



AIRASIA GROUP BERHAD
(Company No. 1244493-V)

SECOND QUARTER REPORT ENDED 30 JUNE 2018

ANNOUNCEMENT

The Board of Directors of AirAsia Group Berhad (“AirAsia” or “the Company”) is pleased to announce the following unaudited consolidated results of AirAsia Group and its subsidiaries (collectively known as “the Group”) for the second quarter ended 30 June 2018.

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

| | Note | INDIVIDUAL QUARTER | | CUMULATIVE | |
|--|------|---------------------|---------------------|---------------------|---------------------|
| | | Quarter ended | Quarter ended | Period ended | Period ended |
| | | 30/6/2018 RM'000 | 30/6/2017 RM'000 | 30/6/2018 RM'000 | 30/6/2017 RM'000 |
| Revenue | 9 | 2,623,628 | 2,378,348 | 5,178,806 | 4,604,905 |
| Operating expenses: | | | | | |
| - Staff costs | | (383,588) | (391,036) | (763,151) | (754,554) |
| - Depreciation of property, plant and equipment | | (127,882) | (219,636) | (313,325) | (424,448) |
| - Aircraft fuel expenses | | (914,236) | (711,737) | (1,766,693) | (1,392,536) |
| - Maintenance and overhaul | | (174,855) | (84,673) | (345,445) | (198,871) |
| - User charges and other related expenses | | (361,479) | (324,815) | (719,050) | (656,349) |
| - Aircraft operating lease expenses | | (220,376) | (148,727) | (420,598) | (297,394) |
| - Other operating expenses | | (137,206) | (107,035) | (290,175) | (211,440) |
| Other income | 10 | 134,445 | 125,851 | 623,041 | 238,255 |
| Operating profit | | 438,451 | 516,540 | 1,183,410 | 907,568 |
| Finance income | 11 | 6,645 | 12,780 | 14,131 | 31,821 |
| Finance costs | 11 | (120,247) | (133,917) | (232,491) | (276,830) |
| Net operating profit | | 324,849 | 395,403 | 965,050 | 662,559 |
| Share of results of associates | 25 | (49,482) | (998) | 6,020 | 33,361 |
| Share of results of joint ventures | | 3,604 | 5,716 | 3,604 | 10,479 |
| Foreign exchange gains | 11 | 10,735 | 55,843 | 16,905 | 112,709 |
| Fair value losses on derivatives | | (14,698) | (69,156) | (57,389) | (132,579) |
| Remeasurement gain on loss of control in a subsidiary | 12 | - | - | 534,712 | - |
| Remeasurement gain on consolidation | 13 | - | - | - | 214,350 |
| Negative goodwill on consolidation | | - | - | - | 127,324 |
| Profit before taxation | | 275,008 | 386,808 | 1,468,902 | 1,028,203 |
| Tax expense | 28 | (6,911) | 71,133 | (13,090) | 31,162 |
| Deferred taxation | 28 | 47,185 | (318,061) | (50,634) | (335,169) |
| Net profit for the financial period | | 315,282 | 139,880 | 1,405,178 | 724,196 |
| Attributable to: | | | | | |
| - Owners of the company | | 361,814 | 146,519 | 1,503,353 | 762,397 |
| - Non-controlling interests | | (46,532) | (6,639) | (98,175) | (38,201) |
| | | 315,282 | 139,880 | 1,405,178 | 724,196 |
| Earnings per share attributable to owners of the Company (sen) | | | | | |
| - Basic | | 10.8 | 4.4 | 45.0 | 22.8 |
| - Diluted | | 10.8 | 4.4 | 45.0 | 22.8 |



AIRASIA GROUP BERHAD
(Company No. 1244493-V)

SECOND QUARTER REPORT ENDED 30 JUNE 2018

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | INDIVIDUAL QUARTER | | CUMULATIVE | |
|--|----------------------|----------------------|----------------------|----------------------|
| | Quarter ended | Quarter ended | Period ended | Period ended |
| | 30/06/2018 RM'000 | 30/06/2017 RM'000 | 30/06/2018 RM'000 | 30/06/2017 RM'000 |
| Net profit for the financial period | 315,282 | 139,880 | 1,405,178 | 724,196 |
| Other comprehensive income/(loss) | | | | |
| Available-for-sale financial assets | (15,422) | 20,777 | 8,480 | 20,777 |
| Cash flow hedges | 13,085 | (127,078) | 11,892 | (127,078) |
| Foreign currency translation differences | (26,767) | 91,964 | 88,222 | 91,964 |
| Total comprehensive income for the period | 286,178 | 125,543 | 1,513,772 | 709,859 |
| Total comprehensive income/(loss) attributable to: | | | | |
| Owners of the Company | 332,710 | 132,182 | 1,611,947 | 748,060 |
| Non-controlling interests | (46,532) | (6,639) | (98,175) | (38,201) |
| | 286,178 | 125,543 | 1,513,772 | 709,859 |

Note:

The comparative figures in the consolidated statement of comprehensive income are presented as if the reorganization had been effected from the beginning of the earliest period presented. Please refer to Note 1 Basis of preparation.

The condensed consolidated income statement and consolidated statement of comprehensive income should be read in conjunction with the audited financial statements for the financial year ended 31 December 2017 and the accompanying explanatory notes attached to the interim financial statements.



AIRASIA GROUP BERHAD
(Company No. 1244493-V)

SECOND QUARTER REPORT ENDED 30 JUNE 2018

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | | AS AT | AS AT |
|---|------|------------------|--------------------|
| | | 30/06/2018 | 31/12/2017 |
| | Note | RM'000 | RM'000 |
| NON CURRENT ASSETS | | | |
| Property, plant and equipment | 16 | 4,756,747 | 12,303,522 |
| Investment in associates | 24 | 630,471 | 548,558 |
| Investment in a jointly controlled entity | | 600,438 | 5,596 |
| Investment securities | 2(b) | 291,834 | - |
| Available-for-sale financial assets | | - | 301,518 |
| Intangible assets | | 603,697 | 609,329 |
| Deferred tax assets | 28 | 440,390 | 486,880 |
| Receivables and prepayments | 30 | 2,584,210 | 2,301,531 |
| Deposits on aircraft purchase | | 691,383 | 412,272 |
| Derivative financial instruments | 32 | 349,842 | 382,177 |
| | | 10,949,012 | 17,351,383 |
| CURRENT ASSETS | | | |
| Inventories | | 91,469 | 68,234 |
| Receivables and prepayments | 30 | 1,480,514 | 1,482,291 |
| Deposits on aircraft purchase | | 260,770 | 503,914 |
| Amounts due from joint ventures | | 5,370 | 4,893 |
| Amounts due from associates | 31 | 214,015 | 147,617 |
| Amounts due from related parties | | 7,981 | 7,875 |
| Deposits, bank and cash balances | | 1,933,506 | 1,882,195 |
| Derivative financial instruments | 32 | 100,404 | 205,380 |
| Tax recoverable | | 17,286 | 20,296 |
| Assets classified as held for sale | 33 | 7,053,894 | - |
| | | 11,165,209 | 4,322,695 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 34 | 1,891,031 | 2,148,682 |
| Aircraft maintenance provisions | | 180,215 | 178,569 |
| Sales in advance | | 956,468 | 938,342 |
| Derivative financial instruments | 32 | 32,130 | 74,852 |
| Amounts due to an associates | | 23,827 | 59,499 |
| Amounts due to a related parties | | 101,363 | 94,019 |
| Amounts due to joint ventures | | 11,204 | - |
| Borrowings | 35 | 816,011 | 1,821,847 |
| Provision of taxation | | 6,425 | 18,033 |
| Liabilities directly associated with assets held for sale | 33 | 4,988,332 | - |
| | | 9,007,006 | 5,333,843 |
| NET CURRENT ASSETS/(LIABILITIES) | | | |
| | | 2,158,203 | (1,011,148) |
| NON CURRENT LIABILITIES | | | |
| Trade and other payables | 34 | 1,339,285 | 1,239,025 |
| Aircraft maintenance provisions | | 866,833 | 559,068 |
| Amounts due to an associates | | 94,442 | 86,292 |
| Amounts due to a related parties | | 10,887 | 10,939 |
| Borrowings | 35 | 2,365,515 | 7,486,787 |
| Deferred tax liabilities | | 105,575 | 104,954 |
| Derivative financial instruments | 32 | 38,576 | 70,883 |
| Provision for retirement benefits | | 72,770 | 72,207 |
| | | 4,893,883 | 9,630,155 |
| | | 8,213,332 | 6,710,080 |



AIRASIA GROUP BERHAD
(Company No. 1244493-V)

SECOND QUARTER REPORT ENDED 30 JUNE 2018

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | | AS AT | AS AT |
|--|-------------|------------------|------------------|
| | | 30/6/2018 | 31/12/2017 |
| | | RM'000 | RM'000 |
| | Note | | |
| CAPITAL AND RESERVES | 7 | | |
| Share capital | | 8,023,267 | - * |
| Capital reserve | | - | 2,515,438 |
| Treasury shares | | - | (160) |
| Foreign exchange reserve | | 283,581 | 196,050 |
| Merger deficit | | (5,507,594) | - |
| Retained earnings | | 6,896,831 | 5,404,393 |
| Other Reserves | | (46,545) | (67,608) |
| | | 9,649,540 | 8,048,113 |
| Non-controlling interests | | (1,436,208) | (1,338,033) |
| Total equity | | 8,213,332 | 6,710,080 |
| Net assets per share attributable to ordinary equity holders of the Company (RM) | | 2.46 | 2.01 |

Note:

The comparative figures in the consolidated statement of comprehensive income are presented as if the reorganization had been effected from the beginning of the earliest period presented. Please refer to Note 1 Basis of preparation.

*Share capital of RM2

The condensed consolidated statement of financial position should be read in conjunction with the audited financial statements for the financial year ended 31 December 2017 and the accompanying explanatory notes attached to the interim financial statements.



AIRASIA GROUP BERHAD
(Company No. 1244493-V)

SECOND QUARTER REPORT ENDED 30 JUNE 2018

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

| | Period ended 30/06/2018 RM'000 | Period ended 30/06/2017 RM'000 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Profit before taxation | 1,468,902 | 1,028,203 |
| Adjustments: | | |
| Property, plant and equipment | | |
| - Depreciation | 313,325 | 424,448 |
| - Gain on disposals | (63,725) | (19) |
| Provision/(writeback) for retirement benefits | 563 | (682) |
| Gain on disposal of interest in a subsidiary | (350,317) | - |
| Remeasurement gain on loss of control in a subsidiary | (534,712) | - |
| Remeasurement gain on consolidation | - | (214,350) |
| Negative goodwill on consolidation | - | (127,324) |
| Fair value losses on derivatives | 57,389 | 132,579 |
| Share of results of joint ventures | (3,604) | (10,479) |
| Share of results of associates | (6,020) | (33,361) |
| Net unrealised foreign exchange gain | (16,905) | (112,709) |
| Dividend income from: | | |
| - investment securities | (3,078) | - |
| Interest expense | 232,491 | 276,830 |
| Interest income | (14,131) | (31,821) |
| | 1,080,178 | 1,331,315 |
| Changes in working capital | | |
| Inventories | (23,235) | (20,793) |
| Receivables and prepayments | (72,577) | (141,546) |
| Trade and other payables | 450,025 | 82,127 |
| Intercompany balances | (76,007) | (128,330) |
| Cash generated from operations | 1,358,384 | 1,122,773 |
| Interest paid | (185,330) | (181,008) |
| Interest received | 4,828 | 22,054 |
| Tax paid | - | (5,827) |
| Net cash generated from operating activities | 1,177,882 | 957,992 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Property, plant and equipment | | |
| - Additions | (1,869,666) | (692,660) |
| - Proceeds from disposal | 1,516,568 | 35 |
| Proceeds from disposal of interest in a subsidiary | 358,774 | - |
| Additional subscription of shares in associates | (175,246) | (38,340) |
| Dividend received from: | | |
| - investment securities | 3,078 | - |
| - associates | 99,353 | - |
| Acquisition of subsidiaries, net of cash | - | 123,937 |
| Net cash used in investing activities | (67,139) | (607,028) |
| CASH FLOWS FROM FINANCING FACILITIES | | |
| Proceeds from issuance of shares | 395 | 1,006,200 |
| Dividends paid | - | (401,025) |
| Proceeds from borrowings | 985,236 | 236,438 |
| Repayment of borrowings | (2,037,978) | (937,537) |
| Net cash generated from financing activities | (1,052,347) | (95,924) |
| NET INCREASE FOR THE FINANCIAL PERIOD | 58,396 | 255,040 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL PERIOD | 1,882,195 | 1,741,573 |
| CURRENCY TRANSLATION DIFFERENCES | (7,085) | 70,271 |
| CASH AND CASH EQUIVALENTS AT END OF FINANCIAL PERIOD* | 1,933,506 | 2,066,884 |

* Included within the balance at end of the financial period is an amount RM14.5 million restricted cash pledged as securities for banking facilities



AIRASIA GROUP BERHAD
(Company No. 1244493-V)
SECOND QUARTER REPORT ENDED 30 JUNE 2018

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | | Attributable to owners of the Company | | | | | | | | | | | Non-controlling interests RM'000 | Total equity RM'000 | |
|--|------|---------------------------------------|----------------------|------------------------|-----------------------|----------------------|---------------------------------|--------------------------------|-----------------------------------|---------------------------|------------------------|--------------------------|-------------------------------------|------------------------|------------------|
| | Note | Number of shares '000 | Share Capital RM'000 | Capital Reserve RM'000 | Merger Deficit RM'000 | Share premium RM'000 | Foreign exchange reserve RM'000 | Cash flow hedge reserve RM'000 | Available-for-sale reserve RM'000 | Fair value reserve RM'000 | Treasury Shares RM'000 | Retained earnings RM'000 | | | Total RM'000 |
| At 1 January 2018 | | * | * | 2,515,438 | - | - | 195,359 | (236,270) | 169,353 | - | (160) | 5,404,393 | 8,048,113 | (1,338,033) | 6,710,080 |
| As previously stated | | - | - | - | - | - | - | - | (169,353) | 169,353 | - | (10,915) | (10,915) | - | (10,915) |
| Effects of changes in accounting policies | 2 | - | - | - | - | - | - | - | - | - | - | (10,915) | (10,915) | - | (10,915) |
| At 1 January 2018, as restated | | - | - | 2,515,438 | - | - | 195,359 | (236,270) | - | 169,353 | (160) | 5,393,478 | 8,037,198 | (1,338,033) | 6,699,165 |
| Issue of shares pursuant to the reorganisation | | - | 8,023,032 | (2,515,438) | (5,507,594) | - | - | - | - | - | - | - | - | - | - |
| Treasury shares | | - | 235 | - | - | - | - | - | - | - | 160 | - | 395 | - | 395 |
| Net profit for the financial period | | - | - | - | - | - | - | - | - | - | - | 1,503,353 | 1,503,353 | (98,175) | 1,405,178 |
| Other comprehensive income | | - | - | - | - | - | 88,222 | 11,892 | - | 8,480 | - | - | 108,594 | - | 108,594 |
| At 30 June 2018 | | - | 8,023,267 | - | (5,507,594) | - | 283,581 | (224,378) | - | 177,833 | - | 6,896,831 | 9,649,540 | (1,436,208) | 8,213,332 |
| At 1 January 2017 | | 2,782,974 | 278,297 | - | - | 1,230,941 | 46,993 | (441,994) | 224,440 | - | (160) | 5,294,468 | 6,632,985 | (5,206) | 6,627,779 |
| Transactions with owners: | | | | | | | | | | | | | | | |
| Issuance of shares | 7 | 559,000 | 55,900 | - | - | 950,300 | - | - | - | - | - | - | 1,006,200 | - | 1,006,200 |
| Dividends | | - | - | - | - | - | - | - | - | - | - | (401,025) | (401,025) | - | (401,025) |
| Transfer to no-par value regime | | - | 2,181,241 | - | - | (2,181,241) | - | - | - | - | - | - | - | - | - |
| Net profit for the year | | - | - | - | - | - | - | - | - | - | - | 762,397 | 762,397 | (38,201) | 724,196 |
| Other comprehensive income | | - | - | - | - | - | 131,678 | (228,294) | 10,067 | - | - | - | (86,549) | - | (86,549) |
| Non-controlling interest arising from business combination | | - | - | - | - | - | - | - | - | - | - | - | - | (2,144,036) | (2,144,036) |
| At 30 June 2017 | | 3,341,974 | 2,515,438 | - | - | - | 178,671 | (670,288) | 234,507 | - | (160) | 5,655,840 | 7,914,008 | (2,187,443) | 5,726,565 |

The condensed consolidated statement of changes in equity should be read in conjunction with the audited financial statements for the financial year ended 31 December 2017 and the accompanying explanatory notes attached to the interim financial statements.



AIRASIA GROUP BERHAD
(Company No. 284669-W)

SECOND QUARTER REPORT ENDED 30 JUNE 2018

NOTES TO THE UNAUDITED ACCOUNTS – 30 JUNE 2018

1. Basis of preparation

The interim financial report is unaudited and has been prepared in accordance with Malaysian Financial Reporting Standard (“MFRS”) 134: “Interim Financial Reporting” and paragraph 9.22 and Appendix 9B of the Bursa Malaysia Securities Berhad (“Bursa Malaysia”) Listing Requirements.

The interim financial statements should be read in conjunction with the audited financial statements of the Group for the financial year ended 31 December 2017.

On 16 April 2018, AirAsia Group Berhad (“AAGB” or “the Company”) completed the Proposed Share Exchange as part of the Proposed Internal Reorganisation (as detailed in Circular to Shareholders on 14 December 2017) by way of Members’ Scheme of Arrangement under Section 366 of the Companies Act 2016.

On completion of the Proposed Share Exchange the Company assumes the listing status of AirAsia Berhad and AirAsia Berhad became a wholly owned subsidiary of the Company.

The share exchange is a reorganization and does not result in any change of economic substance of the group. Accordingly, the comparative figures in the consolidated statement of comprehensive income are presented as if the reorganization had been effected from the beginning of the earliest period presented.

2. Summary of significant accounting policies

The accounting policies and methods of computation adopted for the interim financial statements are consistent with those adopted for the audited financial statements for the financial year ended 31 December 2017. Details of standards, amendments to published standards and interpretations to existing standards that are applicable to the Group with effect from 1 January 2018 or later are provided in the notes to the financial statements in the audited financial statements of the Group for the financial year ended 31 December 2017. The Group did not early adopt any new standards, amendments to published standards and interpretation to existing standards.

At the beginning of the current financial year, the Group and the Company adopted new MFRSs, Amendments to MFRSs and an IC Interpretation (collectively referred to as “pronouncements”) that have been issued by the MASB and are applicable as listed below:



AIRASIA GROUP BERHAD

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SECOND QUARTER REPORT ENDED 30 JUNE 2018

NOTES TO THE UNAUDITED ACCOUNTS – 30 JUNE 2018

2. Summary of significant accounting policies (continued)

Effective for annual periods beginning on or after 1 January 2018

Amendments to MFRS 2: Shared-based Payment: Classification and Measurement of Share-based Payment Transactions

MFRS 9: Financial Instruments

MFRS 15: Revenue from Contracts with Customers

Amendments to MFRS 140 Investment Property: Transfer of Investment Property Annual Improvements to MFRS Standards 2014-2016 Cycle

IC Interpretation 22: Foreign Currency Transactions and Advance Consideration

The adoption of these pronouncements did not have a significant impact to the financial statements of the Group and the Company except as mentioned below:

(a) MFRS 15: Revenue from Contracts with Customers

MFRS 15 ‘Revenue from Contracts with Customers’ replaces MFRS 118 ‘Revenue’ and MFRS 111 ‘Construction Contracts’ and their related interpretations. MFRS 15 provides a principles based approach for revenue recognition, and introduces the concept of recognising revenue for performance obligations as they are satisfied. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Effects arising from the initial application of MFRS 15 are as follows:

| | Impact of adoption of MFRS 15 to opening balance at 1 January 2018 RM'million |
|--------------------------------------|--|
| Decrease in retained earnings | 8.1 |
| Increase in sales in advance | 43.2 |
| Decrease in deferred revenue | 24.7 |
| Decrease in deferred tax liabilities | 10.4 |



AIRASIA GROUP BERHAD
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SECOND QUARTER REPORT ENDED 30 JUNE 2018

NOTES TO THE UNAUDITED ACCOUNTS – 30 JUNE 2018

2. Summary of significant accounting policies (continued)

(b) MFRS 9: Financial Instruments

MFRS 9 Financial Instruments replaces MFRS 139 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018. Retrospective application is required, but comparative information is not compulsory. The new requirements introduced for all three aspects of the accounting for financial instruments is as follows:

- classification and measurement;

MFRS 9 contains three principal classifications categories for financial assets: measured at amortised cost, fair value through other comprehensive income (“FVOCI”) and fair value through profit or loss (“FVTPL”). The standard eliminates the existing MFRS 139 categories of held to maturity, loans and receivables and available for sale.

Impact as a result of MFRS 9 adoption

Both quoted and unquoted equity instruments which are not held for trading and we previously classified as Available-for-sale financial assets are now classified as “Investment Securities” and measured either FVTPL or FVOCI.

Loans and receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under MFRS 9. Therefore, reclassification for these instruments is not required.



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SECOND QUARTER REPORT ENDED 30 JUNE 2018

NOTES TO THE UNAUDITED ACCOUNTS – 30 JUNE 2018

2. Summary of significant accounting policies (continued)

(b) MFRS 9: Financial Instruments (continued)

- impairment; and

The adoption of MFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing MFRS 139's incurred loss approach with a forward-looking expected credit loss (ECL) approach. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate. The Group does not have other financial assets other than trade and other receivables, for which the Group has applied the standard's simplified approach and calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment in which the business is operating in.

Impact as a result of MFRS 9 adoption

Effects arising from the initial application of the new impairment model are as follows:

| | Impact of adoption of MFRS 9 to opening balance at 1 January 2018 RM'million |
|---|---|
| Decrease in retained earnings | 2.8 |
| Decrease in trade and other receivables | 3.7 |
| Increase in deferred tax assets | 0.9 |

- hedge accounting.

The Group has decided to continue applying hedge accounting as set out in MFRS 139 to all hedges until the project on accounting for macro hedging is completed by International Accounting Standards Board (IASB).



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NOTES TO THE UNAUDITED ACCOUNTS – 30 JUNE 2018

3. Auditors' report on preceding annual financial statements

The auditors have expressed an unqualified opinion on the Group's statutory financial statements for the financial year ended 31 December 2017 in their report dated 16 April 2018.

4. Seasonality of operations

AirAsia is primarily involved in the provision of air transportation services and thus, is subject to the seasonal demand for air travel. The load factor was 86% in the quarter under review, which was 3 percentage points lower than the same period last year. Compared against the immediate preceding quarter (first quarter January – March 2018), the load factor has decreased 1 percentage point. This seasonal pattern is in line with the expectation of the Group.

5. Unusual items due to their nature, size or incidence

There were no unusual items affecting assets, liabilities, equity, net income or cash flows during the current quarter and financial period-to-date.

6. Changes in estimates

There were no changes in estimates that have had material effect in the current quarter and financial period-to-date results.

7. Capital and reserves

There was no cancellation, repurchases, resale and repayment of debt and equity securities for the period ended 30 June 2018.

8. Dividends paid and proposed

No dividend has been proposed or paid during the quarter ended 30 June 2018.



AIRASIA GROUP BERHAD

(Company No. 284669-W)

SECOND QUARTER REPORT ENDED 30 JUNE 2018

NOTES TO THE UNAUDITED ACCOUNTS – 30 JUNE 2018

9. Revenue

| | Quarter ended 30/6/2018 RM million | Quarter ended 30/6/2017 RM million |
|---------------------------------|---|---|
| Passenger seat sales | 1,867.5 | 1,704.5 |
| Baggage fees | 236.3 | 232.7 |
| Aircraft operating lease income | 272.6 | 218.9 |
| Surcharges and fees | 13.9 | 8.8 |
| Freight services | 46.9 | 42.6 |
| Other revenue | 186.4 | 170.8 |
| | <u>2,623.6</u> | <u>2,378.3</u> |

Other revenue includes revenue from assigned seat, cancellation, documentation and other fees, and the on-board sale of meals and merchandise.

10. Other income

| | Quarter ended 30/6/2018 RM million | Quarter ended 30/6/2017 RM million |
|---|---|---|
| Fees charged for the provision of commercial air transport services | 30.2 | 24.3 |
| Charter income | 33.7 | 60.4 |
| Others | 70.5 | 41.2 |
| | <u>134.4</u> | <u>125.9</u> |

Charter income represent net income generated by IAA through charter arrangement with PT Indonesia AirAsia Extra. Other income ('others') includes commission income and advertising income.



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NOTES TO THE UNAUDITED ACCOUNTS – 30 JUNE 2018

11. Finance income/(costs) and foreign exchange gains/(losses)

| All figures in RM'000 | Group | | | |
|--|-----------------------|-----------------------|----------------------|----------------------|
| | Quarter ended 30/6/18 | Quarter ended 30/6/17 | Period ended 30/6/18 | Period ended 30/6/17 |
| (a) Finance income | | | | |
| Interest income from: | | | | |
| - deposits with licensed banks | 6,133 | 6,946 | 12,739 | 15,867 |
| Discounting effect on financial instruments and others | 512 | 5,834 | 1,392 | 15,954 |
| | 6,645 | 12,780 | 14,131 | 31,821 |
| (b) Finance costs | | | | |
| Bank borrowings | (113,395) | (127,295) | (218,220) | (263,661) |
| Amortisation of premiums for interest rate caps | (3,262) | (4,355) | (6,787) | (8,746) |
| Discounting effect on financial instruments, bank facilities and other charges | (3,590) | (2,267) | (7,484) | (4,423) |
| | (120,247) | (133,917) | (232,491) | (276,830) |
| (c) Foreign exchange gains/(losses) | | | | |
| - realized | (13,618) | 8,763 | 20,402 | 12,946 |
| - unrealized | (27,363) | 103,383 | 13,312 | 184,011 |
| - fair value movement recycled from cash flow hedge reserve | 51,716 | (56,303) | (16,809) | (84,248) |
| | 10,735 | 55,843 | 16,905 | 112,709 |



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12. Remeasurement gain on loss of control in a subsidiary

MFRS 3, Business Combinations requires revaluation of the previously held interest in the equity accounted investment at its fair value on the acquisition-date, and recognise any gain or loss derived from the deemed disposal in the Income Statement. On 4 January 2018, the share swap agreement between Ground Team Red Holdings Sdn Bhd (“GTRH”) and SATS Ltd. (“SATS”) was completed, wherein GTRH acquired 80% equity stake in SATS Ground Services Singapore Pte. Ltd in exchange for an 11.4% equity stake in GTRH. In addition to this, the transaction for the Company to sell and transfer 38.6% of its shareholding in GTRH to SATS for a consideration of SGD119,300,000 has been completed on 14 February 2018. Pursuant to this, a re-measurement gain of RM534.7 million has been recognized in the financial statements of the Group.

13. Remeasurement gain on consolidation

MFRS 3, Business Combinations requires revaluation of the previously held interest in the equity accounted investment at its fair value on the acquisition-date, and recognise any gain or loss derived from the deemed disposal in the Income Statement. Pursuant to the consolidation of the investees as mentioned in Note 1 above, the Group recognised a gain from remeasurement of previously held interest in these associates amounting to RM214.4 million in the previous financial period.

14. Other Comprehensive Income

Cash flow hedges represent fair value changes due to movement in mark-to-market position on effective hedging contracts at 30 June 2018 as compared to 31 March 2018 as follows:

| | Quarter ended 30/6/2018 RM million | Quarter ended 31/3/2018 RM million |
|--|---|---|
| Fair value gain in the period | (15.4) | 23.9 |
| Amount transferred to income statement | 13.1 | (1.2) |
| | <u>2.3</u> | <u>22.7</u> |

Fair value changes in effective hedging contracts are recognized directly in equity and are transferred to the income statement in the same period as the underlying hedged item impacts profit or loss.



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15. Status of corporate proposals announced

AirAsia Joint Venture in Vietnam

Further to the announcement dated 31 March 2017, there were no further updates on the status of the forging of a joint venture cooperation between AirAsia, Gumin, Mr. Tran and HAA to establish a low-cost carrier in Vietnam.

Memorandum of Understanding with the China Everbright Group and Henan Government Working Group

Further to the announcement dated 24 May 2018, the Memorandum of Understanding (“MOU”) with Everbright and Henan Government has now lapsed as per the terms of the MOU and will not be extended.

16. Property, plant and equipment

(a) acquisition and disposals

During the quarter ended 30 June 2018, the Group acquired property, plant and equipment with a cost of RM1,075.0 million (quarter ended 30 June 2017: RM399.1 million).

During the quarter ended 30 June 2018, proceeds from disposal of property, plant and equipment totaled RM1,482.7 million (quarter ended 30 June 2017: RM nil).

(b) revaluation

There was no revaluation of property, plant and equipment in the quarter under review or in the same quarter of the prior year.

(c) impairment

There was no impairment of property, plant and equipment in the quarter under review or in the same quarter of the prior year.



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17. Post balance sheet events

On 14 August 2018, AirAsia Exp Pte. Ltd. (“AirAsia Exp”) and AirAsia Berhad (both of which are wholly owned subsidiary of AirAsia Group Berhad), entered into a a Share Purchase Agreement (“SPA”) with Expedia Southeast Asia Pte. Ltd. (“Expedia SEA”) and Expedia Inc (“Expedia”) to sell AirAsia Exp’s entire shareholding in AAE Travel Pte Ltd which is 6,144,279 ordinary shares constituting approximately 25% of the total issued and outstanding shares to Expedia for a cash consideration sum of USD60 million (approximately RM245 million).

18. Changes in composition of the Group

Other than the completion of the share exchange as indicated in Note 1, there are no changes in composition of the Group.

19. Contingent assets

As at the date of this report, the Group does not have any contingent assets.

20. Changes in contingent liabilities since the last annual balance sheet date

There were no material changes in contingent liabilities since the latest audited financial statements of the Group for the financial year ended 31 December 2017.

21. Capital commitments outstanding not provided for in the interim financial report

Capital commitments for property, plant and equipment:

| | As at 30/6/2018 RM’000 | As at 30/6/2017 RM’000 |
|---------------------------------|---------------------------------------|---------------------------------------|
| Approved and contracted for | 88,198,013 | 86,529,471 |
| Approved but not contracted for | 73,822 | 133,130 |
| | <u>88,271,835</u> | <u>86,662,601</u> |



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22. Material related party transactions

Details of the relationship and transactions between AirAsia and its related parties are as described below. The related party transactions described were carried out on terms and conditions obtainable in transactions with unrelated parties unless otherwise stated.

| Name of company | Relationship |
|--|---------------------------------|
| AirAsia Go Holiday Sdn Bhd | Subsidiary |
| AirAsia (Mauritius) Limited | Subsidiary |
| AirAsia Investment Limited | Subsidiary |
| Redtix Sdn Bhd | Subsidiary |
| Big Pay Pte. Ltd. | Subsidiary |
| AirAsia Global Shared Services Sdn Bhd | Subsidiary |
| Asia Aviation Capital Ltd | Subsidiary |
| MadCience Consulting Sdn Bhd | Subsidiary |
| BIGPAY Malaysia Sdn Bhd | Subsidiary |
| Rokki Sdn Bhd (formerly known as Tune Box Sdn Bhd) | Subsidiary |
| Rokki Avionics Sdn Bhd | Subsidiary |
| Big Loyalty Sdn Bhd (formerly known as Think Big Digital Sdn Bhd) | Subsidiary |
| PT Indonesia AirAsia | Deemed subsidiary under MFRS 10 |
| AirAsia Inc. | Deemed subsidiary under MFRS 10 |
| Philippines AirAsia Inc. (formerly known as Zest Airways, Inc.) | Deemed subsidiary under MFRS 10 |
| Thai AirAsia Co. Ltd | Associate of a subsidiary |
| AirAsia Japan Co. Ltd | Associate of a subsidiary |
| AirAsia (India) Private Limited | Associate of a subsidiary |
| AAE Travel Pte Ltd | Associate of a subsidiary |

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| Name of company | Relationship |
|-------------------------------------|--|
| AirAsia X Berhad | Company with common directors and shareholders |
| Tune Insurance Malaysia Berhad | Company with common directors and shareholders |
| Queen Park Rangers Holdings Ltd | Company with common directors and shareholders |
| Thai AirAsia X Co. Ltd | Company with common directors and shareholders |
| PT Indonesia AirAsia Extra (“IAAX”) | Company with common directors and shareholders |
| Caterhamjet Global Ltd | Company with common directors and shareholders |

Significant related party transactions which were entered into on agreed terms and prices for the financial period ended 30 June 2018 are set out below:

| | Quarter ended 30/6/2018 RM'000 | Quarter ended 30/6/2017 RM'000 |
|-----------------------------------|---|---|
| Thai AirAsia | | |
| Lease rental income on aircraft | 121,923 | 136,250 |
| Indonesia AirAsia | | |
| Charter income from IAAX | 33,737 | 60,382 |
| India AirAsia | | |
| Lease rental income on aircraft | 55,742 | 35,554 |
| Japan AirAsia | | |
| Lease rental income on aircraft | 7,817 | 8,459 |
| PT Indonesia AirAsia Extra | | |
| Lease rental income on aircraft | 16,673 | 18,041 |
| Aircraft wet lease charges | (31,933) | (60,517) |



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23. Review of Group performance

Performance indicator for the Group's operations for current quarter against same quarter last year

| | Quarter ended 30/6/2018 | Quarter ended 30/6/2017 | Change y-o-y |
|------------------------------------|----------------------------|----------------------------|-----------------|
| Passengers Carried | 10,878,146 | 9,611,814 | 13% |
| Capacity | 12,722,682 | 10,830,746 | 17% |
| Seat Load Factor | 86% | 89% | -3% |
| RPK (million) | 13,612 | 12,528 | 9% |
| ASK (million) | 15,962 | 14,202 | 12% |
| Average Fare (RM) | 172 | 177 | -3% |
| Unit Passenger Revenue (RM) | 217 | 227 | -4% |
| Revenue / ASK (sen) | 14.83 | 15.35 | -3% |
| Revenue / ASK (US cents) | 3.73 | 3.86 | -3% |
| Cost / ASK (sen) | 13.77 | 13.22 | 4% |
| Cost / ASK (US cents) | 3.46 | 3.32 | 4% |
| Cost / ASK-ex Fuel (sen) | 8.05 | 8.21 | -2% |
| Cost / ASK-ex Fuel (US cents) | 2.02 | 2.06 | -2% |
| Aircraft (end of period) | 124 | 106 | 17% |
| Average Stage Length (km) | 1,249 | 1,291 | -3% |
| Number of Flights | 70,368 | 60,003 | 17% |
| Fuel Consumed (Barrels) | 2,587,339 | 2,401,055 | 8% |
| Average Fuel Price (US\$ / Barrel) | 89 | 69 | 29% |

Exchange Rate: RM:USD – 3.9797 - Prior year US cent and dollar are restated at current average exchange rate during the quarter for ease of reference

During the quarter, total Group revenue has grown 10% from RM 2,378.3 million recorded in 2Q17 to RM2,623.6 million in 2Q18. The growth was attributed to a 13% increase in total passengers carried. Load factor was at 86% in 2Q18 compared to 89% in 2Q17 due to 17% increase in capacity. Average fare has reduced 3% year on year, whilst the overall RASK of the Group has decreased 3% to 14.83 sen in 2Q18 from 15.35 sen in 2Q17.



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23. Review of Group performance (continued)

During the quarter, the Group has also delivered an additional 1,891,936 seats as compared to 2Q17, which represent an additional 17% growth in capacity compared to 2Q17. The total net operating profits of the Group has decreased 18% year-on-year to RM324.8 million from RM395.4 million in 2Q17 as a result of higher fuel prices and increase in maintenance and leasing costs on aircraft.

Net profit for the current quarter was 125% higher year-on-year at RM315.3 million due to the reversal of deferred tax on the sale of aircraft.

Cashflow commentary for current quarter against immediately preceding quarter

| Net Cash Flow (RM'000) | Quarter ended 30/6/2018 | Quarter ended 31/3/2018 |
|--------------------------------|--------------------------------|--------------------------------|
| Cash from Operations | 1,177,882 | 371,429 |
| Cash from Investing Activities | (67,139) | (503,535) |
| Cash from Financing Activities | (1,052,347) | 302,619 |
| Net Cash Flow | 58,396 | 170,513 |

The Group's cash inflow from operations was RM1,177.9 million, compared to inflow of RM371.4 million in the immediate preceding quarter ended 31 March 2018. Net cash inflow in the quarter amounted to RM58.4 million due to repayment of loans for aircraft of RM2.04 billion.

The net gearing ratio as at 30 June 2018 and 31 December 2017 was as follows:

| Balance Sheet RM million | As at 30/6/2018 | As at 31/12/2017 |
|---|------------------------|-------------------------|
| Total borrowings | 3,182 | 9,309 |
| Liabilities directly associated with assets held for sale | 4,988 | - |
| Less: Deposit, cash and bank balances | (1,934) | (1,882) |
| Net debt | 6,236 | 7,427 |
| Total equity | 8,213 | 6,710 |
| Net gearing ratio (times) | 0.76 | 1.11 |

The Group's total debt, including liabilities directly associated with assets held for sale, as of end of June 2018 was RM8.2 billion. The Group's net debt after offsetting the cash balances amounted to RM6.2 billion.



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24. Associate Companies – Equity Account

i) Associate Company - Thai AirAsia Co. Ltd (“Thai AirAsia”)

Performance indicator for Thai AirAsia operations for current quarter against the same quarter last year

| THB'000 | Quarter ended 30/6/2018 | Quarter ended 30/6/2017 | Change y-o-y |
|------------------------------------|------------------------------------|------------------------------------|-------------------------|
| Passengers Carried | 5,310,361 | 4,694,374 | 13% |
| Capacity | 6,278,154 | 5,456,700 | 15% |
| Seat Load Factor | 85% | 86% | -1 ppt |
| RPK (million) | 5,194 | 4,630 | 12% |
| ASK (million) | 6,147 | 5,373 | 14% |
| Average Fare (THB) | 1,402 | 1,476 | -5% |
| Unit Passenger Revenue (THB) | 1,710 | 1,783 | -4% |
| Revenue / ASK (THB) | 1.47 | 1.55 | -5% |
| Revenue / ASK (US cents) | 4.55 | 4.80 | -5% |
| Cost / ASK (THB) | 1.58 | 1.51 | 5% |
| Cost / ASK (US cents) | 4.88 | 4.66 | 5% |
| Cost / ASK-ex Fuel (THB) | 1.01 | 1.02 | -2% |
| Cost / ASK-ex Fuel (US cents) | 3.11 | 3.16 | -2% |
| Aircraft (end of period) | 59 | 54 | 9% |
| Average Stage Length (km) | 978 | 985 | -1% |
| Number of Flights | 34,771 | 30,315 | 15% |
| Fuel Consumed (Barrels) | 1,113,753 | 1,009,729 | 10% |
| Average Fuel Price (US\$ / Barrel) | 98 | 75 | 30% |

Exchange Rate: USD:THB – 32.4 - prior year US cents figures are restated at the current period average exchange rate



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24. Associate Companies – Equity Account (continued)

i) Associate Company - Thai AirAsia Co. Ltd (“Thai AirAsia”) (continued)

Income Statements for the quarter ended 30 June 2018

| THB'000 | Quarter ended 30/6/2018 | Quarter ended 30/6/2017 |
|---|----------------------------|----------------------------|
| Revenue | 9,059,715 | 8,348,833 |
| Operating expenses: | | |
| - Staff costs | (1,403,886) | (1,181,919) |
| - Depreciation of property, plant and equipment | (406,886) | (358,442) |
| - Aircraft fuel expenses | (3,521,848) | (2,604,211) |
| - Maintenance & overhaul | (831,089) | (677,706) |
| - User charges and other related expenses | (1,716,298) | (1,510,510) |
| - Aircraft operating lease expenses | (1,254,046) | (1,254,901) |
| - Other operating expenses | (581,052) | (518,674) |
| Other income | 167,621 | 154,496 |
| Operating (loss)/profit | (487,769) | 396,966 |
| Finance income | 21,014 | 22,184 |
| Finance costs | (187,112) | (181,148) |
| Net operating (loss)/profit | (653,867) | 238,002 |
| Foreign exchange (loss)/gain | (49,164) | 30,145 |
| (Loss)/profit before tax | (703,031) | 268,147 |
| Taxation | (14,571) | (13,228) |
| Deferred taxation | 150,083 | 55,163 |
| Net (loss)/profit after tax | (567,519) | 310,082 |
| EBITDAR | 1,173,163 | 2,010,309 |
| EBITDAR Margin | 13% | 24% |
| EBIT Margin | -5% | 5% |



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24. Associate Companies – Equity Account (continued)

i) Associate Company - Thai AirAsia Co. Ltd (“Thai AirAsia”) (continued)

Balance Sheet

| THB'000 | As at 30/6/2018 | As at 30/6/2017 |
|----------------------------------|--------------------|--------------------|
| Property, Plant & Equipment | 24,836,936 | 25,449,651 |
| Intangible assets, net | 10,425 | 10,425 |
| Other non current assets | 950,571 | 873,797 |
| Inventory | 137,741 | 148,801 |
| Aircraft maintenance reserves | 4,174,280 | 3,728,837 |
| Other Debtors & Prepayments | 1,491,258 | 1,029,771 |
| Amounts due from related parties | 307,528 | 307,739 |
| Cash & Short Term Deposits | 6,373,071 | 6,699,632 |
| Total Assets | 38,281,810 | 38,248,653 |
| Sales In Advance | 3,197,511 | 3,469,876 |
| Other Creditors & Accruals | 4,088,475 | 4,126,886 |
| Amounts Owing to Related Party | 477,036 | 301,040 |
| Deferred tax liabilities | 216,084 | 267,435 |
| Debenture | 4,094,322 | 1,598,006 |
| Borrowings | 2,112,602 | 3,335,581 |
| Finance lease liabilities | 13,992,430 | 14,527,791 |
| Total Liabilities | 28,178,461 | 27,626,615 |
| Share Capital | 435,556 | 435,556 |
| Share Premium | 2,628,786 | 2,628,786 |
| Retained Earnings | 7,039,007 | 7,557,696 |
| Total Equity | 10,103,349 | 10,622,038 |

Thai AirAsia is an associate company owned 45% by AirAsia Berhad. As such it is accounted for using the equity method, as permitted by the Malaysian Accounting Standards Board MFRS128, Investments in Associates.

Thai AirAsia recorded revenue of THB9,059.7 million in 2Q18, 9% higher compared to the THB8,348.8 million achieved in 2Q17. The increase in revenue was supported by the increase in the number of passengers carried as capacity rose 15% year-on-year resulting in a 13% increase in the number of passengers carried. Unit passenger revenue decreased 4% year-on-year whilst the seat load factor decreased 1 ppt to 85%.



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24. Associate Companies – Equity Account (continued)

i) Associate Company - Thai AirAsia Co. Ltd (“Thai AirAsia”) (continued)

Thai AirAsia’s operating loss was at THB487.8 million in 2Q18, compared to an operating profit of THB397.0 million in 2Q17. Thai AirAsia’s net loss was at THB567.5 million in 2Q18, compared to a net profit of THB310.1 million in 2Q17. AirAsia Group Berhad has equity accounted net loss of RM32.0 million (RM17.3 million in the quarter ended 30 June 2017) in the current period, as reflected in the income statement.

ii) Associate Company – AirAsia (India) Limited (“AirAsia India”)

Performance indicator for AirAsia India operations for current quarter against the same quarter last year

| INR'000 | Quarter ended 30/6/2018 | Quarter ended 30/6/2017 | Change y-o-y |
|------------------------------------|----------------------------|----------------------------|-----------------|
| Passengers Carried | 1,827,805 | 1,005,341 | 82% |
| Capacity | 2,095,740 | 1,119,960 | 87% |
| Seat Load Factor | 87% | 90% | -3 ppt |
| RPK (million) | 1,895 | 1,082 | 75% |
| ASK (million) | 2,136 | 1,184 | 80% |
| Average Fare (INR) | 3,260 | 3,214 | 1% |
| Unit Passenger Revenue (INR) | 3,687 | 3,577 | 3% |
| Revenue / ASK (sen) | 304.10 | 294.59 | 3% |
| Revenue / ASK (US cents) | 4.51 | 4.37 | 3% |
| Cost / ASK (sen) | 328.25 | 315.10 | 4% |
| Cost / ASK (US cents) | 4.87 | 4.67 | 4% |
| Cost / ASK-ex Fuel (sen) | 173.57 | 192.97 | -10% |
| Cost / ASK-ex Fuel (US cents) | 2.57 | 2.86 | -10% |
| Aircraft (end of period) | 18 | 10 | 80% |
| Average Stage Length (km) | 1,019 | 989 | 3% |
| Number of Flights | 11,643 | 6,222 | 87% |
| Fuel Consumed (Barrels) | 397,374 | 216,907 | 83% |
| Average Fuel Price (US\$ / Barrel) | 123 | 99 | 25% |

Exchange Rate: USD:INR – 67.4 - prior year US cents figures are restated at the current period average exchange rate



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24. Associate Companies – Equity Account (continued)

ii) Associate Company – AirAsia (India) Limited (“AirAsia India”) continued

Income Statements for the financial period ended 30 June 2018

| INR'000 | Quarter ended 30/6/2018 | Quarter ended 30/6/2017 |
|---|----------------------------|----------------------------|
| Revenue | 6,496,798 | 3,488,082 |
| Operating expenses: | | |
| - Staff costs | (859,642) | (683,705) |
| - Depreciation of property, plant and equipment | (29,438) | (18,642) |
| - Aircraft fuel expenses | (3,304,560) | (1,446,041) |
| - Maintenance and overhaul | (953,645) | (394,366) |
| - User charges and other related expenses | (832,956) | (527,055) |
| - Aircraft operating lease expenses | (1,009,968) | (535,037) |
| - Other operating expenses | (263,335) | (234,164) |
| Other income | 242,389 | 108,120 |
| Operating loss | (514,357) | (242,809) |
| Finance Income | 6,329 | 9,535 |
| Finance Costs | (7,892) | (9,587) |
| Net operating loss | (515,920) | (242,861) |
| Foreign exchange gain | (102,296) | (1,829) |
| Loss before tax | (618,216) | (244,690) |
| Taxation | - | - |
| Net loss after tax | (618,216) | (244,690) |
| EBITDAR | 525,049 | 310,871 |
| EBITDAR Margin | 8% | 9% |
| EBIT Margin | -8% | -7% |

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NOTES TO THE UNAUDITED ACCOUNTS – 30 JUNE 2018**24. Associate Companies – Equity Account (continued)****ii) Associate Company – AirAsia (India) Limited (“AirAsia India”) continued****Balance Sheet**

| INR'000 | As at 30/6/2018 | As at 31/12/2017 |
|---------------------------------|----------------------------|-----------------------------|
| Property, Plant & Equipment | 713,844 | 598,693 |
| Inventory | 125,191 | 130,497 |
| Amount due from related parties | 129,764 | 114,769 |
| Other Debtors & Prepayments | 1,840,048 | 1,275,172 |
| Cash & Short Term Deposits | 2,185,428 | 1,746,032 |
| Total Assets | 4,994,275 | 3,865,163 |
| Sales In Advance | 842,971 | 1,095,480 |
| Other Creditors & Accruals | 3,295,027 | 1,908,467 |
| Amounts Owing to Related Party | 2,140,469 | 1,653,957 |
| Long Term Liabilities | 102,106 | 71,571 |
| Total Liabilities | 6,380,572 | 4,729,475 |
| Share Capital | 5,337,000 | 4,266,500 |
| Retained Earnings | (6,723,297) | (5,130,812) |
| Total Equity | (1,386,297) | (864,312) |

AirAsia India is an associate company which is incorporated in India and is 49% owned by AirAsia Berhad. As such it is accounted for using the equity method, as permitted by the Malaysian Accounting Standards Board MFRS128, Investments in Associates.

AirAsia India recorded revenue of INR6,496.8 million in 2Q18, 86% higher compared to a revenue of INR3,488.1 million in 2Q17. The number of passengers carried increased 82% with a unit passenger revenue of INR3,687, 3% higher than the same period last year.

AirAsia India recorded a net loss of INR618.2 million (quarter ended 30 June 2017: net loss of INR244.7 million) in the quarter under review out of which RM nil (quarter ended 30 June 2017: RM nil million) is equity accounted in the AirAsia Group Berhad income statement. As the Group's interest in AirAsia India has been reduced to zero, in accordance with MFRS128, any profits will only be recognized when a total of RM33.5 million of unrecognized losses have been reversed.



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24. Associate Companies – Equity Account (continued)

iii) Associate Company – AirAsia Japan Co., Ltd (“AirAsia Japan”)

AirAsia Japan is an associate company which is incorporated in Japan. On 8 February 2018, AAIL subscribed to additional 28,571,428 shares for a cash consideration of JPY2,000.0 million (equivalent to RM72.0 million). On 27 June 2018, AAIL subscribed to additional 27,857,143 shares for a cash consideration of JPY1,950.0 million (equivalent to RM71.8 million). Accordingly the Group’s equity interest in AirAsia Japan has increased from 62.76% to 66.91%. AirAsia Japan recorded a net loss of RM40.3 million (quarter ended 30 June 2017: net loss RM42.2 million) in the quarter under review of which RM25.3 million (quarter ended 30 June 2017: RM20.7 million) is equity accounted in the financial statements of AirAsia Group Berhad.

25. Variation of results against preceding quarter

The Group had a net profit of RM315.2 million for the quarter under review. This is RM775.1 million lower compared to the net profit of RM1,090.3 million in the immediately preceding quarter ended 31 March 2018.

26. Profit forecast

No profit forecast has been issued.



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27. Commentary on prospects

The Group is projected to achieve an average load factor of 83% in the third quarter of 2018 based on the existing forward booking trend of MAA, IAA and PAA.

In Thailand, load factor in the third quarter of 2018 is forecast to be 80% based on existing forward booking trend. TAA will focus on leveraging on the existing strength of AirAsia network and strengthening its marketing activities on China and India routes in the remaining quarters of 2018.

In India, the forecast load factor for the third quarter of 2018 is at 82%. AirAsia India will remain focused on building a footprint in the Indian domestic market with the introduction of new routes and frequency increases.

In Japan, the forecast load factor for the third quarter of 2018 is forecast to be 89%. AirAsia Japan will focus on building footprint in the domestic market and connecting to the Group's existing network within the region. The growth of Japan will depend on the speed of regulatory approval.

From the above, demand remains strong and load factors are healthy but we continue to face headwinds against us, being high fuel costs and weakening regional currencies. Despite this, we will continue to drive revenue and sale of ancillary services and focus on reducing costs to mitigate the above.

Our Malaysian operations remain strong with Indonesian operations slowly recovering. We face challenges in Thailand following the ferry incident in Phuket which has dampened demand from China. Third quarter is usually the peak quarter for travel to Boracay but unfortunately the Government of Philippines has restricted travel to the island.

Barring any unforeseen circumstances, the Board remains positive that the overall results of the Group in 2018 will be favorable.

28. Income tax and Deferred tax

Income tax expense

The current taxation charge of RM6.9 million comprises tax payable on interest income for the Company and corporate income taxes for the subsidiaries.

Deferred taxation

RM47.2 million deferred tax credits arose in the current financial period. The deferred tax assets increased as the difference between the net book value and tax written down value of property, plant and equipment decreased in the period. The deferred tax assets increased as unabsorbed capital allowances increase in combination with the Investment Allowances granted.



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29. Quoted investments and properties

There was no purchase or disposal of quoted securities for the quarter under review and financial period to date.

30. Receivables and prepayments

| | As at 30/6/2018 RM'000 | As at 31/12/2017 RM'000 |
|--------------------------------|---------------------------------------|--|
| <u>Non-current:</u> | | |
| Prepayments | 1,917,267 | 1,614,732 |
| Deposits and other receivables | 666,943 | 686,799 |
| | <hr/> 2,584,210 | <hr/> 2,301,531 |
| <u>Current:</u> | | |
| Trade and other receivables | 587,489 | 719,667 |
| Prepayments | 702,567 | 582,679 |
| Deposits | 190,458 | 179,945 |
| | <hr/> 1,480,514 | <hr/> 1,482,291 |

Prepayments include advances for the purchases of fuel and prepaid engine maintenance to the service provider.

31. Amounts due from associates

| | As at 30/6/2018 RM'000 | As at 31/12/2017 RM'000 |
|-----------------|---------------------------------------|--|
| <u>Current:</u> | | |
| Others | 214,015 | 147,617 |
| | <hr/> 214,015 | <hr/> 147,617 |



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32. Derivative financial instruments

The fair value of derivative financial instruments is determined in accordance with MFRS139 “Financial Instruments: Recognition and Measurement”

(i) Forward Foreign Exchange Contracts

As at 30 June 2018, the Group has hedged approximately 59% of the USD dollar liabilities of its aircraft into Malaysia Ringgit (“MYR”) via Cross-Currency Swaps and Foreign Currency Swaps for aircraft deployed in Malaysia.

(ii) Interest Rate Hedging

As at 30 June 2018, the Group has entered into interest rate hedging transactions to hedge against fluctuations in the US\$ Libor on its existing aircraft financing for aircraft delivery from 2005 to 2018.

(iii) Fuel Hedging

As at 30 June 2018, the Group has entered into swaps and options for both Brent and Crack which represent up to 16% of the Group’s total budgeted fuel consumption for 2H 2018 and 3% for Q1 2019.



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32. Derivative financial instruments (continued)

(iv) Fuel Hedging

As at 30 June 2018, the Group has entered into Brent swaps which represents up to 10% for FY 2018.

| Type of derivatives | Notional Value as at 30/06/2018 | Fair Value as at 30/06/2018 Assets/(Liabilities) |
|----------------------------------|--|---|
| (i) Fuel contract | Barrels (million) | RM (million) |
| - less than 1 year | 1.14 | 17.05 |
| - 1 year to 3 years | - | - |
| Total | 1.14 | 17.05 |
| | RM (million) | RM (million) |
| (ii) Interest rate contracts | | |
| - less than 1 year | 189.55 | (1.73) |
| - 1 year to 3 years | 760.15 | (19.81) |
| - more than 3 years | 2,665.55 | 20.45 |
| Total | 3,615.25 | (1.09) |
| | RM (million) | RM (million) |
| (iii) Foreign currency contracts | | |
| - less than 1 year | 188.50 | 39.80 |
| - 1 year to 3 years | 415.25 | 106.57 |
| - more than 3 years | 846.48 | 217.21 |
| Total | 1,450.23 | 363.58 |

The related accounting policies, cash requirements of the derivatives, risks associated with the derivatives and policies to mitigate those risks are unchanged since the last financial year.



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33. Assets classified as held for sale and liabilities associated with assets held for sale

On 28 February 2018, the Company entered into sale and purchase agreements to divest its aircraft leasing operations that are currently undertaken by Asia Aviation Capital Limited (“AACL”), a wholly-owned subsidiary of the Company, to entities managed by BBAM Limited Partnership for a disposal consideration of USD1,185.0 million (approximately RM4,619.7 million). As such, these aircraft assets have been reclassified to current assets in accordance with MFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Correspondingly, the depreciation on those assets have ceased and aircraft liabilities have been reclassified to current liabilities.

34. Trade and other payables

| | As at 30/6/2018 RM'000 | As at 31/12/2017 RM'000 |
|------------------------------------|---------------------------------------|--|
| <u>Non-current:</u> | | |
| Trade and other payables | 1,339,285 | 1,239,025 |
| <u>Current:</u> | | |
| Trade payables | 198,909 | 276,650 |
| Accrual for fuel | 262,121 | 144,369 |
| Collateral for derivatives | 60,074 | 139,406 |
| Aircraft maintenance reserve funds | 421,186 | 539,780 |
| Flight related charges | 577,888 | 554,538 |
| Other payables and accruals | 370,853 | 493,939 |
| | <u>1,891,031</u> | <u>2,148,682</u> |

Other payables and accruals include accruals for operational expenses and passenger service charge payable to airport authorities.



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35. Borrowings and debt securities

| | As at 30/6/2018 RM'000 | As at 31/12/2017 RM'000 |
|---|------------------------------|-------------------------------|
| <u>Short term:</u> | | |
| Secured | 585,011 | 1,376,896 |
| Unsecured | 231,000 | 444,951 |
| Liabilities directly associated with assets held for sale | 4,988,332 | - |
| <u>Long term:</u> | | |
| Secured | 2,365,515 | 7,486,787 |
| Total Debt | 8,169,858 | 9,308,634 |

The currency profile of borrowings is as follows:

| | As at 30/6/2018 RM'000 | As at 31/12/2017 RM'000 |
|------------------|------------------------------|-------------------------------|
| Ringgit Malaysia | 705,831 | 734,671 |
| US Dollar | 7,245,147 | 8,126,971 |
| Euro | 135,470 | 162,819 |
| Singapore Dollar | - | 182,734 |
| Philippine Peso | 83,410 | 101,439 |
| | 8,169,858 | 9,308,634 |

The term loans, finance lease liabilities (Ijarah) and commodity murabahah finance are for the purchase of aircraft, spare engines and working capital purposes. The repayment terms of term loans and finance lease liabilities (Ijarah) and commodity murabahah finance are on a quarterly or semi-annually basis.

The maturity period of non-current borrowing is 11 years and below. The Company has substantially hedged its foreign exchange exposure through foreign exchange contracts as explained in Note 32 (i).

Total borrowings include secured liabilities of the Group of RM2.4 billion. These are secured by the following:

- (a) Assignment of rights under contract with Airbus over each aircraft;
- (b) Assignment of insurance of each aircraft; and
- (c) Assignment of airframe and engine warranties of each aircraft.



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36. Fair value estimation

The carrying amounts of cash and cash equivalents, trade and other current assets, and trade and other liabilities approximate their respective fair values due to the relatively short-term maturity of these financial instruments. The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, Unobservable inputs) (Level 3).

The following tables presents the Group's assets and liabilities that are measured at fair value at 30 June 2018 and 31 December 2017:

| | Level 1 RM'mil | Level 2 RM'mil | Level 3 RM'mil | Total RM'mil |
|---|-------------------|-------------------|-------------------|-----------------|
| 30 June 2018 | | | | |
| Assets | | | | |
| Financial assets at fair value through profit or loss | | | | |
| - Trading derivatives | - | 138 | - | 138 |
| Derivatives used for hedging | - | 312 | - | 312 |
| Investment securities | | | | |
| - Equity securities | 287 | - | 5 | 292 |
| Total Assets | 287 | 450 | 5 | 742 |
| Liabilities | | | | |
| Financial assets at fair value through profit or loss | | | | |
| - Trading derivatives | - | 26 | - | 26 |
| Derivatives used for hedging | - | 45 | - | 45 |
| Total Liabilities | - | 71 | - | 71 |
| 31 December 2017 | | | | |
| Assets | | | | |
| Financial assets at fair value through profit or loss | | | | |
| - Trading derivatives | - | 261 | - | 261 |
| Derivatives used for hedging | - | 327 | - | 327 |
| Available-for-sale financial assets | | | | |
| - Equity securities | 301 | - | 5 | 306 |
| Total Assets | 301 | 588 | 5 | 894 |
| Liabilities | | | | |
| Financial assets at fair value through profit or loss | | | | |
| - Trading derivatives | - | 92 | - | 92 |
| Derivatives used for hedging | - | 54 | - | 54 |
| Total Liabilities | - | 146 | - | 146 |



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36. Fair value estimation (continued)

Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted prices is readily available, and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an on-going basis. These would include actively traded listed equities and actively exchange-traded derivatives.

Where fair value is determined using unquoted market prices in less active markets or quoted prices for similar assets and liabilities, such instruments are generally classified as Level 2. In cases where quoted prices are generally not available, the Group then determines fair value based upon valuation techniques that use as inputs, market parameters including but not limited to yield curves, volatilities and foreign exchange rates. The majority of valuation techniques employ only observable market data and so reliability of the fair value measurement is high. These would include certain bonds, government bonds, corporate debt securities, repurchase and reverse purchase agreements, loans, credit derivatives, certain issued notes and the Group's over the counter ("OTC") derivatives.

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). Such inputs are generally determined based on observable inputs of a similar nature, historical observations on the level of the input or other analytical techniques. This category includes private equity investments, certain OTC derivatives (requiring complex and unobservable inputs such as correlations and long dated volatilities) and certain bonds.

37. Material litigation

As at 30 August 2018, there was no material litigation against the Group.



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38. Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to owners of the Company for the financial period by the weighted average number of ordinary shares in issue during the financial period.

| | INDIVIDUAL QUARTER | | CUMULATIVE | |
|--|-------------------------|-------------------------|------------------------|------------------------|
| | Quarter ended 30/6/2018 | Quarter ended 30/6/2017 | Period ended 30/6/2018 | Period ended 30/6/2017 |
| Net profit attributable to owners of the Company (RM'000) | 361,814 | 146,519 | 1,503,353 | 762,397 |
| Weighted average number of ordinary shares in issue ('000) | 3,341,974 | 3,341,974 | 3,341,974 | 3,341,974 |
| Basic and diluted earnings per share (sen) | 10.8 | 4.4 | 45.0 | 22.8 |

The Group does not have in issue any financial instruments on other contracts that may entitle its holder to ordinary shares and therefore, dilutive to its basic earnings per share.

39. Authorisation for issue

The interim financial statements were authorised for issue by the Board of Directors.

By order of the Board

JASMINDAR KAUR a/p SARBAN SINGH

(MAICSA 7002687)
COMPANY SECRETARY
30 AUGUST 2018