Delivering Growth, Delivering Record Profits: Revenue Increased by 65%, Pre-Tax Income Growth of 80% with Record EBITDAR Margins of 43%

AirAsia Berhad, Malaysia's most profitable airline and Asia's leading low-cost carrier is pleased to announce the unaudited 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:

"This is our best quarter ever. We have outperformed our expectations on every performance metrics; load factor, yields, ancillary income penetration and unit cost reduction was significantly better than our initial budgets. This exceptional performance was achieved during a period whereby we are investing significant amount of resources into the business; we opened up two new hubs which are enduring start-up losses and we have launched 15 new routes which are very capital intensive. This all around robust performance highlights the value and benefits unlocked by the domestic rationalisation as well as strategic initiatives we have taken over the past year. It is also testimony to the dedication and commitment of our people in our relentless pursuit to lower cost and enhance service level. Verily, this result is not possible without the unconditional support from each and every member of the AirAsia 'family'.

Revenue for the quarter was RM401 million, a growth of 61% compared to the same period last year. Load factor for the quarter was 82% which is a 6 percentage point improvement from last year. The high load factor showcase the consumer's acceptance of our rapid capacity addition of 52% in the quarter. Average fare was lower by 5% mainly due to a shorter stage length and our commitment to drive down fares while boosting load factor. The net result is favourable as we managed to improve yields by 11% despite the lower average fare.

Unit cost was down by 1% year on year to US2.66 cents / ASK as we continue to extract value from the new Airbus A320 and the low cost terminal. The combination of higher yields and lower cost enabled us to deliverer a pre-tax income of RM93 million, an 80% growth as compared to the same period last year. Our EBITDAR margin of 44.4%, to our knowledge, is the highest in the world.

In the interest to enhance our corporate transparency and to address requests from the investment community, we decided to reclassify our financial statement to facilitate a like for like comparison with other airlines. Revenue will now consist of two components; ticket sales and ancillary income. Fuel surcharge is now incorporated into ticket sales – previously fuel surcharge was netted off against fuel expense. We now refer yield as Rev / ASK – previously we classify yield as Rev / RPK. This will impact our operational performance comparisons (yield, Cost / ASK) and profit margin figures, but we believe this is necessary to ensure that we are in line with the industry practices.

Our fifth year of operations was highlighted by improvements in various fronts. From the regulatory side, we have seen significant progress to liberalise the industry into a more commercial friendly environment. Airport authorities are increasingly receptive to the low cost carrier (LCC) industry and are investing millions in order to be part of the LCC revolution. From the consumer side, it is evident that demand for travel is robust. According to IATA, world air traffic grew by 5.9% in 2006 and Asia is the second biggest contributor to the growth behind the Middle East. IATA predicts that world traffic will continue to grow in 2007 and Asia will continue to outpace the global average.

We believe that the issue pertaining to the differed taxation has now come to a positive end. We have sought clarification regarding the Ministry of Finance's stand on tax incentives and we were informed that our treatment of the investment allowance granted to the Company is acceptable. This clearly reflects the underlying intention of the Government to encourage (and not penalize) companies that have invested heavily in approved capital intensive ventures and promote section of the economy. Hence, the Company decided to recognize the investment allowance as deferred tax assets to better reflect its financial position.

We wish to thank the Government for its continued support and its vision and passion in making Malaysia as the best places to do business in the region.

Thai AirAsia continues to enjoy strong growth as depicted by passenger volume growth of 52% for the quarter with 80% load factor. Average fare was 13% lower than the same period last year with relatively flat unit cost. Net profit for the quarter was THB33 million (RM2 million). This performance was achieved despite going through the military coup de tat and the bombings in Bangkok. The forced move to Suvarnabhumi airport had negatively impacted our operations. We are working together with the Airport authorities of Thailand to mitigate the problem. Either we have to stay in Suvarnabhumi or move back to Don Muang, we will find ways to solve the issues – as we have done so before when we were told to move to KLIA from Subang airport. In a way, challenges are what makes us strong and become a better company. We are confident in the strength of our Thai operations and it will contribute positively to the Group.

Indonesia AirAsia has performed satisfactorily as highlighted by passenger volume growth of 80% for the quarter with 83% load factor. Average fare was 5% lower than the same period last year but we managed to increase yields by 8%. Cost has risen by 13% as we are actively promoting heavily to fill up the aircraft as full as possible and capture market share. Net profit for the quarter was IDR2 billion (RM0.8 million) as opposed to a IDR11 billion (RM5.1 million) loss in the same period last year. Indonesia is scheduled to receive two aircraft in the second half of the year and the additional capacity will allow us to enjoy higher growth going forward.

Ancillary income has grown by 87% to RM28 million and the average spend per passenger has increased by 11% compared to the same period last year. Ancillary income is the biggest growth segment of our business and we believe it will continue to outpace the growth of passenger numbers in the medium term. We are close to finalising new initiatives and we are formulating new promotional efforts to convert more guests to take-up our growing list of ancillary products. We belief this should give a further boost to ancillary income in this financial year.

We have now expanded our aircraft purchase order to 200 Airbus A320 (comprising 150 firm and 50 options). Airbus has recently increased its production capacity for the Airbus A320 aircraft and this provided the Company with an opportunity to secure additional delivery slots in the future. The Group added four new aircraft during the quarter bringing the total to 49 aircraft; all four aircraft were deployed in Malaysia to facilitate the domestic rationalisation and introduction of new routes. As we get more Airbus A320 inducted into our fleet, it will help with our efforts to reduce cost and enhance reliability. The aircraft is a superior product which enables us to boast a better product differentiation against our competitors. The Airbus A320 is remarkably popular among our guest, and we leverage this popularity with our efforts to better yield manage our capacity.

The outlook for the third quarter is looking better relative to the same period last year; forward bookings suggest that yields will be higher and load factor will be slightly lower. Our third quarter earnings will be positively impacted by the lower fuel prices, the stronger Malaysian Ringgit vs. US Dollar and the delivery of three Airbus A320 aircraft in the period will help keep operating costs low. The performance of the first half is better than management's expectations and assuming that the current demand trend continues, the Group will achieve robust profit growth for the financial year 2007."

Summary of Second Quarter 2007 unaudited Financial Results

Quarter Ended: 31 December RM'000	Q2 2007	Q2 2006 (restated)	Δ (%) yoy
Ticket Sales	372,203	231,937	60%
Ancillary Income	28,404	15,174	87%
Revenue	**400,607**	**247,111**	**62%**
EBITDAR	178,068	82,674	115%
EBIT	109,650	46,316	137%
Pretax profit	93,262	51,880	80%
Net Income (IAS 12)	150,123	51,282	193%
EBITDAR Margin	**44%**	**33%**	**9 ppt**
Pretax profit Margin	**23%**	**21%**	**2 ppt**
Net Income Margin	**37%**	**21%**	**16 ppt**

Summary of Second Quarter 2007 Operating Results

Quarter Ended: 31 December	Q2 2007	Q2 2006 (restated)	Δ (%) yoy
Passengers Carried	2,273,405	1,343,795	69%
ASK (million)	3060	2009	52%
RPK (million)	2505	1532	64%
Average Fare (RM)	164	173	-5%
Rev / ASK (US cents)	3.62	3.27	11%
Cost / ASK (US cents)	2.66	2.69	-1%
Cost / ASK-ex fuel (US cents)	1.55	1.38	12%
Load Factor	82%	76%	6 ppt
Aircraft (average)	27.0	19.7	37%
Aircraft (end of period)	32	23	39%

Second Quarter Review:

Total revenue for the quarter rose by 62% to RM401 million compared to RM247 million for the same period last year. Ticket sales grew by 60% whereas ancillary income grew by 87% for the period. The increase was driven by 69% growth in passengers carried, a 5% decline in average fares and higher contribution from ancillary income. The underlying demand was robust, as depicted by the 6 percentage point improvement in load factor despite adding 52% more capacity. The net impact of higher load factor, 10% shorter stage length and lower average fares delivered 11% higher yields than the same period last year. Profit margins have improved with our EBITDAR margins at a record 44% as compared to 33% last year. Pre-tax profit was 80% higher to RM93 million with 23.3% margins and our net income was 193% higher to RM150 million with a margin of 37.5%.

The quarter's key features are outlined below:-

Domestic Rationalisation – market forces rule of the day

This quarter's performance is an indicative assessment to the values unlocked by the domestic rationalisation. We competed on equal commercial footing against our competitor, and we managed to improve load factor to record levels, enhance yields and consistently capture market share. Our domestic market share for calendar year 2006 was 46%, we believe we can increase it to at least 55% in 2007.

Unit Cost – continuous cost improvement

Our unit cost has improved by 1% to US2.66 cents / ASK as compared to the same period last year despite fuel prices rising by 7%. The addition of four Airbus A320 aircraft in the quarter has contributed positively to our cost structure due to its superior fuel consumption and lower maintenance requirements. Furthermore, the low cost terminal is providing us with significant cost savings.

Thai-AirAsia – strong performances despite facing tough challenges

Thai AirAsia posted a net profit of THB33 million (RM1.8 million). It was a challenging period for Thailand having to go through a military coup de tat and a forced move to Suvarnabhumi airport which was clearly not ready for operations. The underlying demand remains positive as we carried 52% more passengers over the period with a steady load factor of 80%. But this performance was attributable to lower fares, average fares declined by 13% for the period. We managed to contain cost and produce a respectable EBITDAR margin of 13%.

Indonesia-AirAsia – rapidly expanding its presence

Indonesia AirAsia posted a net profit of IDR2 billion (RM0.4 million). Demand for our services in Indonesia is robust; we carried 80% more passengers during the period with 83% load factors. Average fare was 5% lower as we are geared to capture higher loads and market share. The strategy was successful as we managed to increase yields by 8%. Unit cost was 13% higher compared to last year, we are spending substantially more on promotional campaigns in order to capture strong passenger growth. EBITDAR margins expanded to 14% in the quarter as compared to 3% for the same period last year.

Airbus A320 – purchase order expanded to 200 aircraft

We have expanded our purchase order for the Airbus A320 aircraft to 200 units (150 firm + 50 options). Airbus has recently increased its production capacity for the aircraft and this provided AirAsia with an opportunity to secure additional delivery slots in the future. This extension of order secures AirAsia's fleet requirement up till September 2013 and lock-in the benefits of the original agreement.

Summary of First Half 2007 unaudited Financial Results

Quarter Ended: 31 December RM '000	1H 2007	1H 2006 (restated)	1H-07 vs 1H-06
Ticket Sales	641,489	413,192	55%
Ancillary Income	52,295	29,629	76%
Revenue	**693,785**	**442,821**	**57%**
EBITDAR	247,318	121,521	104%
EBIT	133,381	58,299	129%
Pretax profit	105,034	60,783	73%
Net Income (IAS 12)	226,558	60,066	277%
EBITDAR Margin	36%	27%	8 ppt
Pretax profit Margin	15%	14%	1 ppt
Net Income Margin	33%	14%	

Summary of First Half 2007 Operating Results

Quarter Ended: 31 December	1H 2007	1H 2006 (restated)	1H-07: 1H-06
Passengers Carried	4,218,026	2,536,487	66%
ASK (million)	5,774	3,962	46%
RPK (million)	4,657	2,890	61%
Average Fare (RM)	151	163	-7%
Rev / ASK (US cents)	3.30	2.97	11%
Cost / ASK (US cents)	2.67	2.58	3%
Cost / ASK-ex fuel (US cents)	1.23	1.28	-4%
Load Factor	81%	73%	8 ppt
Aircraft (average)	25.9	19.2	35%

First Half Review:
The aggregate revenue for the first half rose by 57% to RM694 million as compared to RM443 million for the same period last year. Ticket sales grew by 55% whereas ancillary income grew by 76% over the period. Passenger volumes grew by 66% and load factor increased by 8 percentage point to 81%. Average fares was 7% lower for the period but yields improved by 11% due to the higher load factor, lower stage length and better contribution from ancillary income. Cost / ASK is up 3% year to date and cost excluding fuel has improved by 4%. Profitability has improved with the increased scale, EBITDAR has doubled to RM247 million and pretax profit grew by 73% to RM105 million.

Financial Review and Outlook

Fleet Growth
The Group will take delivery of three Airbus A320 aircraft in its fleet by the end of the third quarter. All three Airbus A320 aircraft will be based in Malaysia and two Boeing 737-300 will be redeployed from Malaysia to Thailand and Indonesia – Thailand and Indonesia will each receive one Boeing 737-300. The aircraft will be used to launch new routes and add frequency on existing routes.

Route Network – connecting the dots all over Asia
We have launched 15 new routes for the financial year and we have earmarked a few more routes to be launched in this financial year. The response to our latest route offerings has been very promising and our Bangkok to Langkawi and Kota Kinabalu to Macau has exceeded our initial expectations.

Costs – more cost improvements opportunities on the cards
Our cost structure will improve as more Airbus A320 aircraft is deployed into our fleet. These aircraft have a better cost economics and productivity as compared to our Boeing 737-300. We are enjoying the lower fuel prices and have hedged about 55% of our requirements for the second half of the financial year. These are options at $62.25 and we are looking for opportunities to hedge further into the future.

Currency hedging – taking the US Dollar exposure risk out of the system
We have taken advantage of the recent strengthening of the Malaysian Ringgit vs US Dollar and hedged 15 Airbus A320 aircraft at a fixed forward rate. We see value in currency hedging to take risk out of the business and protect ourselves in the event of adverse currency movements. Currently, we stand to save more than RM200 million on the financing of aircraft. We will look for other opportunities to hedge our other US Dollar denominated / linked liabilities (fuel, spare parts, interest on loans, etc), but only if attractive pricing opportunities are attainable.

Associates – positive contribution to the Group

Thailand's operations are generating consistent profits given its adequate scale and established routes. We do not foresee the January bombings in Bangkok to post a material impact on the business and Thailand will contribute positively to the Group. The third quarter will be a tough quarter for Indonesia due to the recent floods in Jakarta and we have seen many consequential delays and cancellation of flights. The recent Adam Air crash over the coast of Eastern Indonesia has exerted negative impact to the industry. The people's confidence and sentiment for travel has been subdued due to the incident. We believe this will eventually work to our advantage because of our great safety record and our compliance to the highest international safety standards. Safety is the single most important aspect of our operations and it is a condition that we will never compromise.

Outlook

After reviewing the first half performance, the management is upgrading its guidance for the full financial year 2007. We now expect traffic to grow by 50% to 8.5 million passengers as oppose to our initial guidance of 40% growth of 8 million passengers. Our associates will carry between them 5.5-6.5 million passengers. Our load factors for the second half of the financial year will likely be slightly lower than those achieved in the first half. Yields are expected to increase by 5-10% for the full year as oppose to our initial guidance of flat yields. Our Cost / ASK is expected to improve by between 1-3% for the full year. Barring any unforeseen circumstances, the Directors remain positive with the Group's prospects and expect pre-tax profits to achieve double-digit growth for the financial year ending 30 June 2007.

Management Guidance for FY2007	OLD	NEW
Passenger carried (million)	8.0	8.5
Passenger carried by Associates (million)	6 to 7	5.5 to 6.5
Rev / ASK (US cents)	Flat	Increase 5% - 10%
Cost / ASK (US cents)	no guidance	Reduce 1% - 3%
Profit before tax (RM million)	positive growth	double-digit growth

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