Robust Demand Continues

AirAsia Berhad, Asia's leading low-cost carrier is pleased to announce results for the second quarter ended 31 December 2006 and provide a review of recent notable events and achievements.

Tony Fernandes, Chief Executive Officer, said:

"I'm pleased to report another strong quarter and the completion of a calendar year characterized by growth across all our business activities, despite all the operational volatility that featured so prominently in 2005. We continue to expand our network successfully and now service 64 routes, making AirAsia the most geographically connected airline in Southeast Asia.

Net profit for the quarter was RM53 million, a 20% increase over the same period last year on the back of 26% revenue growth. Passenger growth was 19% for the period, as we carried our 16th million passenger since inception. Load factor was 76%, 1 percentage point better than last year while average fares improved by 2% to RM156. The improved performance can be attributed to better capacity management on the domestic front; AirAsia and MAS both reduced capacity during the fasting month of Ramadan to mitigate the effect of low demand period for travel.

Thailand achieved a net profit of THB110 million (RM10 million). This has been a positive quarter for Thai operations reflected by strong load factor, improving average fares and prudent cost control. Indonesia has yet to reach critical scale with only four aircraft in operation and is still posting losses. Furthermore, Indonesia has to face a number of significant challenges which is currently being addressed. Despite the tougher condition, we remain confident with the opportunities that Indonesia presents.

Our cost/ASK for the quarter was 2.42 US cents, up 14% from the same period last year. This was due to more heavy maintenance work done for the quarter as compared to the same period last year – heavy maintenance tend to fluctuate from quarter to quarter. Fuel price remains at punitive levels, thankfully our fuel hedge and surcharge helped to mitigate this. Moving forward, our new Airbus A320 will contribute fuel cost relief, stemming from its superior fuel efficiency.

Income from ancillary sources has shown steady growth and now represents approximately 8% of total revenues compared with 5% last year. Crunchtime has improved significantly since the takeover and contributed profits to the Group. We believe that ancillary income will continue to increase as a percentage of revenues and are we developing new revenue channels to achieve this.

The Low Cost Terminal is ready and we are due to commence operations on 23 March 2006. We truly appreciate the Government's effort to develop this low cost terminal, which is the first in Asia. This terminal will unleash numerous cost benefits and should facilitate better efficiency for our operations. However, we have yet to receive the final terms and agreement and eagerly await for positive news from the Government.

The recent acquisition of ShinCorp by Temasek Holdings has prompted Thai-AirAsia to a shareholding change in order to comply with the Thai aviation regulations pertaining to foreign ownership. ShinCorp sold its stake in Thai-AirAsia via a new Thai holding company, Asia Aviation Ltd. ShinCorp has 49% ownership of Asia Aviation, while the remaining 51% is owned by Mr. Sitthichai Veerathummanoon. AirAsia's 49% stake remains unchanged. I take this opportunity to welcome Mr. Sitthichai on board and look forward for continued success with Thai-AirAsia.

We enter the second half of this year with added challenges. The competitive environment in Malaysia had intensified but we will continue to provide the lowest fare. Yields will likely drop with the added competition coupled by increased mix of developmental stage routes. The focus is to increase load factors in order to offset the effects of yield erosion. Even in the light of this increased business risk, AirAsia remains the fastest growing and one of the most profitable airlines by margins in the world."

Summary of Second Quarter FY2006 Audited Financial Results

Year End : June RM'000	Q2 2006	Q2 2005	Δ (%)
Revenue	225,925	178,633	26%
EBITDAR	78,414	67,844	16%
Net Income	53,376	44,362	20%
EBITDAR Margin	35%	38%	

Summary of Second Quarter FY2006 Operating Results

Year End : June	Q2 2006	Q2 2005	Δ (%)
Passengers Carried	1,343,795	1,126,393	19%
ASK (million)	2009	1645	22%
RPK (million)	1532	1230	25%
Rev/ RPK – US cents	3.91	3.82	2%
Cost/ ASK – US cents	2.42	2.13	14%
Cost/ ASK (ex-fuel) – US cents	1.38	1.02	35%
Average Fare (RM)	156	153	2%
Load Factor	76%	75%	
Average Stage length (km)	1163	1086	7%
Aircraft (average)	19.65	16.71	18%
Aircraft (end period)	23	19	21%

Second Quarter 2006 Review:

Revenue for the quarter was 26% higher than the same period last year. This is driven by a 19% growth in passengers carried, 2% rise in average fare, 7% rise in stage length and higher contribution from ancillary income. Capacity rose by 22% from the same period last year.

Net profit for the quarter was RM53.4 million, up 20% over the same period last year. EBITDAR margins fell to 35% as compared to 38% last year, as unit cost has increased by 14% from last year.

The quarter's key features are outlined below:-

Cost/ASK 2.42 US cents – prudent cost control

Cost per ASK for the quarter is 2.42 US cents and remains the lowest airline unit cost in the world. Unit cost increased by 14% vs. 2.13 US cents last year. This was due to expenses incurred from more heavy "D" maintenance checks than the same period last year. Cost recoveries derived from our fuel hedge and surcharges helped to alleviate the effect of rising oil prices. However, the effective unit cost of fuel is above forecast and remains a concern to management.

Thai-AirAsia – the AirAsia profit model is transportable

Thai AirAsia posted a net profit of THB109.6 million (RM10.1 million) for the quarter on the back of 28% growth in passenger carried and 11% improvement in average fares. Load factor improved to 81% vs. 75% last year. Average fares also improved by 11% to THB1369 (RM126) while cost per ASK remained largely flat 2.58 US cents for the quarter. EBITDAR margins improved to 25% against 9% for same period last year made possible by enhanced revenue growth and economies of scale benefits.

Thai-AirAsia share ownership changed recently, with Asia Aviation Limited as the new principal shareholder. The shareholding structure for Asia Aviation is 51% owned by Mr. Sittichai Veerathummnoon and the remaining 49% owned by Shin Corporation. There is no change to the equity held in Thai-AirAsia by AirAsia Berhad (49%) and Mr. Tassapon Bijleveld (1%), the Chief

Executive Officer of Thai-AirAsia. Under the new shareholding structure, AirAsia, Thai-AirAsia and Shin Corporation and Mr. Sittichai Veerathummnoon will continue their strong co-operation and remain committed to the development of Thai-AirAsia.

Indonesia-AirAsia – continuing to gain traction

Indonesia-AirAsia carried 281,401 passengers in its fourth quarter of operations, an increase of 63% relative to the last quarter, with Indonesia now operating four aircraft. Load factor was 69%, primarily due to significant addition of capacity. The absence of scale in Indonesia is likely to impact its profitability until economies of scale are attained, at least six to seven aircraft. Indonesia-AirAsia is scheduled to operate with six aircraft by 30 June 2006.

Route Expansion – crossing the dots all over Asia

We have launched 12 new destinations since the beginning of FY2006, bringing the current total route network of 64. Points now served include Hanoi, Siem Reap, Phnom Penh and Solo. The support for the new routes has been positive, with some routes performing ahead of our expectations. We plan to add 5-7 more routes for the remainder of the financial year, depending on market dynamics and regulatory approval.

Airbus A320 – the livery of the future

We received our first Airbus on the eve of our fourth anniversary; now we have four Airbus A320 in our fleet. The transition has been very smooth and the aircraft has exceeded our initial expectations. There has been positive public feedback for the Airbus A320 and it is proved to be popular among our guests. The Airbus A320 has enhanced our image and enables us to improve our service, reliability and fuel efficiency.

Two million free tickets – aggressive marketing

To mark our fourth anniversary, AirAsia launched an aggressive marketing campaign of “2 million free tickets” for every AirAsia destination for travels commencing 7 February until 10 October 2006. The response to this campaign was overwhelming; all tickets were snapped up within 2 weeks. This campaign generated significant positive PR and promoted the penetration into new markets. Moreover, interest was not limited to Asia alone as we had a significant number of bookings from guests in Europe, America, Latin America and Australia – despite no advertising on this campaign in their region.

Galileo GDS – enhancing our distribution channel

On 18 January 2006, AirAsia announced a strategic collaboration with Galileo International to enhance our distribution system. Galileo International is a leading global distribution system (GDS), and subsidiary of Cendant Travel Distribution Services (TDS). This collaboration will enable Galileo subscribers in over 50,000 travel agencies worldwide to view AirAsia’s schedule and inventory. This could potentially open up new markets that previously did not use AirAsia as a travel medium.

Financial Review and Outlook

Fuel – cost wildcard
Cost of jet fuel remains a concern. Fuel prices have been surging consistently since the beginning of 2005 to record levels. Our current hedging structure provides us with a US$12 / bbl discount to the market price of WTI until the end of the fiscal year. Cost recoveries from fuel surcharge averaged around RM15/pax for the second quarter, or US$9.6 per barrel equivalent.

LCC terminal – the first low cost terminal in Asia
Construction of the new low cost terminal is in its final touches and we are due to begin operations on 23 March 2006. The relocation process will begin as early as 9 March 2006 so that we have ample time to familiarise ourselves with the new premise. The company will be consolidated under one roof for the first time in history, this should render improved productivity and provide enhanced working conditions. The new terminal will provide cost-saving and efficiency enhancing opportunities to the Group that should become evident as early as FY2007. However, negotiations for “differentiated” charges for the use of the terminal are still on going. We are optimistic that a resolution can be reached prior to the scheduled move to the new terminal.

Thailand – the training wheels are off
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
While we are facing significant challenges in Indonesia, our Indonesian operations should reach critical mass by the end of this financial year with the delivery of additional aircraft. Indonesia continues to presents us with numerous growth opportunities and we intend on developing routes domestically and further linking it to our international network.

Outlook
The Group is facing a number of uncertainties including increased competitive pressures, fluctuating fuel prices and **possible** bird flu outbreak in the region. The increased level of competition is likely to negatively impact yields. Furthermore, the company is adding significant frequencies and new routes that might under perform during their development stage. While initial indications suggest that the market has received our new routes well, the sustainability of support will be visible in the ensuing months. Given the increased level of challenges, the directors believe it is difficult to make an accurate forecast of the results for the second half of the current financial year. The directors remain positive with respect to the long term business growth outlook for the Group.

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