



**WORLD'S BEST
LOW-COST AIRLINE
7 YEARS RUNNING**

AIRASIA BERHAD

**2Q15
EARNINGS BRIEFING**

20 AUGUST 2015



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2Q15 KEY HIGHLIGHTS



MALAYSIA

- **Revenue** of RM1.32 bil (+1% YoY) due to 7% increase in pax volume despite the affect of non-marketing in Q1 which affected forward sales in Q2
- Strong **load factor** maintained at 80% whilst average fare down 10% YoY as fuel surcharge was removed in mid Q1
- **Operating profit** of RM243.47 mil (+40% YoY)
- **Net Operating Profit** of RM123.96 mil (+75% YoY)
- Cash up 15% QoQ to RM1.84 billion
- **EBIT Margin** of 18% (+5ppt) and **EBITDAR margin** of 37% (+5ppt)
- MAS's network and fare rationalisation in Q3 onwards will be a huge catalyst
- We are already seeing the beginning of this with the **capacity or frequency cuts and termination on the following short-haul routes** we operate in:
 - Kuala Lumpur – Medan Kuala Namu *eff 09AUG15 Service reduce from 3 to 2 daily*
 - Kuala Lumpur – Guangzhou *eff 15AUG15 Service reduce from 2 to 1 daily*
 - Kuala Lumpur – Ho Chi Minh *eff 15AUG15 Service reduce from 4 to 3 daily*
 - Kuala Lumpur – Hong Kong *eff 15AUG15 Service reduce from 4 to 3 daily*
 - Kuala Lumpur – Manila *eff 15AUG15 Service reduce from 5 to 4 daily*
 - Kuala Lumpur – Siem Reap *eff 17AUG15 Service reduce from 7 to 5 weekly*
 - Kuala Lumpur – Yangon *eff 18AUG15 Service reduce from 14 to 11 weekly*
 - Kuala Lumpur – Male *eff 23AUG15 1 daily service cancelled*
- The above were on top of the **routes that they have terminated** earlier, which were:
 - Kuala Lumpur – Krabi, Kochi and Kunming

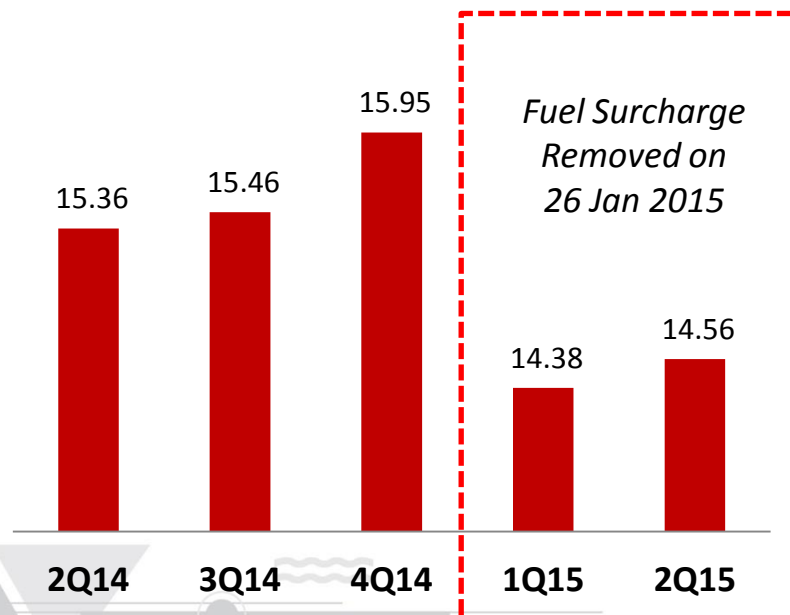
2Q15 KEY HIGHLIGHTS



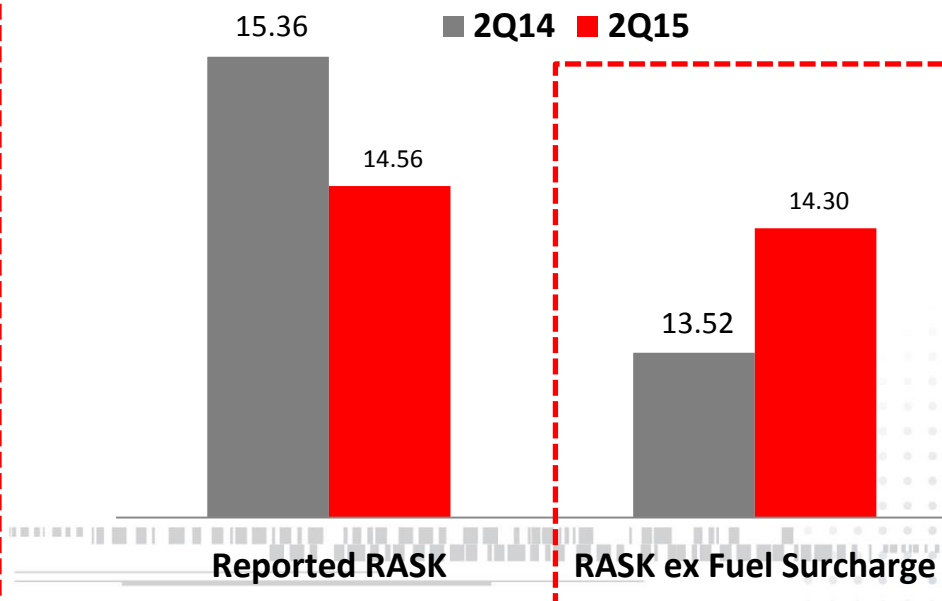
MALAYSIA

- **CASK** of 11.88 sen (-11% YoY) on 18% drop in fuel expenses
- **CASK-ex Fuel** of 6.65 sen (+2% YoY) on 25% increase in staff costs
- **RASK** of 14.56 sen (-5% YoY; +1% QoQ), excluding fuel surcharge up 6% YoY
- **RASK-CASK spread** increased 31% YoY

RASK +1% QoQ



RASK (ex-fuel surcharge) +6% YoY



2Q15 KEY HIGHLIGHTS



ASSOCIATES

- **Thailand** – **Revenue up 26%** due to 26% increase in pax volume, operating profit up 220%, profit after tax up 218% to THB374.19mil (USD11.10mil). Equity accounted RM18.1mil. RASK increased 5% and CASK decreased 10%
- **Indonesia** – **Revenue down 16%** due to impact of non-marketing in Q1 on forward sales, introduction of floor price ruling on domestic flights and reduction in capacity of 12%. Loss after tax recorded at IDR(486.36)bil or USD(36.88)mil. Sales has now recovered and is currently back at the same level as pre-QZ8501.
- **Philippines** – **Revenue up 6%**. Operating loss reduced substantially by 68%. Loss after tax is PHP776.98 mil (USD17.34mil). Losses narrowed substantially with 16% increase in RASK at PHP2.02 (USc4.52) and 14% decrease in CASK at PHP2.37 (USc5.29). PAA achieved positive EBITDAR at PHP38mil (USD848k) compared to negative EBITDAR of PHP (688)mil or USD (15.36)mil in 2Q14.
- **India** – **Revenue of INR1.12 bil (USD17.5mil)** with strong load factor of 83%. Loss after tax is INR441.53 mil or USD (6.89)mil. Average fare increased 347% since AAI first started a year ago. CASK reduced by 13% and is expected to stabilise at lower levels moving forward.

PRIVATE EQUITY INVESTMENTS

- **AAE Travel** – Net profit of RM2.4mil. Equity accounted RM0.6mil
- **AACE** – Net profit of RM10mil Equity accounted RM5mil
- **BIG** – Net loss of RM6.4mil. Nil equity accounted.
- **Tune Money** – Net loss of RM11.1mil. Equity accounted RM4.4mil loss
- **AAC (leasing house)** – Revenue of USD11.7mil. Net profit of USD1.18mil.

ANCILLARY INCOME PER PAX +2%

- Overall **ancillary revenue increased 9%** yoy, pushing **ancillary income per pax up by 2%** to RM46
- Highest growth was seen in online advertising (+733%), aircraft advertising (+149%) and AA Insure (+43%)
- New contributors include duty free (RM2mil) and AA courier (RM3.6mil)
- **2Q15- core ancillary:**
 - Revision on baggage pricing by block hrs
 - Launched fast track immigration clearance service for Premium Flex guests at klia2, JB and Kuching
 - Guests are now able to book their baggage, meals, 'Pick A Seat' and insurance through our AirAsia mobile lite.
- **F&B:**
 - F&B: Launched new inflight menu concept 'Santan' offering enhanced gourmet experience.
 - Target spend per head to increase from RM3 to RM6
- **Wifi**
 - Launched Nov'14
 - Available on 20 acft and target 15 more until end of 2015
 - Almost 10,000 tokens sold so far (5325 in Q2)
 - Revenue collected to far RM57k (RM27k in Q2)



ANCILLARY INCOME

- FX EZPAY & BIG LOYALTY



- **FX EZ Pay**
 - 2Q15 – launched aggressive promotions and marketing campaigns to traveler segments with average of 500-600 cards issued per mth
 - 2H15 – Push sign up in travel segment, target online shoppers and introduction of new currencies.
 - Consumers are seeing big value in the multi-currency product especially at the current MYR value
- **BIG**
 - Points issuance increased 93% YoY in 2Q15 due to rapid expansion of partner network
 - Points redeemed grew 78% YoY in 2Q15 due to brand and education campaign
 - Active members grew significantly to 2.4mil with average of 150,000 new sign ups every mth

ANCILLARY INCOME - TUNE MONEY



- Launch the FX business starting **2016**
- Allow international passengers travelling from Malaysia, Indonesia and Singapore (Phase 1) and Thailand and Philippines (Phase 2) to order foreign currency while booking their tickets at airasia.com
- Passengers get preferable exchange rates and also earn BIG loyalty points. Collect currency at designated (partner bank) branches at the airport prior to departure.
- As a conservative projection, **for every 0.5mil passengers purchasing FX through airasia.com, AirAsia sells RM5bil of FX (cumulative over 5 years) and earns RM90mil pre-tax income (cumulative over 5 years).**
- Post early stage success, will look at acquiring our own money changer licence and launch fully owned FX counters in all major airports.

Powered by **BNK**

LOGIN

HOME FX PROMOTION CONTACT US

BUY
Foreign Currency Note

		GBP/USD	1.5108
		USD/SEK	6.6760
		USD/JPY	99.3900
		USD/CAD	1.0393
		USD/CNY	6.1373
		USD/HKD	7.7581

More currency

BUY and GET your Foreign Currency Note

in **3** easy steps

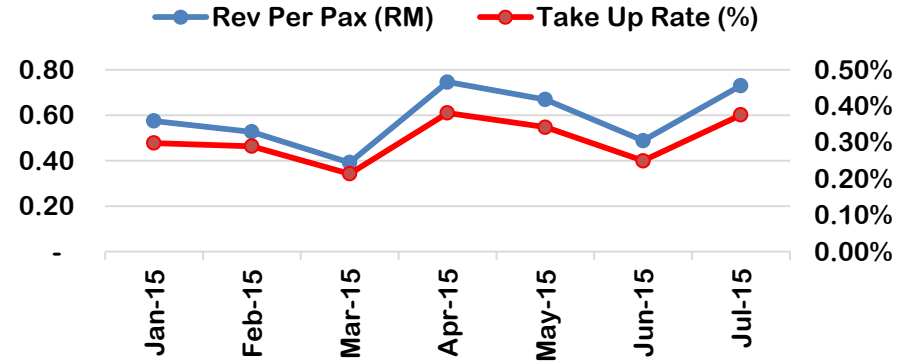
Find out more

ANCILLARY INCOME

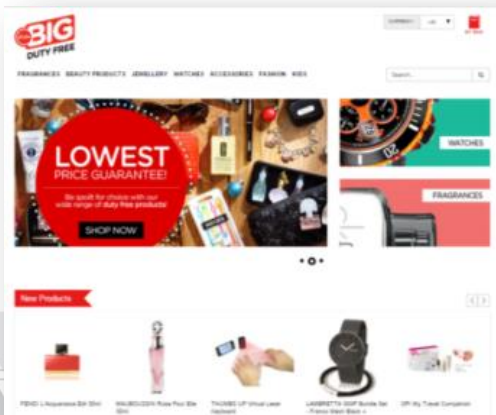
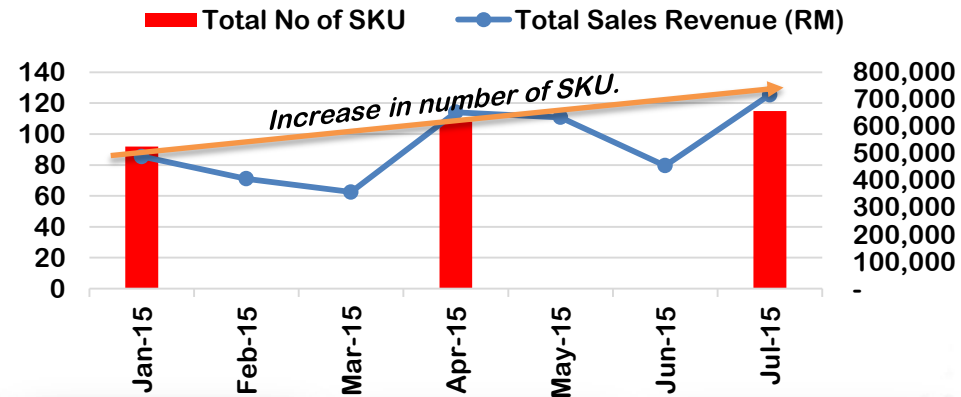
- DUTY FREE

- Goal is to drive up ancillary income
- Launched Big Duty Free website with lowest price guaranteed
- increased pre-book items via inpath in Q2
- 37% increase in number of SKUs and expansion of product offerings to reach 500 SKUs by 4Q15
- Launch of liquor and tobacco in 4Q15
- Rollout of duty free business in commercially viable hubs by 4Q15

Rev Per Pax & Take Up Rate Trending



Sales Revenue & SKU Trending



ADDRESSING CONCERNS

- NET GEARING



Balance Sheet RM million	June 2015	March 2015
Total Debt	12,369	13,144
Cash	1,838	1,600
Net Debt	10,531	11,544
Net Gearing	2.21	2.47

Target to
achieve net
gearing of
1.81x
by end of 2015
*If without SLBs,
2.00x*

- **Net gearing dropped by 0.26 points or 11%** due to:
 - 6% decrease in total debt
 - 15% increase in cash
- **10 SLBs** were executed in 2Q15
- If **excludes SLB transaction**, 2Q15 net gearing would be **2.34x**
- This proves that strategy is working and net gearing is targeted to reduce further
- 81% of the Group's aircraft are owned, 119 aircraft are on Malaysia's balance sheet

ADDRESSING CONCERNS

- CURRENCY

Mitigate currency risks through:

i. Fuel Price

- AA is unhedged for 2016. Below is the current hedge position for 2015:

AA Group	1Q15	2Q15	3Q15	4Q15
Current Hedge Ratio	50%	50%	51%	51%
Ave Hedge Cost (USD – jet kero)	98	88	84	84
Average Hedge Cost 2015	88			
Ave Effective Cost (USD – jet kero)	86	82	73	73
Average Effective Cost 2015	78			

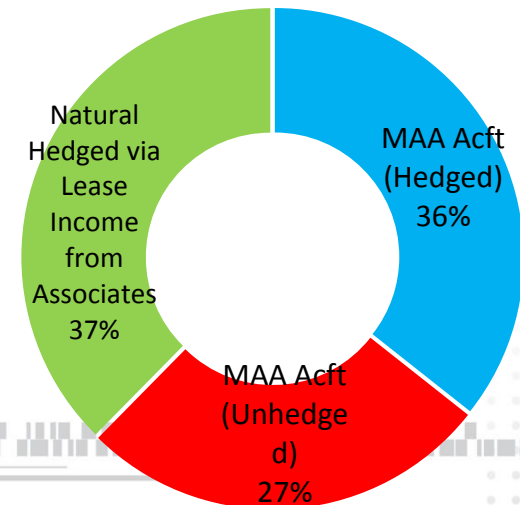
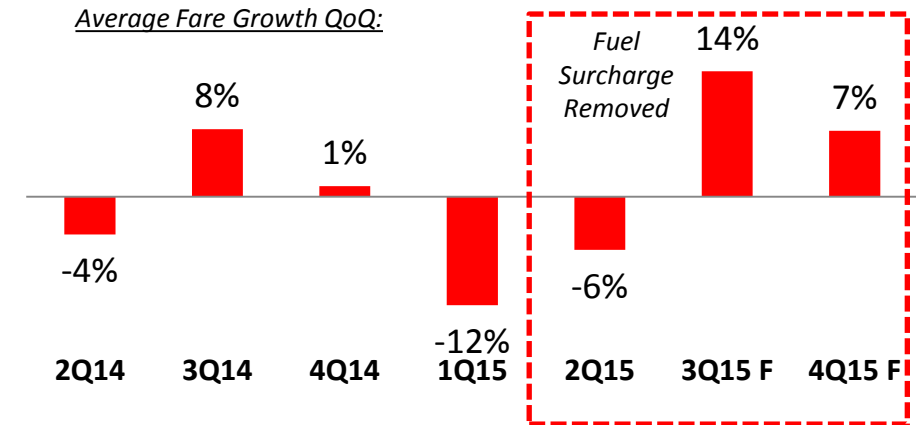
- Current jet fuel price is USD58 per barrel

iii. Recognising 'Natural Hedges' to mitigate unrealised FX impact in P&L

- From 2Q15 onwards, through discussions with PWC, we are now able to recognise the associates' lease income (paid in USD) as natural hedge in 2Q15
- Unrealised FX losses has gone down from USD (350.08)mil in Q1 to just USD(43.59)mil in Q2
- Only 27% of total USD borrowings is unhedged

ii. Fare and Ancillary

- Mitigate via increasing average fare QoQ and ancillary income per pax (target RM50)

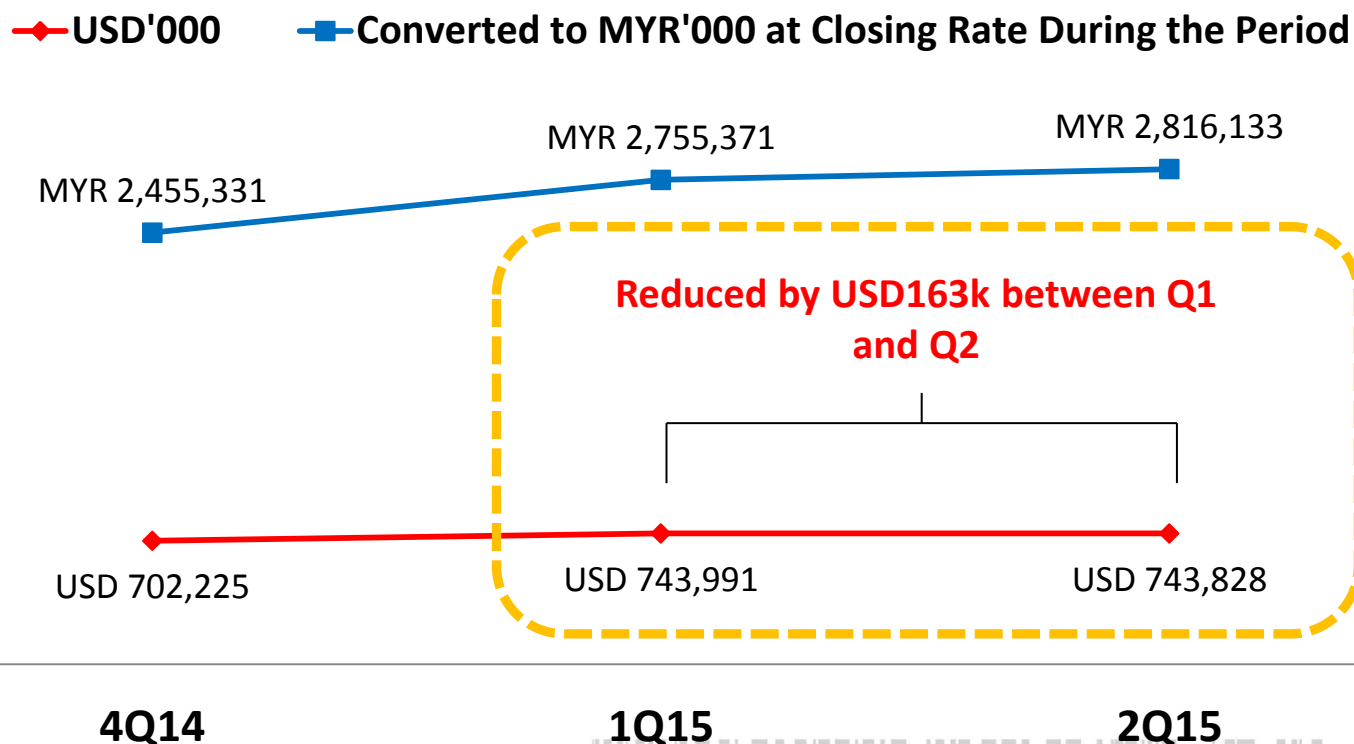


ADDRESSING CONCERNS

- AMOUNT DUE FROM ASSOCIATES



- Putting aside the effects of USDMYR, amount due actually reduced by USD163k between Q1 and Q2
- All lease payments are current



ADDRESSING CONCERNS - INDONESIA



CAPITAL & EQUITY

- Presented to the Transport Ministry in July a plan to sell perpetual bond but was advised to issue **non-voting Redeemable and Convertible Preference Shares ("RCPS")** to address negative equity position
 - Shareholder's resolution is being sought and application to Indonesia Investment Coordination Board will be submitted thereafter
 - AAB will subscribe to the RCPS by converting their receivables. Target completion in **September**
- **Discussions with existing and potentially new shareholders regarding injection of capital is on-going. Indicative interest of USD40million**
- Initiated work on **issuing USD150 million new Convertible Bond (CB)**
 - An investment banker has been appointed to structure and market the CB
 - Broad **parameters for the CB have been defined** and the term sheet is currently being drafted
 - Currently in talks with a potential new investor and the **due diligence exercise will kick-off soon**
 - Target to complete the issue by end-2015

ADDRESSING CONCERNS - INDONESIA



FLEET & NETWORK

- **Right sizing** by removing 4-5 aircraft from Jakarta, Bandung, Denpasar and Medan starting August
- Due to floor price ruling, **shift capacity to international** where we are number one. Target 65%
 - **Terminate unprofitable routes** including CGKKNO and DPSSOC to cut losses
 - Open new international routes and increase frequency on strong performers SUBKUL and SUBJHB

COMMERCIAL

- Speed up SkyAgent signings to reach more than 3,000 agents across Indonesia by end-2015 to help **increase offline sales**
- Continue to **drive ancillary income** – push insurance take up through travel agents, introducing new island transfer products and cargo

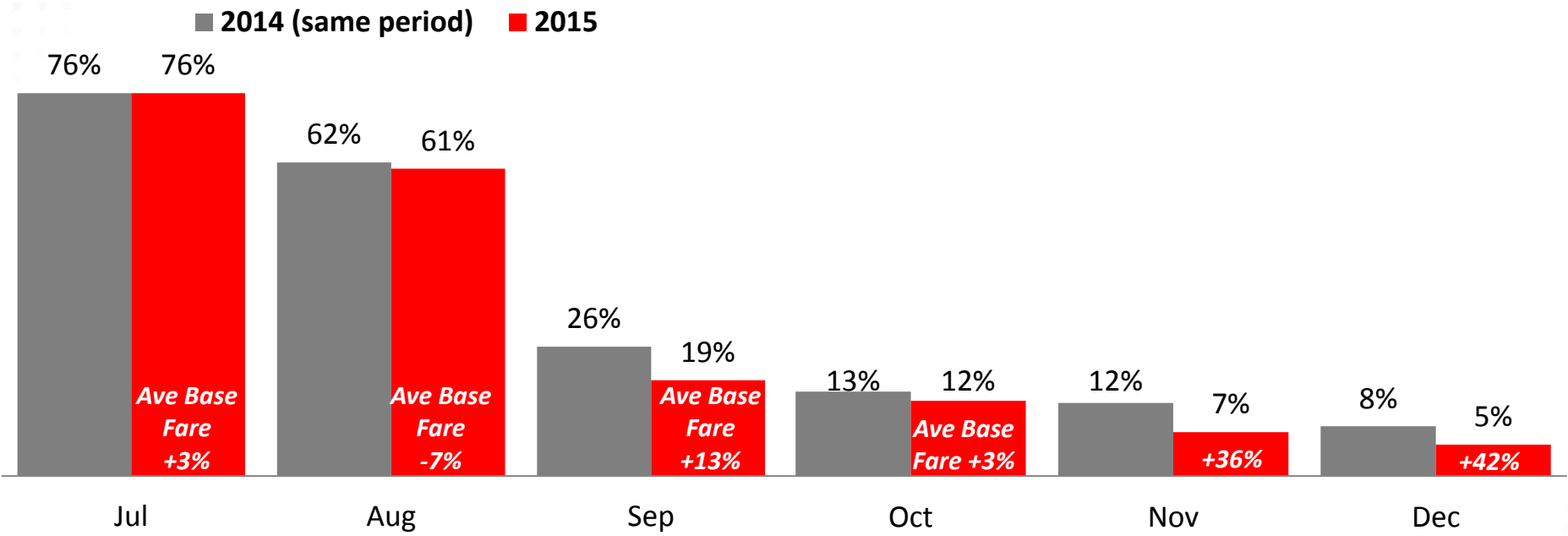
COST-SAVING INITIATIVES

- Capacity management to **improve aircraft utilisation** from 10 hours per day to 10.3 hours in Q3 and 11.3 hours in Q4. Redeployment of manpower to AirAsia Group to align with capacity cut
- Renegotiating major supply contracts for better terms
- Commence **self-handling** at Surabaya to reduce ground handling cost by end-2015, to be rolled out to other stations thereafter

ADDRESSING CONCERNS - INDONESIA



FORWARD TRENDS



- RASK and ancillary income per pax expected to come in higher in 2H15 with approx +30% QoQ in 3Q15 and approx +2% QoQ in 4Q15
- Load trending upwards to pre-QZ8501 levels on sales campaigns and brand recovery efforts. Forecasted to be 79% in August and 77% in 3Q2015
- Pax carried expected to be lower YoY due to reduced capacity and slightly lower load factor from a year ago

ADDRESSING CONCERNS - PHILIPPINES



CAPITAL & EQUITY

- Plan for **USD50 million** equity injection has been **met with strong interest by existing shareholders**.
- As a result, on July 10th 2015 **PAA board has approved** to increase the authorized capital stock of the company to PHP5 billion (USD110 million) in preparation for equity injection.
- On July 10th 2015, PAA Board also **agreed to the key parameters on issuance of new Convertible Bond (CB)** for which an Investment Bank is currently being engaged to draft detailed term sheets and to market the investment. Discussion have already commenced with prominent Filipino investors on a potential investment in Philippines AirAsia.
- **Received congressional approval to buy up the remaining shares of AirAsia Zest**, which is expected to be completed by year end.
- **Merger of PAA completed** with all aircraft operated under one AOC (second AOC to be collapsed). Only one brand moving forward - Philippines AirAsia. Extensive Brand campaign to be launched by end of the year to solidify Philippines AirAsia brand.



ADDRESSING CONCERNS - PHILIPPINES

FLEET & NETWORK

- **Re-fleeting** on track to remove older planes
 - Target to sell 2 older Zest owned planes by year end
 - In discussion with third party lessors for early return of at minimum 2 older IAE engine lease planes by end of the year
- All International flights have been moved to **Terminal 3 in Manila** to improve customer experience. To move domestic flights as well
- **Network optimisation** to improve profitability. Reducing capacity primarily from Cebu hub. Capacity will be redeployed to China routes in light of the easing of restriction on inbound China travel and to capture high yield china market
- **Continue to increase travel agent base** to expand PAAs presence and to improve yield. PAA has fully integrated into IATA's Billing Settlement Plan to allow agents to simplify selling of tickets

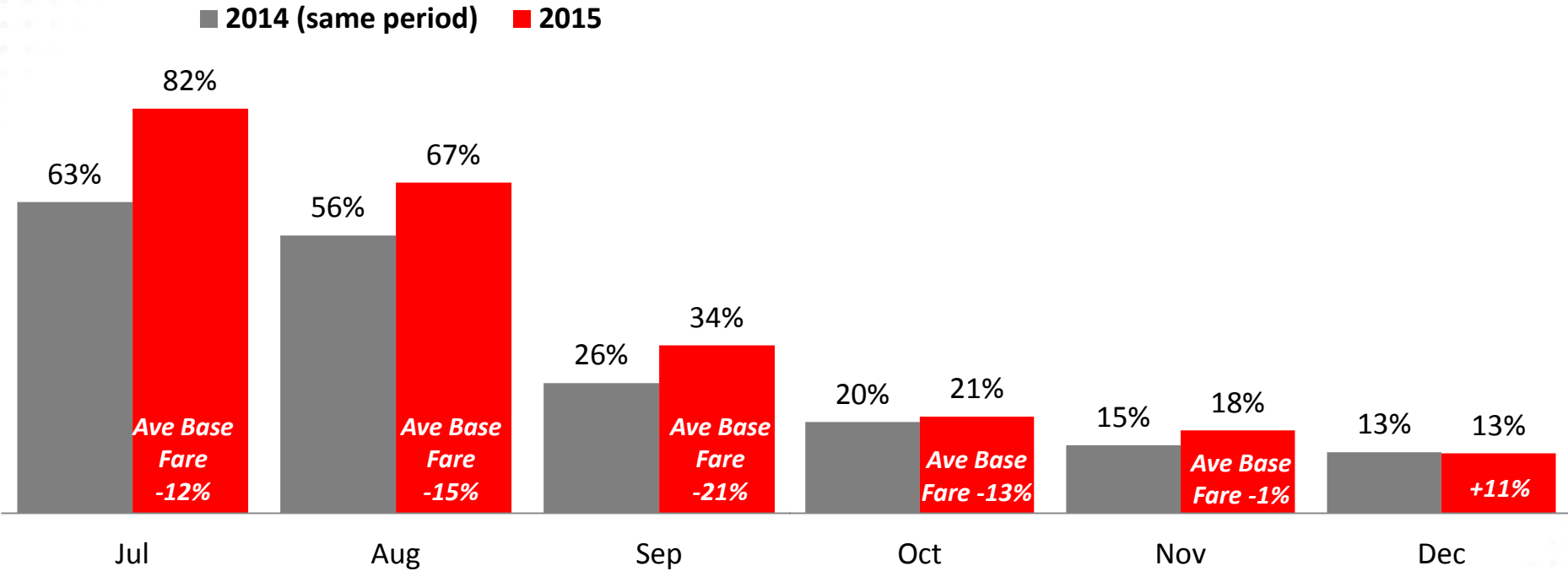
COST-SAVING INITIATIVES

- **PAA continues to drive operating costs** lower:
 - Renegotiation third party lease and maintenance contracts
 - Implemented self handling at all hubs in the Philippines to reduce ground handling costs
 - Further streamlining of headcount to be in line with one AOC operations
 - Implementation of technology such as e-boarding pass and self baggage drop to reduce manpower requirements

ADDRESSING CONCERNS - PHILIPPINES



FORWARD TRENDS



- RASK expected to come in higher in 3Q2015 by approx 2-5% QoQ, but some decline in ancillary income due to network reorganisation
- 4Q15 RASK is forecasted to be higher by approx 20% QoQ
- LF continues to remain strong despite lean season in the Philippines, forecast to be 79% in August and 80% in Q3 2015.

VALUE CREATION - CAPACITY MANAGEMENT



- To date, AA closed 13 transactions of acft on SLB, of which 10 were executed in Q2 and 3 in Q3

	A320ceo	A320neo	End of Lease / Lease Retirement	Sale of Vintage Acft (at 12 yrs)	Net Acft for Growth	Cumulative Fleet
2015	5		-3	-7 (3 from Zest)	-5	166
2016	5	4	-1	-1	7	173
2017		9	-4	-2	3	176
2018		11	-2	-8	1	177
2019		20	-3	-14	3	180
2020		22	-3	-19	0	180
2021		24	-13	-2	9	189

VALUE CREATION - ASIA AVIATION CAPITAL



Quarter Ended: 30 June USD'000	Apr - Jun 2015
Revenue	11,690
Operating expenses:	
- Staff costs	(67)
- Aircraft operating lease expenses	(10,428)
- Other operating expenses	(18)
Operating Profit	1,176
Finance Income	-
Finance Costs	(1)
Net Operating Profit	1,174
Foreign exchange gain on amounts due from intercompany	4
Profit before tax	1,179
Taxation	-
Profit after tax	1,179
EBITDAR	1,176
EBITDAR Margin	10%
EBIT Margin	10%

Operational ratios	Apr - Jun 2015
Total aircraft in the portfolio	6
Addition	13
Operating lease aircraft	19
Owned aircraft	-
Committed aircraft delivery % of aircraft placed	100%
No of Aircraft by Lessee	19
Thai AirAsia	12
Indonesia AirAsia	3
Philippines AirAsia	3
AirAsia India	1
3rd party	-
Total Aircraft average age (Years)	6.5
Operating lease avg age (Years)	6.8
Owned acft avg age (Years)	-
Average remaining lease tenure (Years)	5.8

- 100% subsidiary and the Q2 results above is consolidated into the results of AirAsia Bhd
- 13 acft novated in 2Q15 (reflected in P&L, 19 acft novated in total to-date)
- EBIT margin of 10%
- Executed the leasing of 4 aircraft to a third party airline

VALUE CREATION - MADCIENCE



- Is now an independent operations from AirAsia since Aug'15
- Currently working on these areas by end 2015:
 - Setting up a good data foundation to enable Customer Analytics & Reporting
 - Setting up unique Customer View to enable Insights generation and targeted marketing
 - Create Customer Segmentation relevant to marketing
 - Provide Insights to identify customer trends and opportunities
 - Launch pilot campaign to test and learn on results
 - Established contact policy for our customers