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## **1H15 – A GOOD START WITH POSITIVE TREND MOVING INTO SECOND HALF 2015**

**2Q15:**

**40% Y-O-Y INCREASE IN OPERATING PROFIT  
75% Y-O-Y INCREASE IN NET OPERATING PROFIT**

### **2Q15 MALAYSIA**

- Revenue up 1% y-o-y
- Operating Profit up 40% y-o-y
- Net Operating Profit up 75% y-o-y
  
- CASK down 11% y-o-y
- EBIT Margin of 18% (up 4ppt)
- EBITDAR Margin of 36% (up 5ppt)
  
- Passengers Carried up 7% y-o-y
- Capacity up 7% y-o-y
  
- Ancillary Income Per Pax  
up 2% to RM46

**LOW COST TERMINAL SEPANG, 20 August 2015** – AirAsia Berhad (“AirAsia” or “the Company”) today reported its results for the quarter ended 30 June 2015 (“2Q15”).

The Company posted quarterly revenue of RM1.32 billion, up 1% from the revenue reported in the same quarter last year. The strong revenue recorded was on the back of the 7% year-on-year (“y-o-y”) growth in the number of passengers carried at 5.95 million which is in-line with capacity growth, allowing the Company to record 80% load factor. This was despite the challenges faced following the absence of marketing activities in the first quarter due to the QZ 8501 incident which affected the forward sales in 2Q15 and removal of fuel surcharge.

With a much leaner cost structure and 158% increase in the share of results from associate as Thai AirAsia (“TAA”) was able to contribute back positively this quarter, AirAsia Berhad managed to record substantial increase in operating profit at RM243.47 million (up 40% y-o-y) and net operating profit of RM123.96 million (up 75% y-o-y). This led to a 5 percentage points (“ppts”) increase in EBIT margin which stood at 18%.

Following the unrealised foreign exchange loss on borrowings of RM43.59 million and one-off costs related to the sale of leaseback of aircraft, the Company recorded a profit after tax of RM243.03 million. The unrealised foreign exchange loss on borrowings is due to the adverse movement in the exchange rate on USD denominated borrowings. The foreign exchange loss is merely an accounting valuation which was the result of the changes in the closing forex y-o-y (RM:USD – 3.6717 as at 30 June 2015 as compared to RM:USD – 3.2298 as at 30 June 2014).

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During the quarter under review, AirAsia Berhad posted Revenue per Available Seat Kilometre ("RASK") of 14.56 sen (down 5% y-o-y). This was expected following the slight impact on the absence of marketing on 2Q15 forward sales and the removal of fuel surcharge starting from 26 January 2015 as the Company decided to pass on the benefit of lower fuel price to the consumers. This led to a slight drop in average fare at RM141 but ancillary income per pax however saw an increase of 2% y-o-y to RM46. If excluding fuel surcharge, RASK for 2Q15 would have been up 6% y-o-y.

AirAsia Berhad CEO, Aireen Omar said, "The decrease in RASK was anticipated following the impact of non-marketing activities in the first quarter on the forward sales in 2Q15 as well as the removal of fuel surcharge which resulted in lower average fare. However ancillary revenue as a whole has increased by 9% y-o-y with the highest contributor coming from baggage (up 2% y-o-y), followed by cargo (up 3% y-o-y) and insurance (up 45% y-o-y). Highest growth is seen in online advertising (up 733% y-o-y) and aircraft advertising (up 149% y-o-y). These led to the 2% increase in ancillary income per pax to RM46 this quarter."

The Company's cost, measured in terms of Cost per Available Seat Kilometre ("CASK") was reported at 11.88 sen, down 11% y-o-y due to lower aircraft fuel expenses (down 13% y-o-y) on the back of 25% lower average fuel price at US\$85 per barrel.

Aireen added, "The reduction in our operating expenses along with the increased contribution from associates were able to widen our RASK-CASK spread by a good 31% y-o-y allowing us to book good profitability this quarter – 40% increase in operating profit and 75% increase in net operating profit. This is why we continue to emphasise the importance of low cost in the Company, without ever compromising on safety."

On balance sheet, Aireen highlighted, "The strategies we have set out previously to increase our cash and to reduce borrowings proved to be working. At the end of 2Q15, the Company's total debt has reduced by 6% from the previous quarter and cash on the other hand has increased by 15% to RM1.84 billion following the sale and leaseback exercises on the ten aircraft in 2Q15 on top of growing cash from operations itself. This resulted in 0.26 points or 11% drop in the Company's net gearing ratio to 2.21 times at the end of 2Q15."

Thai AirAsia ("TAA") posted revenue of THB6.90 billion in 2Q15, a substantial increase of 26% from the same period last year. Operating profit increased by 220% y-o-y to THB514.42 million from the operating loss recorded last year. This led the associate to post a 218% increase in profit after tax to THB374.19 million. AirAsia Group CEO, Tony Fernandes commenting on TAA's performance, "TAA continued to post good numbers with triple digit growth in operating profit and profit after tax and contribute back positively to AirAsia Berhad. During the quarter they recorded 26% y-o-y increase in passenger numbers with 2ppt increase in load factor at 80%. Together with a slight increase in average fare, TAA managed to record a 5% increase in RASK at THB1.56. CASK reduced further by 10% y-o-y to THB1.45, due to 9% drop in fuel expenses."

Indonesia AirAsia ("IAA") recorded a revenue of IDR1,266.83 billion in 2Q15, down 16% y-o-y which is in-line with the 12% decrease in capacity and 18% decrease in the number of passengers carried. This was despite the average fare stayed flat y-o-y at IDR611,094 and ancillary income per pax increased by 16% to IDR168,858. Although overall cost reduced by 7%, in 2Q15, IAA recorded an operating loss of IDR395.21 million. Tony highlighted, "In 2Q15, the impact of the absence of marketing due to QZ 8501 in 1Q15 was still evident on the forward sales in 2Q15 which was expected. The introduction of floor price ruling on domestic flight was also a challenge hence that is why IAA will move its focus to international market where we are number one in terms of market share." IAA's RASK declined 18% y-o-y to IDR423.67 and its CASK was reported at IDR555.85, down 8% y-o-y driven by 24% lower aircraft fuel expenses, 7% decrease in user charges and 3% decrease in staff cost.

Philippines' AirAsia ("PAA") posted 6% increase in revenue at PHP2.32 billion in-line with the increase in passenger numbers with just 1% increase in capacity. This led to a 3ppts increase in load factor and a good 16% increase in RASK at PHP2.02 which was also contributed by ancillary which saw a 7% increase in ancillary income per pax at PHP448. CASK reduced substantially by 14% to PHP2.37 on the back of 38% decrease in fuel expenses, 24% decrease in staff cost and 28% decrease in aircraft



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operating lease expenses. Operating loss therefore reduced substantially by 68% to PHP403.65 million. Tony said, "This is another quarter of good turnaround progress for PAA. All the operating numbers are showing good development and the financials are moving on the right track towards profitability by end of the year. I am happy to see that the cost reduction exercise is doing very well and this will continue as we planned for more retirement of inefficient aircraft that was acquired together with the acquisition of Zest Air before."

On the Group's youngest affiliate, AirAsia India ("AAI"), Tony said, "We are small but we are a popular airline in India and we are growing fast. Loads are consistently high and in 2Q15 AAI recorded a load factor of 83% with 0.30 million passengers carried." During the quarter, AAI posted revenue of INR1.15 billion and operating loss of INR413.02 million.

## Outlook

Commenting on the Company's outlook, Tony said, "The Malaysian operations will stand to benefit a lot from a better operating environment in the second half of 2015. Starting middle of August, there have been substantial of capacity reduction and route cancellations by other players on the routes that AirAsia operates in. We are also seeing positive trend in terms of fare which shows that the market is indeed becoming more rational. Demand from Chinese travelers has also recovered starting from May 2015 onwards and with fuel trending favourably for airlines, the stage is set for a good year end for the Company."

Adding on the outlook of cost environment, he said, "As seen in 2Q15, we are beneficiary of the low fuel price. As of now, the Group has hedged 50% of its fuel requirement for 2015 at an average cost of USD88 per barrel on jet kero and remains unhedged for 2016."

Tony added, "As mentioned before, strategies are in place and are being executed to drive our ancillary revenue up further. In 2Q15, we have started to introduce dynamic pricing which means offering different prices on existing ancillary products based on seasonality, routes and special promotions. We also launched our own fast track immigration clearance service for Premium Flex guests at klia2. On top of these, guests are now able to book their baggage, meals, 'Pick A Seat' and insurance through our AirAsia mobile app. There are more things to come in the second half of the year with empty seat options (extra seat), e-gift vouchers for guests to purchase, baggage and annual travel insurance, on-ground travel packages for a complete travel experience and more. This week we also just launched a brand new in-flight menu concept themed 'Santan' as part of AirAsia's move towards being a high value carrier and providing our guests with an enhanced gourmet experience while flying. Duty free is also progressing well with increased pre-book items via in-path booking and on the recently launch of its new website in 2Q15 ([www.bigdutyfree.com](http://www.bigdutyfree.com))."

Updating on capacity management for the Group and the Company's focus on building cash, Tony said, "As promised, in 2Q15 we have seen our cash grew by 15% quarter-on-quarter ("q-o-q") to RM1.84 billion. The Company's total debt also reduced by 6% q-o-q which led to a 0.26 points decrease in net gearing to 2.21 times. This was on the back of the ten sale and leaseback ("SLB") transactions that were executed during the quarter which allowed us to record cash upfront of USD44 million. To date, we have done thirteen SLBs, of which three were executed in the third quarter of the year, allowing the Company to record cash upfront of USD59 million in total so far."

On the associates' operations, Tony highlighted, "We will continue to see strong growth and numbers coming from TAA which will be taking the most number of aircraft among all AirAsia operations in the next couple of years. Increased China traffic in July and August during summer holidays will also boost travel demand. IAA will be removing four aircraft from its current total fleet of 29 aircraft starting August which will allow them to reduce cost significantly, operate at a more optimal capacity and improve aircraft utilisation. They will close a number of non-profitable routes and focus more on international market where we are number one, including to popular southern China destinations. The associate will also increase the number of agents and introduce more payment options to improve ease of purchase for guests. Load is now trending upwards to pre-QZ 8501 levels on sales campaigns and brand recovery efforts. PAA's re-fleeting plan is on track where older aircraft that were acquired during

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the acquisition of Zest Air will be sold or targeted to be returned to third party lessors. This will help the associate to continue reduce its cost further. Network optimisation is in place and the number of agents will also be increased in the Philippines. AAI on the other hand will continue with its growth plan, adding in more aircraft to be based at its current two hubs in Bengaluru and Delhi. The new associate will work towards keeping its cost under check, with increased focus on ancillary revenue.”

Updating on the progress of capital raising in IAA and PAA, he said, “For IAA, the Management has presented a plan to the Transport Ministry there to sell perpetual bonds to take their financial position out of negative equity. However IAA was advised to issue non-voting Redeemable and Convertible Preference Shares (“RCPS”) instead. Shareholder’s resolution is being sought and application to Indonesia Investment Coordination Board will be submitted thereafter. AirAsia Berhad will subscribe to the RCPS by converting its receivables. IAA was given until September 2015 to execute the plan which is on track with a team consisting financial and legal advisers being formed to lead this exercise. Parallel to this, discussion with existing and potentially new shareholders regarding injection of capital is on-going with indicative interest of USD40 million. Work has been initiated on issuing USD150 million new convertible bonds (“CB”) which will be executed after the perpetual bonds exercise. We are in talks with a potential new investor and the due diligence exercise will kick-off soon. An investment bank has also been appointed.”

Tony added, “PAA is a bit more advance in terms of the capital raising progress. The plan for USD50 million equity injection has been tabled to the existing shareholders with positive response. On July 10<sup>th</sup>, the PAA board has approved to increase the authorised capital stock of the Company to PHP5 billion (USD110 million) in preparation for equity injection. The PAA board also agreed to the broad parameters on issuance of new CB for which the term sheet is currently being drafted. Discussion have already commenced with prominent Filipino investors on a potential investment in Philippines AirAsia.”

On the consolidation of accounts for the whole Group, the Board has attempted to seek approvals to consolidate the Group’s accounts, however regulatory constraints prevents the Company from presenting the figures based on two different accounting policies, i.e. to consolidate and to equity account.

– END –

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