AirAsia bags "CAPA Airline of the Year 2007" Award and Delivered First Quarter Net Profit Growth of 157% with Net Margins of 39%

AirAsia Berhad's un-audited results for the first quarter ended 30 September 2007 provided some background for Asia's leading low-cost carrier winning the *"Airline of the Year 2007"* award from the Centre for Asia Pacific Aviation (CAPA).

Tony Fernandes, Group Chief Executive Officer, said:

"AirAsia once again delivered record profit growth despite operating in a very difficult economic environment characterised by record fuel prices. This is our 23rd consecutive profitable quarter. This result shows the maturity of our marketing strategy whereby we are able to turn the traditionally weakest quarter and deliver strong results. Our new routes have performed beyond expectations, with the Kuala Lumpur-Shenzhen route proving to be the best ever in the airline's history.

Revenue for the quarter was RM462 million, a growth of 39% compared to the same period last year. These results are achieved by 25% growth in passenger volumes driven by a 10% higher average ticket prices and a 54% growth in ancillary income. Capacity grew by 34% for the period and load factor was constant to last year's 79%. Due to the higher fares achieved and higher ancillary income contribution, yields (Rev / ASK) was 10% higher.

Unit cost was at US3.00 cents / ASK, 3% lower than last year's US3.10 cents / ASK. Despite oil prices breaking new records, our cost improvement initiatives and the stronger Ringgit Malaysia against the US dollar has retained our position as the lowest cost airline in the world. The combination of higher yields with lower cost has boosted our profits significantly. Net income for the period was at RM180 million, a 157% growth against last year's net income of RM70 million.

I would like to thank the Malaysian Government for its decision to open up the Kuala Lumpur – Singapore route. This is a significant milestone for the consumers of Malaysia and Singapore as they now have the freedom of choice and benefit of competition. Malaysia is now leading the way in deregulation and regulatory change, underlining our belief that liberalization should be expedited in order to serve the best interests of the people.

In addition of being voted as *"The Best Low Cost Airline in Asia 2007"* by Skytrax Research of London; our collective effort as a team has won us another award – *The Airline of the Year* from CAPA. This award is especially gratifying as it represents the highest level of recognition and honour for AirAsia's outstanding achievements and strategic contribution over the previous year. AirAsia's introduction to the aviation industry as an innovator has grown to the extent it is now a leader that sets the benchmark.

The CAPA and Skytrax awards are testament to our resilience, commitment and discipline to deliver what we know best - which is for everyone to fly - and this exemplifies our endeavour in rising up against the big incumbent players.

Six years ago, we began as a small airline with a RM40 million debt and two aircraft. We have successfully turned the business around and had the most profound impact on the aviation industry. True to form, we must believe that our achievements today add up to just another beginning. We cannot rest on our laurels. The sky is high enough and wide enough to accommodate our growth plans. It is up to us to rise to the occasion."

Summary of First Quarter 2008 unaudited Financial Results

Quarter Ended: 30 September RM'000	Q1 2008	Q1 2007 (restated)	Q1 2008 vs. Q1 2007
Ticket Sales	424,563	308,203	38%
Ancillary Income	36,794	23,891	54%
Revenue	**461,585**	**332,093**	**39%**
EBITDAR	148,655	69,250	115%
EBIT	82,020	23,731	246%
Pretax profit	74,692	5,340	1299%
Net Income	179,977	70,002	157%
EBITDAR Margin	32.2%	20.9%	9.6 ppt
Pretax profit Margin	16.2%	1.6%	12.8 ppt
Net Income Margin	39.0%	21.1%	16.2 ppt

Summary of First Quarter 2008 Operating Results

Quarter Ended: 30 September	Q1 2008	Q1 2007 (restated)	Q1 2008 vs. Q1 2007
Passengers Carried	2,439,600	1,944,621	25%
ASK (million)	3645	2713	34%
RPK (million)	2707	2152	26%
Average Fare (RM)	174	158	10%
Rev / ASK (US cents)	3.65	3.33	10%
Cost / ASK (US cents)	3.00	3.10	-3%
Cost / ASK-ex fuel (US cents)	2.24	2.25	0%
Load Factor	79.3%	79.3%	0 ppt
Aircraft (average)	29.5	24.8	19%
Aircraft (end of period)	37	30	23%

First Quarter Review:

Total revenue for the quarter rose by 39% to RM462 million compared to RM332 million for the same period last year. Ticket sales grew by 38% to RM425 million as passenger numbers rose by 25%. Average fares were up by 10% and load factor was flat at 79%. Ancillary income rose by 54% to RM37 million, the per capita ancillary spend has increased by 23% to RM15.1 / pax and represents 8.0% of revenues, up from 7.2% a year ago. This performance reflects the increased service penetration and the success of our new product offerings. Due to the higher achieved average fares and ancillary income, yields was 10% higher than the same period last year.

Unit cost was down by 3%, this was due to our fuel hedge benefits that effectively lowered our fuel bill. Net income grew by 157% to RM180 million as compared to last year's net income of RM70 million. The strong top line growth coupled with lower cost has enhanced our profit margins. EBITDAR margin was 32% as compared to 21% last year and net income margin increased to 39% against 21% last year.

Financial Review and Outlook

Fleet Growth – poised for continued growth
The Group took delivery of six Airbus A320 aircraft in the first quarter: All six of the Airbus A320 aircraft was deployed to the Malaysian operations. Two Boeing 737-300 aircraft was redeployed from the Malaysian operations to the Thailand operations, one Boeing 737-300 was redeployed from the Malaysian operations to the Indonesian operations and one Boeing 737-300 was returned to the lessor as its lease expired. In the second quarter, the Group will have a net addition of five aircraft in its fleet, we will take delivery of six Airbus A320 aircraft and return one Boeing 737-300 as the lease expire. The addition of aircraft will be used to add frequency across the route network and introduce new routes.

Route Network – further strengthening the network
The Group has launched eight new routes since July 2007 and they have performed well. We plan to launch at least seven more new routes in the next 9-months and this includes the much awaited Kuala Lumpur – Singapore flight. We hope to serve this route as soon as possible – pending government's approval.

Cost – scope for further improvement
The addition of Airbus A320 aircraft will help to lower operating cost. The continued strengthening of the Malaysian Ringgit against the US Dollar is also helping with our efforts to lower cost.

Jet Fuel – managing the volatility
Our current fuel hedge is offsetting some of the impact of higher fuel prices. However, this fuel hedge will expire by the end of the year. We continue to look for opportunities to manage this period of extreme oil market volatility. But we are confident in managing the higher fuel price by increasing revenue from ancillary income and higher load factor.

Associates – undergoing transition phase
We remain very bullish with our associates and believe the current operational pressure will be sorted out in due course. It is very difficult to cope with the surging fuel prices especially when operating with a fleet of Boeing 737-300, the Airbus A320 aircraft is much better suited with the current fuel prices. The associates will receive the brand new Airbus A320 aircraft. With a little more time, the associates will enjoy the advantages of the brand new Airbus A320 aircraft and grow profitably. Overall, our joint-venture have significant competitive advantages; the brand recognition is very strong, the product is superior and the route network is unmatched by any competitor.

Outlook

Based on the forward booking trend in the second quarter, the underlying demand remains strong and yields are expected to be ahead than the same period last year. With the current volatile fuel price, it is difficult to predict our fuel bill for the second quarter. Assuming fuel price remains at the current level until 31 December 2007; the fuel bill will be higher than our initial budgets and will negatively impact on our ability to maintain profit margins that was achieved in the same period last year. Barring any unforeseen circumstances, the Directors remain positive with the Group's prospects.

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