Strong Growth Despite Record Fuel Prices

AirAsia Berhad, Asia's leading low cost carrier is pleased to announce the unaudited results for the first quarter ended 31 March 2008 and provide a review of recent notable events and achievements.

Summary of Results:

- **Revenue growth of 32% to RM535 million**
- **Pretax profit of RM110 million with margins of 20.6%**
- **Net income growth of 86% to RM161 million with margins of 30.1%**

Tony Fernandes said:

"AirAsia continues to grow its business successfully with passenger numbers increasing by 21% to 2.6 million during the period. We are continuing to grow rapidly across Asia, especially in China where we have introduced three new cities (Guangzhou, Hong Kong and Haikou) and increased frequency on our existing Chinese routes. Furthermore, we have launched Bali as a new base to capture the island's magical tourist pull. We are now the largest airline serving Bali with a total of 49 weekly flights across four destinations and we have plans to connect Bali to Australia in the future.

These results were achieved on the back of 21% growth in passenger volume and 10% higher average fares. Load factors dropped to 72% as a consequence of significant capacity addition of 36% and this is in line with our expectations. Some routes experienced a sudden drop in load factors from January to February due to specific local issues such as the snowstorms in China. The situation has improved since March and we should see load factors returning to normal for the remainder of the year. Notwithstanding these underperforming routes, the underlying demand remained strong as depicted by the stable yields.

Unit cost excluding fuel improved by an impressive 5% due to productivity enhancements and increased number of Airbus A320 into the fleet. However, when fuel cost is included, the unit cost was at 3.30 US centsper ASK, 15% higher than the same period last year. This reflects the 43% increase in jet fuel prices as compared to the same period last year.

Despite the very challenging operating conditions, AirAsia continues to achieve profit growth and profit margin expansion. EBIT for the period grew by 1% to RM73 million with EBIT margins of 13.7% and net income grew by 86% to RM161 million with net margin of 30.1%. We maintain our position as the industry's leading profit margin airline in the world."

Summary for the Period January – March 2008 unaudited Financial Results

Quarter Ended: 31 March RM'000	Jan-Mar 2008	Jan-Mar 2007 (restated)	Δ (%)
Ticket Sales	494,382	380,302	30%
Ancillary Income	40,939	25,923	58%
Revenue	**535,321**	**406,225**	**32%**
EBITDAR	130,745	127,004	3%
EBIT	73,404	72,834	1%
Pretax profit	110,174	43,072	156%
Net Income	161,277	86,873	86%
EBITDAR Margin	24.4%	31.3%	-6.8 ppt
EBIT Margin	13.7%	17.9%	-4.2 ppt
Pretax profit Margin	20.6%	10.6%	10.0 ppt
Net Income Margin	30.1%	21.4%	8.7 ppt

Summary for the Period January – March 2008 Operating Results

Quarter Ended: 31 March	Jan-Mar 2008	Jan-Mar 2007 (restated)	Δ (%)
Passengers Carried	2,611,556	2,160,360	21%
ASK (million)	4,364	3,215	36%
RPK (million)	2,970	2,461	21%
Seat Load Factor	72.1%	76.5%	(4.4) ppt
Average Fare (RM)	189	171	10%
Rev / ASK (sen)	12.27	12.64	-3%
Rev / ASK (US cents)	3.82	3.61	6%
Cost / ASK (sen)	10.58	10.06	5%
Cost / ASK (US cents)	3.30	2.87	15%
Cost / ASK-ex fuel (sen)	4.38	5.01	-13%
Cost / ASK-ex fuel (US cents)	1.36	1.43	-5%
Aircraft (average)	36.0	27.8	29%
Aircraft (end of period)	42	33	27%

Financial Review

Business environment – no letdown in demand for low fares

The demand for our low fares remains robust. We have launched 13 routes since the beginning of the year and the response has been very encouraging. Some of these new routes achieved profitability almost immediately. This highlights the strong demand and the receptiveness for our low fares in places we have not flown to. We are unperturbed by the recent price campaign by MAS, it has not impacted on our sales at all. In fact, it has helped to increase our forward sales due to the abundance of our low fares, abundance of frequency and abundance of rotes that MAS don't have in their network.

Ancillary Income – underpinning revenue growth

We continue to make positive progress in ancillary income, the per passenger ancillary spend has increased by 31% to RM15.70 / pax and ancillary income now represents 7.6% of revenues. In April, we have introduced a checked bag fee which will be an important contributor to offset the escalating fuel cost.

Fleet Growth – fleet rationalisation for quality growth

Aircraft in Operation count	Mar 2008
Malaysia	39
Thailand	15
Indonesia	12
Group Total	**66**
Total Fleet Composition (including spares)	
Airbus A320	39
Boeing 737-300	33

We have decided to accelerate the phasing out of the higher cost Boeing 737-300 and will phase out 16 Boeing 737-300 in the year. As a consequence, we will slow down the growth phase for our Thailand and Indonesia operations. The net fleet size will grow by seven aircraft in 2008; we will finish the year with 55 Airbus A320 and 17 Boeing 737-300.

Cost Highlights – separating the men from the boys

The escalating and volatile fuel price remains the principal challenge for the industry in 2008. We have taken various initiatives to optimise our fuel consumption and we now have the lowest fuel consumption rate on per seat basis. This is very important as other airlines grapple with the high fuel price, we will be able to execute our growth plans and intensify our route domination process.

We have hedged a portion of our fuel requirements in the second quarter which will render cost savings of approximately USD10 million. We have also restructured our hedging position and squared off our fuel options written for the remainder of the year. We remain essentially unhedged beyond June and will purchase fuel on the spot market. Cost items excluding fuel are performing well as we continue to achieve economies of scales, lower maintenance cost due to a young fleet, lower interest rate charges and benefits of a stronger Malaysian Ringgit against the US Dollar.

Associates – on the path to profitability

The Thai operation has made considerable improvements since receiving five new Airbus A320 aircraft. We have seen greater passenger flow, load factors have edged higher with better yields. The Thai operations produced an EBITDAR margin of 7% in the current quarter. We believe Thai AirAsia is in the right path to capture passenger growth, enhance efficiency with the Airbus A320 aircraft and produce consistent profits.

The Indonesian route network reorganization has produced positive outcomes; we have seen greater passenger flow with substantially higher yields. However, the fuel cost rise impacted the Indonesian operations severely because it is operating with Boeing 737-300 aircraft. We will induct Airbus A320 aircraft into the Indonesian operations in the later part of the year and they will soon enjoy the superior economic benefits of the Airbus A320 aircraft.

MAHB – reaching an amicable solution soon

Reference is made to the amount that MAB claimed as owing by AirAsia since 2002 to 31 March 2008. Included in the RM110.26m purported owed by us are current month billings (amounting to RM10.7m) for March 2008 which were not due for payment then, and the payments made amounting to RM28.33m were not deducted by MAB. Of the remainder RM71.23m, the Passenger Security Service Charge (PSSC) for the period 15 January 2007 to 31 May 2007 amounting to RM8.56m is also to be waived. We wish to highlight that in the last 5 years, AirAsia has made total payments in excess of RM284.21m to MAB.

Since moving into the LCC Terminal in March 2006, AirAsia has continued to be charged the same rates as those applied at the Main Terminal Building. AirAsia is appealing against this and requesting for an extension of the concessions previously granted to it. This matter is currently being arbitrated by the Ministry of Finance. The Ministry of Finance and MAB are also considering AirAsia’s proposal for growth incentive schemes for Passenger Service Charge (PSC) and landings.

Outlook

The airline industry is presently facing one of the toughest challenges, with record jet fuel prices, tightening of the credit market and a slower world economic growth. A consumer slowdown is not necessarily a bad thing because low cost carriers traditionally benefit from a consumer slowdown. Passengers who would normally take a full service carrier are likely to trade down and fly with a low cost carrier.

There is no doubt that fuel price will have an impact on our profitability and profit margins. We are confident that we will remain profitable for the full year. Our strategy is very focused on our low fares, high frequency, point to point route network and comprehensive distribution system. We are confident of driving our cost down further through rationalisation of our three airlines, the replacement of the Boeing 737 aircraft and negotiating the airport deals around the region. In addition, our sister airline AirAsia X is providing long haul connectivity that is previously unavailable to us and we have seen tremendous benefit of greater passenger flow through on our network.

We believe the way around the spiking fuel cost is by reducing cost and equally important is to consolidate our brand, using innovation and marketing to drive the top line. Airlines that are preoccupied in just cost cutting will pay in the future; the way to ride this this storm.

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