End of an Era – Subsidies Removed from Domestic Air Travel Level Playing Field

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

Tony Fernandes, Chief Executive Officer, said:

"2006 has been the most eventful year in AirAsia's history. The Government's directive to rationalize domestic routes signalled the dawn of a new era for the Malaysian aviation industry, end of subsidies and birth of commercially driven competition. Malaysia cements its position as the leading low cost destination for the region by showcasing its first low cost terminal; and efforts are ongoing to complete the second low cost terminal in Kota Kinabalu by the end of the year. We appreciate the Government's continued support for the low cost carrier industry, and we are delighted that the Government share our passion and vision to make Malaysia the premier low cost carrier hub for the region. Although all these developments are positive for AirAsia, the benefits will only start on 1 August when the domestic rationalization is scheduled for commencement.

We are pleased with the strong passenger growth and the production of profits for the third quarter. Yields and average fares both declined (by 19% and 14%, respectively) consistent with guidance in our previous quarterly statement. This was a consequence of intense competitive pressures domestically coupled with our own aggressive marketing campaign. Although the yield reduction was greater than originally expected, it did stimulate a 42% increase in passenger traffic, it generated a load factor of 80% and it saw only a 1% increase in unit costs, ensuring that our profitability continues.

AirAsia's strategy continues to be successful overall, with passenger volume growing 43% so far this year and we have no problems filling our seats with guests. We continue to expand our network and added 13 routes during the period to serve a total of 65 markets - making AirAsia the most geographically connected airline in Southeast Asia.

Thailand achieved a net profit of THB42 million (RM3.9 million). This has been a positive quarter for Thai operations evident in its strong load factor of 82%, steady average fares and 5% improvement in unit cost. Indonesia is still posting losses, although many of the issues contributing to these are currently being addressed. Despite the tougher conditions than anticipated, we remain confident with the opportunities that Indonesia presents.

We managed to maintain our cost/ASK at a similar level to last year's 2.14 US cents per ASK, despite a 26%fuel price increase. Our fuel hedge and surcharge recoveries helped to mitigate some fuel price impact, along with benefits from the efficiency gains attributable to the Airbus A320 and Ringgit appreciation against the US Dollar. We are immune to the interest rate hikes as we have swapped all our loan requirements. It is the management's policy to minimize as much structural risk out of the business as possible.

We moved our operations to the new low cost terminal which was officially launched by the Prime Minister on 23 March. The relocation has been relatively smooth, notwithstanding the time it takes to become familiar with a new facility. The new low cost terminal is delivering numerous cost saving opportunities that we are continuing to leverage. These benefits should become visible in the results for the fourth quarter of FY06 and in the ensuing months.

The Malaysian Government released its blue print for domestic rationalization on 27 March 2006. It affirmed that Malaysian Airline Systems will cater to the premium and international connectivity market while AirAsia focuses on the mass market. In its initial shape, it provides for MAS to operate only 19 trunk routes and for AirAsia will fly six-seven routes. Furthermore, we will be in charge of overseeing the rural air services on behalf of the Government. This will have no operational or financial burden to AirAsia whatsoever, as the Government bears full liability for the rural air services. We are in constant dialogue with MAS to produce a workable structure before the 1 August 2006 implementation date.

We continue to make positive developments in ancillary income. Currently, it represents 8.5% of revenues and it has been growing steadily every quarter. Go-Holiday is now a very popular 'do-it-yourself' holiday for our guest and we are affiliated with over 300 hotels. We begin selling insurance since 26 April and the appetite is remarkable, we sold 69 thousand policies and we haven't had the chance to promote this product on a grand scale. We believe there are plenty of growth opportunities and will seek to expand the product offering.

We have received six Airbus A320 to date. The transition has been very smooth and the aircraft has exceeded our initial expectations. There has been positive public feedback for the Airbus A320 and it is proved to be popular among our guests. The Airbus A320 has enhanced our image and enables us to improve our service, reliability and fuel efficiency

Our outlook for the fourth quarter is positive relative to the third quarter. We budget for higher oil prices, but anticipate that these higher costs will be partially offset by a more benign yield environment given Malaysia Airlines cessed its 'Supersaver' discount programme. The new A320s, the cost and operational benefits from the low cost terminal and a strengthening Ringgit should continue to drive operating costs lower, although fuel volatility will remain a variable."

Summary of Third Quarter FY2006 Audited Financial Results

Year End : June RM'000	Q3 2006	Q3 2005	Δ (%)
Revenue	201,681	163,911	23%
EBITDAR	54,753	57,332	(4%)
Net Income	22,799	40,688	(44%)
EBITDAR Margin	27%	35%	

Summary of Third Quarter FY2006 Operating Results

Year End : June	Q3 2006	Q3 2005	Δ (%)
Passengers Carried	1,559,794	1,099,596	42%
ASK (million)	2296	1650	39%
RPK (million)	1833	1187	54%
Rev/ RPK – US cents	2.95	3.63	(19%)
Cost/ ASK – US cents	2.14	2.12	1%
Cost/ ASK (ex-fuel) – US cents	1.16	1.00	(16%)
Average Fare (RM)	123	143	(14%)
Load Factor	80%	72%	8 ppt
Average Stage length (km)	1192	1072	11%
Aircraft (average)	21.55	17.07	27%
Aircraft (end period)	24	20	20%

Third Quarter 2006 Review:
Revenue for the quarter was 23% higher than the same period last year. This is driven by a 42% growth in passengers carried and a higher contribution from ancillary income, but offset by a 14% drop in average fare and an 11% rise in stage length. Capacity grew by 39% from the same period last year as a function of additional aircraft, including the A320 which has 22% more seating capacity than the Boeing 737-300.

Profitability for the quarter was lower than the same period last year, EBITDAR margins was lower at 27% as compared to 35%, and net profit was RM22.8 million – down 44% from last year. Profits was lower was due to lower average fares as a consequence of irregular intense domestic market competition coupled with our own aggressive marketing campaign. Furthermore, profit was affected by irregular once-off maintenance cost of RM6.3 milllion, due to last batch of Boeing 737 that was inducted into the fleet. In addition due to accounting policy this quarter had an abnormal number of heavy checks.

The quarter's key features are outlined below:-

Cost/ASK 2.10 US cents – disciplined cost control

Cost per ASK for the quarter is 2.14 US cents, only a 1% increase from last year despite a fuel price that increased by 26% vs. the same period last year. We retain our position as the lowest unit cost airline in the world, effectively widening the range further relative to our peers. The new A320's superior economics contributed significant cost savings, as well as recoveries from our fuel hedge and surcharges that helped to alleviate the effect of rising oil prices.

Thai-AirAsia – low cost travel has firm footing in Thailand

Thai AirAsia posted a net profit of THB41.7 million (RM3.9 million) for the quarter on the back of a 61% growth in passengers carried and average fares largely flat relative to last year. Load factor improved by 13 percentage points to 82% as compared to 69% last year. Cost per ASK improved by 2% to 2.58 US cents for the quarter largely due to scale benefits and a positive recovery from fuel surcharges. These improved operational metrics drove EBITDAR margins to 21% vs. 14% for the same period last year.

Indonesia-AirAsia – still in the ramp-up phase

Indonesia continues to produce losses. It now has six aircraft, which should provide adequate scale to produce profits in the periods ahead. There have been positive developments including permission to advertise our fares, which previously we were barred from. This should improve our marketing efforts and ability to capture wider support. We remain positive with regards Indonesia's future potential and are targeting profitability by FY2007.

Route Expansion – connecting the dots all over Asia

We have launched 13 new destinations since the beginning of FY2006, bringing the current total route network of 65. We plan to add more routes for the remainder of the financial year, depending on market dynamics and regulatory approval.

LCC terminal – aka Red Fort

The low cost terminal was officially launched by the Prime Minister on 23 March 2006. For the first time ever the company is consolidated under one roof. This contributes to a more harmonious relationship between employees as well as a better working environment. This terminal will provide cost-saving and efficiency enhancements that should be visible in the fourth quarter FY2006. Malaysia's second low cost terminal is being built in Kota Kinabalu and is expected to be completed by the end 0f 2006. We appreciate the Government's continued support for the low cost carrier industry, and are delighted that the Government share our passion and vision to make Malaysia the premier low cost carrier hub for the region.

Financial Review and Outlook

Fuel – cost wildcard
Fuel prices have spiked to historically high levels. Our current hedging structure provides us with a US$12 / bbl discount to the market price of WTI until the end of the current fiscal year. Cost recoveries from our fuel surcharges averaged around RM16.8/pax for the third quarter, or US$14.7 per barrel equivalent. To date, we have yet to implement a fuel hedge beyond June 30 2006, but are constantly monitoring the market for opportunities.

Domestic Rationalization – End of subsidies, beginning of market driven competition
This is the single most important development for AirAsia as MAS' domestic operations will cease to receive subsidies and will now compete on a commercial footing. Given our cost advantage, we believe that the new "division of labour" will positively contribute to the company when the new regime commences on 1 August 2006.

Associates – will positively contribute to the Group
Thailand's operations have achieved adequate scale to generate consistent profits and are poised for strong growth. We are confident that Thailand will continue to contribute positively to the Group. Indonesia will not contribute to the Group this financial year, but is expected to be profitable by FY2007.

Outlook
The Group is facing a number of uncertainties including elevated fuel. The competitive landscape seems to be moving towards a sensible manner - given that Malaysian Airlines has ceased domestic discounts and has already reduced capacity on some routes. Barring any unforeseen circumstances, the Directors remain positive with regards the Group's growth prospects and expect profits for the financial year ending 30 June 2006 to achieve modest growth, or at least match those achieved in the 2005 financial year.

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