

## A New Year Brings New Fortunes & Opportunities

AirAsia Berhad, Asia's leading low-cost carrier is pleased to announce results for the first quarter ended 30 September 2005 and provide a review of recent notable events and achievements.

### **Tony Fernandes, Chief Executive Officer, said:**

*"While the 2006 financial year started in a challenging fashion, we have moved to address this. We recently completed a hedge structure for all our FY2006 fuel requirements and the Ministry of Finance granted an investment tax allowance that will significantly ease our cash flow burden as we will be spending billions in the business.*

*The first is seasonally the weakest quarter for the year, but nonetheless AirAsia managed to achieve encouraging performance relative to the industry. Net profit for the quarter was RM11.8 million, an increase of 13% over the same period last year on the back of a 50% growth in revenue. AirAsia is one of only a handful of Asia Pacific airlines to achieve double digit growth at both the revenue and net profit level. We achieved this on a 21% year on year increase in passenger numbers and 18% growth in average fares. Yields improved by 10% despite average stage length increasing by 7%. Passenger load factor fell 7% points, this was a result of significant capacity addition of 47% and the introduction of multiple new destinations.*

*Improved performances at the parent level are also being replicated by our affiliates. Thailand achieved a net profit of THB2 million (RM0.2 million) and we are confident Thai operations will contribute positively for the financial year, as suggested by strong load factors and consistently improving average fares. Indonesia is generating robust load factors in spite of the significant increase in new flights and frequencies. It has yet to emerge from its initial start-up phase, but we expect to generate profits when scale benefits are attained. These typically occur when the fleet averages around six to seven aircraft. In the aggregate, our affiliates are expected to positively contribute to the Group this financial year.*

*Our cost/ASK for the quarter was 2.41 US cents, up 16% from the same period last year. This was due to fuel prices peaking at record levels as a consequence of the US hurricane season and tight global refining capacity. Our fuel hedge and - to a certain extent - our fuel surcharge helped to offset some of this, but our effective cost per barrel was 39% higher than the same period last year. The fuel surcharge implemented on 14 July provided recoveries but the amount is superficial as forward bookings prior to 14 July were exempt from any surcharge. The full effects of the fuel levy will only be visible on the second quarter. However, we managed to reduce unit costs - excluding fuel by 5% as compared to same period last year and retain our position as the world's lowest cost airline.*

*Income from ancillary sources has shown steady growth and now represents approximately 8% of total revenues, up from 6% at the end of FY2005. AirAsia recently acquired full ownership of its catering arm, Crunchtime - a division that has been making losses and appointed new management to reorganise the business. A successful turnaround has been achieved, and the business generated a small profit for the most recent quarter.*

*The Ministry of Finance granted an investment tax allowance that will significantly ease our cash flow. We wish to thank the Government for its continued support of the low cost segment and its vision and passion in making Malaysia the premier LCC hub in the region.*

*We continue to expand our network and now service 57 routes in total, making AirAsia the most geographically connected airline in Southeast Asia. We identified 16 routes for our expansion plans at the start of this year and have already introduced five. We are now carrying the AirAsia brand to Cambodia and Vietnam with our new flights to Phnom Penh and Hanoi.*

The first of our new A320s is due to arrive on 8 December 2005. With up to 100 (60 firm orders and 40 options) A320s delivering over the next five years, we are on course to become the largest LCC in the Asia-Pacific region. The A320s will mark a new chapter for us, as our operations will have one of the most modern and sophisticated aircraft in our service, as well as one of the youngest airline fleets in Asia.

### Summary of First Quarter FY2006 Audited Financial Results

Year End : June RM'000	Q1 2006	Q1 2005	Δ (%)
Revenue	186,277	124,198	50%
EBITDAR	34,324	32,786	5%
Profit after tax	11,788	10,478	13%
EBITDAR Margin	18%	26%	

### Summary of First Quarter FY2006 Operating Results

Year End : June	Q1 2006	Q1 2005	Δ (%)
Passengers Carried	1,192,692	984,621	21%
ASK (million)	1953	1326	47%
RPK (million)	1358	1017	34%
Rev/ RPK – US cents	3.61	3.27	10%
Cost/ ASK – US cents	2.41	2.08	16%
Cost/ ASK (ex-fuel) – US cents	1.24	1.30	-5%
Average Fare (RM)	144	122	18%
Load Factor	70%	77%	
Average Stage length (km)	1122	1050	7%
Aircraft (average)	18.76	13.85	35%
Aircraft (end period)	22	18	22%

#### First Quarter 2006 review:

Revenue for the quarter was 50% higher than the same period last year. This is driven by a 21% growth in passengers carried, 18% rise in average fare, 7% rise in stage length and higher contribution from ancillary income. Capacity rose by 47% from the same period last year.

Net profit for the quarter was RM11.8 million, up 13% over the same period last year. EBITDAR margins fell to 18% as compared to 26% last year, primarily due to the higher cost of fuel.

The quarter's key features are outlined below:-

#### **Cost/ASK 2.41 US cents – prudent cost control**

Cost per ASK for the quarter is 2.41 US cents and remains the lowest airline unit cost in the world. Unit cost increased by 16% vs. Q1FY05's 2.08 US cents. This was due to higher fuel cost and staff costs as a result of the additional technical crew hired in anticipation of the arrival of the new aircraft. However, Cost per ASK-excluding fuel was 1.24 US cents; this was 5% lower than that of the same period last year.

#### **Thai-AirAsia – turnaround achieved, next step focus on growth**

Thai AirAsia posted a net profit of THB2 million (RM0.2 million) for the quarter although there was no increase in capacity relative to Q4FY05. This was achieved through a high load factor of 76% and a

cost per ASK of 2.52 US cents for the quarter. Thai-AirAsia introduced daily flights to Hanoi and Phnom Penh during the period.

***AWAIR @ Indonesia-AirAsia – continuing to gain traction***

PT AWAir carried 172,655 passengers in its third quarter of operations, an increase of 14% relative to the last quarter. Load factor remained high at 72% – an impressive feat by a new entrant in a highly competitive market. PT AWAir's losses in this quarter were essentially due to start-up costs, which are likely to impact its profitability until economies of scale are attained. Currently, PT AWAir is operating four aircraft.

On October 1st, Bali was again the target of terrorist attacks, the second time in three years. We launched our own support Bali campaign, themed, "To Bali, with Love," where we gave away 5,000 free seats to that market. Again on October 12th, we joined hands with The New Straits Times Press Berhad and its group of newspapers, together with TV3 and its sister company 8TV, launching another campaign, themed, "Don't turn your back on Bali," to promote and encourage tourism to the island.

***Regional expansion –direct flights on two international routes launched***

Response to our latest expansion to Indochina has exceeded our initial expectations. On October 20th, we launched daily flights from Kuala Lumpur to Chiang Mai in Thailand, becoming the only airline to offer direct services between Kuala Lumpur and Chiang Mai.

On November 1st, we launched daily flights from Kuala Lumpur to Phnom Penh in Cambodia. The addition of Phnom Penh to AirAsia's route network now established in Malaysia, Thailand, Indonesia, Singapore, Macau, China, and the Philippines, further strengthens our Group connectivity.

## **Financial Review and Outlook**

***Countdown for first Airbus A320 delivery***

Renowned for its high dispatch reliability and fuel savings, the A320 is expected to enter service at the beginning of December 2005 and continue through until 2011. The 180 seat configured A320s will completely replace the 148 seater Boeing 737-300s currently operated by the AirAsia Group (comprising AirAsia in Malaysia, Thai AirAsia in Thailand and AWAIR in Indonesia). AirAsia will operate a mixed fleet during this transition period.

***Fuel – hedging for second half FY2006 completed***

Cost of jet fuel remains a concern. Fuel prices have been surged consistently since the beginning of 2005 to record levels. We have recently completed a hedge transaction for the balance of our second half fuel requirements in FY2006. Prior to this transaction, we had 50% of our second half FY2006 fuel requirement hedged. Our current hedging structure provides us with a US\$12 / bbl discount to the market price of WTI, but with a price band between US\$40 to US\$58/bbl.

***Additional tax incentive – Investment allowance ('IA')***

We have received approval from Ministry of Finance for an income tax exemption in the form of an IA of 60% on qualifying capital expenditure incurred within a period of 5 years between 1 July 2004 and 30 June 2009, to be deducted against up to 70% of statutory income for each year of assessment. The IA incentive is expected to contribute positively to our future consolidated earnings.

***LCC terminal – running ahead of schedule***

Construction of the new low cost terminal is nearing completion and we could take up residence there as early as March next year. As well as consolidating the company in one single location for the first time, the new terminal will provide significant cost-saving and efficiency enhancing opportunities to the Group that should become evident as early as FY2007.

***Thailand –poised for further growth***

Thailand's operations have achieved adequate scale to generate consistent profits and are poised for strong growth as we introduce additional aircraft there. With the expected new capacity deployed in FY2006, we intend to increase frequencies on some of our profitable existing routes and tap additional new markets domestically and regionally. We are confident that Thailand will continue to contribute positively to the Group.

***Indonesia – set to reach critical mass***

The Indonesian business should reach critical mass by the end of this financial year with the new additional aircrafts to be delivered. Indonesia is vast and presents many opportunities for growth and we intend to tap additional new routes domestically. The Indonesian operation is expected to contribute positively to the Group by the end of this financial year.

***Outlook***

The directors expect the results for the current financial year ending 30 June 2006 to exceed the results for the previous financial year, barring and unforeseen events and subject to the timely delivery of aircraft and no further unusual increase in fuel price.

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