating some of the demand for domestic travel previously catered by KLIA and this has partly affected domestic growth at KLIA. In addition, new direct flights established between secondary airports are also bypassing KLIA. These two trends are expected and strongly encouraged by Malaysia Airports to improve connectivity, choice and efficiency. These trends also lend credence to Malaysia Airports' increased efforts in building up the industry eco-systems at smaller airports apart from KLIA.

Overview of traffic

The 4.7% passenger growth for 2014 is lower than what was expected as passenger traffic performance has been affected by the negative sentiment from the two major unprecedented Malaysia Airlines incidents. The impact from MH370 was significant for the China sector and also sentiment more generally, as closure in the form of official incident findings seem to be elusive at this juncture. From an average of 27.0% year-on-year growth in the first three months of 2014, the China sector traffic deteriorated to an average of double-digit contraction in the last nine months, the peak of the contraction being a decline of nearly 20% in August. China sector traffic is important to airports in Malaysia as it remains the single-fastest growing sector in global traffic flows. Without official closure, it remains to be seen what the long-term implications may be, despite the historically strong bilateral relationship of the two countries.

In contrast, MH17 caused a dent in the Europe sector traffic to KLIA and resultant flows to other airports both domestic and in South-East Asia. From an average 9.0% year-on-year growth in the first seven months of 2014, the Europe sector traffic deteriorated to an average decline of negative 1.9% in the last five months, the highest decline being negative 6.1%. There were also some negative trends in the Middle East sector traffic for certain months in 2014 which may be partly attributed to geopolitical uncertainties as well as a temporary decline in a major Middle Eastern hub carrier's frequencies due to ongoing runway works at its home airport. Encouragingly, there has been improvement in all these sectors most latterly. In addition, in the immediate aftermath of MH17, there was a one-week only offer of full refunds on Malaysia Airlines tickets. This may have contributed to the steepest contraction in passenger traffic of over 6% at KLIA and over 4% at MAHB airports for the month of August 2014.

The China sector's decline has dropped to a single digit decline whilst the Europe sector traffic has reached a positive level of 1.9% in December. The Middle East sector recorded a high 24.0% growth in December despite the earlier negatives even before factoring Qatar Airways' recent announcement of a record fourth daily frequency between its Doha home base and KLIA.

Notwithstanding the unexpectedly adverse environment, the 4.7% growth in 2014 can be considered credible. Based on the load factor and airlines' seat analysis, the indication of latent demand remains strong. This is evident, for instance, from a high 6.6% increase in airlines seats offered in 2014 while achieving a 72.0% average load factor. There are also highly strategic longer-haul routes that have achieved load factors of closer to 85% - a level that often triggers the entry of either new airlines to KLIA or added frequencies by existing carriers.

Of the 83.3million passengers, the AirAsia and Malaysia Airlines groups accounted for nearly 80% whilst foreign carriers accounted for just below 15%. However, in terms of growth, the largest contributor in 2014 was clearly Malindo Air, and then followed by the AirAsia and then the Malaysia Airlines groups. Foreign carriers as a whole registered a decline in main due to the China sector traffic travails and also cut-backs from Singapore-owned carriers especially once klia2 opened. In these too, are generally positive indications to the continued strength of KLIA and the system of airports in Malaysia despite the unprecedented airline-related incidents in 2014.

Industry Outlook

The IMF revised downward the global economy forecast to 3.3% in October 2014. The 2015 forecast was also lowered by another 0.2% to 3.8%. Though air travel is a function of GDP, the recent drop in fuel price may help to stimulate air travel demand in 2015 if consumers have higher purchasing power and/or if airlines share those fuel cost savings with passengers. In such circumstances, as fuel costs account for between 40% and 60% of a typical airline's costs, a 50% reduction in fuel costs could translate into a 20-30% reduction in total air travel costs for passengers and result in no change to airlines' profits. While the lower oil prices is expected to be positive for air travel, IATA has cautioned on a dampening impact from softening business confidence.

Officially, Malaysia's GDP is expected to grow between 5% to 6% in 2015. This is favourable for air travel especially in view of the lower fuel prices. ICAO and IATA have projected global passenger traffic growth of 6.3% and 7% growth for 2015. The positive outlook is further supported by Malaysia Airlines' inclusion into oneworld alliance in February 2013, which naturally extends connectivity from Malaysia by many folds. The ASEAN Open Skies policy would help improve intra-ASEAN travel further. Despite the positive atmosphere, the negative impact from MH370 and MH17 would likely continue into the initial months of 2015. AirAsia's subsidiary, Indonesia AirAsia's QZ8501 incident on 28th December 2014, could cause further strain in demand for air travel in the region. We are confident the travel demand in the region will return to normal in due course but the immediate negative sentiments could continue to take a toll in the short term and is unprecedented in nature.

Based on the prevailing factors, we expect 2015 passenger traffic to record 85.8million movements, or 3% above 2014 final numbers. This is based on the assumptions that GDP of 5% to 6% will hold, fuel

prices remain stable at the current lower levels and that airlines' seat capacity supply remains in line with our estimates which is 5% above 2014. Nevertheless, there is room for further optimism for 2015 with the opening of South-East Asia's largest modern outlet mall at KLIA in the middle of the year as well as the return of British Airways to Malaysia. We also foresee another major carrier returning to Malaysia in 2015 underlying the strong fundamentals of KLIA and the airport system in Malaysia, despite the unprecedented triple airline incidents in 2014. It is also hoped that the restructured Malaysia Airlines will bring about positive growth to the industry. Aircraft movements is expected to grow along the passenger growth at about 3% in 2015.

Research & Planning

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