AirAsia Announces Annual Profits of RM127m with Net Margins of 14.8%

AirAsia Berhad, Asia's leading low-cost carrier is pleased to announce the unaudited results for the fourth quarter ended 30 June 2006 and provide a review of recent notable events and achievements.

Tony Fernandes, Chief Executive Officer, said:

"AirAsia has again delivered record traffic growth and profits in the face of significantly higher fuel prices, intense competition and volatile currency movements. Despite these challenges, the Group has significantly lowered fares for our guests, carried 35% more passengers, significantly improved service levels and maintained industry leading profit margins. This strong performance validates our belief that the low fare, low cost model will continue to grow profitably in both good and bad times.

Net profit for the quarter was RM39 million, a 143% increase over the same period last year on the back of 21% revenue growth. Capacity grew by 25% for the period and we managed to improve load factors by 7 percentage points to a record 83%. This growth was driven by lower fares; our average fare declined by 13% to RM130 and yields are 8% lower. Unit cost is down by 3% even with fuel price increasing by 26% in the period. Despite these substantially higher fuel costs and increased competitive challenges, AirAsia delivered 16.2% net income margins, produced positive cashflow from operations and boosted cash balances by RM30 million to RM426 million.

Thailand's operation performed well with load factor of 76% compared to 68% for the same period last year. The average fares were lower but unit cost improved by 13%. However, currency translation losses cancelled out THB30 million of operating profits and Thailand posted a net loss of THB36 million. We are looking at structures and resources to better manage our currency exposure and have hired additional qualified personnel in this area to oversee this portfolio. Indonesia posted a loss but we manage to stabilise the level of losses. The Government's decision to allow us to advertise fares and levy fuel surcharge has significantly improved the Indonesian operations. We have seen load factors and average fares improving significantly and we believe Indonesia is on track to achieve breakeven in FY2007.

Ancillary income continues to grow strongly. Currently, it represents 8.4% of revenue and has been increasing each year. Our latest product offering Go Insure has been well received by the public and this service will be made available by our Thai and Indonesia operations soon. We are continuously expanding the product offerings that we believe could give a further boost to ancillary income.

The Group has continued its growth path for the past year; 15 aircraft were added to the fleet, 13 new routes were introduced and we successfully carried our 20 million guests since inception. For the full financial year 2006, AirAsia achieved revenue growth of 28% and net profit growth of 14%. This was achieved on the back of 30% passenger growth to 5.7 million, 4% decrease in average fares to RM137 and increased contributions from ancillary income. Load factors improved by 3 percentage points to 78%, and we are consistently achieving load factors above 80% since January 2006. Unit cost increased by 6% to US2.33 cents / ASK as our fuel cost effectively rose by 10% for the period. The net profit margin for the year was 14.8%, a 2 percentage point drop from the same period last year due to the substantially higher fuel cost and lower fares achieved due to the increased competition.

We thank the Government's persistent drive to make the domestic rationalization a reality. The Malaysian aviation industry has taken a significant step forward; MAS no longer receives subsidies and AirAsia is now an equal status national carrier. We welcome the new environment, and while it will undoubtedly lead to increased competition due to the absence of any floor price restriction, we believe our low cost base will enable us to enhance our position in the domestic market as evidenced already by high advance bookings and pickup rates. Apart from the price of oil, AirAsia's prospects remain bright.

Our sponsorship agreement with Manchester United was a resounding success and we will extend the deal for another year together with Tourism Malaysia and TV3. This joint sponsorship not only saves cost, it will also maximise benefits as we streamline our efforts to promote the "Visit Malaysia Year 2007" campaign. Our co-branded Manchester United merchandise is very popular, and the sales generated well exceeded our expectations.

We have received nine Airbus A320 aircraft to date bringing down the average fleet age. The Airbus replacement programme is proving effective with better aircraft reliability and 6% reduction in fleet fuel consumption. We believe these performance and savings can be further improved over the coming years. We are very satisfied with the proven superiority of the aircraft and have now decided to exercise our options for delivery of 40 additional Airbus A320 aircraft with options to purchase additional 30 aircraft more. The addition of these aircraft will enable us to continue to drive down our aircraft and operating costs, as well as securing AirAsia's fleet requirements up till 2012 thus locking in the benefits of our original aircraft acquisition agreement.

The Group fleet will increase by 13 aircraft during the next financial year. We will launch around 11-13 new routes and carry between 13-15 million guests across the Group. Traffic at our new hubs in Kota Kinabalu and Kuching are very encouraging, with strong advance bookings and satisfactory average fares. We plan to announce another new hub in northern Malaysia over the coming months, as well as further expansion of our existing hubs.

Undoubtedly fuel costs remain high, and the market is extremely volatile. The higher oil prices will exert further pressure on our cost base over the coming 12 months. We are unhedged at the moment but we are constantly looking for opportunities to hedge our requirements, but only if suitable opportunities present themselves. We have increased our fuel surcharge and the recent strengthening of the Malaysian Ringgit will help us partially offset these higher oil prices.

Our former Group CFO, Raja Azmi has resigned from the company and he now heads Fly Asian Xpress (FAX), the latest airline in Malaysia. Raja Azmi was one of the pioneers of the company and he played a pivotal role to build up a solid and reputable finance team. I wish him all the best for his future endeavours and hope that AirAsia will work together with FAX for our mutual benefits. It also brings me great pleasure to welcome Rozman Omar as our new Group CFO. Rozman is also another pioneer member of the company. He has held various successful positions in the company, most recently as Chief Financial Officer of Indonesia AirAsia. I am confident that Rozman will bring great dedication and commitment to the position."

Summary of Fourth Quarter and Full Year 2006 unaudited Financial Results

Year End : June RM'000	Q4 2006	Q4 2005	2006	2005	Δ (%) qoq	Δ (%) yoy
Revenue	241,783	199,508	855,666	666,250	21%	28%
EBITDAR	77,180	46,206	244,671	204,169	67%	20%
EBIT	40,024	25,566	108,365	126,103	57%	-14%
Net Income	39,098	16,108	126,943	111,635	143%	14%
EBITDAR Margin	**32%**	**23%**	**29%**	**31%**	**9ppt**	**-2ppt**
Net Income Margin	**16%**	**8%**	**15%**	**17%**	**8ppt**	**-2ppt**

Summary of Fourth Quarter and Full Year 2006 Operating Results

Year End : June	Q4 2006	Q4 2005	2006	2005	Δ (%) qoq	Δ (%) yoy
Passengers Carried	1,623,130	1,203,459	5,719,411	4,414,069	35%	30%
ASK (million)	2388	1903	8646	6525	25%	32%
RPK (million)	1979	1447	6702	4881	37%	37%
Average Fare (RM)	130	150	137	143	-13%	-4%
Rev / RPK (US cents)	3.35	3.63	3.44	3.59	-8%	-4%
Cost/ASK (US cents)	2.32	2.40	2.33	2.19	-3%	6%
Load Factor	83%	76%	78%	75%	7 ppt	3ppt
Aircraft (average)	21.8	17.6	20.5	16.3	24%	25%
Aircraft (end of period)	26	19	26	19	37%	37%

Full Year 2005:
Revenue grew by 28% to RM856 million compared to RM666 million for the same period last year. The revenue growth was driven by 30% growth in passengers carried, 4% decline in average fares and higher contribution mix from ancillary income. The lower fares enticed strong traffic growth and improved load factors by 3 percentage points to 78% despite 35% capacity addition. The combination of lower fare and 14% longer stage length reduced yields by 4%. Unit cost increased by 6% to US2.33 cents / ASK as our effective fuel cost rose by 10% for the year. As a result, AirAsia's net income margins fell by just 2% to an industry leading 15% as net profit increased 14% to RM127 million.

Fourth Quarter:
Revenue for the quarter rose by 21% to RM242m as against RM200m for the same period last year. The increase was driven by 35% increase in passengers carried, 13% decline in average fares and better contribution mix from ancillary income. The lower fares stimulated strong traffic as depicted by our record 83% load factors despite 25% capacity addition. The combination of lower fare and 3% longer stage length reduced yields by 8%. Unit cost was down by 3% compared to last year. The increased business scale with lower cost improved our profit margins. EBITDAR margins increased to 32% as compared to 23% last year. Net income rose by 143% for the quarter with net profit margins of 16%, double the margins achieved in the same period last year.

The quarter's key features are outlined below:-

Superior Unit Cost – second to none cost control discipline
Our unit cost fell by 3% to US2.32 cents / ASK as a result of higher productivity, better economics from the Airbus A320 and our active fuel saving programme. Cost recoveries from our fuel surcharges averaged at RM27/pax for the fourth quarter, or US$18.9 per barrel equivalent and our fuel hedge provided us with US$12 / bbl discount to the market.

Thai-AirAsia – negative impact from forex losses
Thai AirAsia posted a net loss of THB36 million (RM2 million). Operationally, Thailand performed well as depicted by strong load factor of 76% compared to 68% last year, unit cost fell by 13% to 2.44 US cents / ASK and EBITDAR margin expanded to 14% as compared to a loss for the same period last year. However, forex losses wiped out THB30 million and this contributed negatively to the operations. We are looking at structures to better manage our currency exposure.

Indonesia-AirAsia – conducive business environment finally here
Indonesia continues to produce losses; however the level has been contained. Cost items will improve going forward as the industry collectively imposed a fuel surcharge on 10 May to partially offset the impact of rising fuel price. We have further increased the fuel surcharge and there has been no noticeable impact on demand. We have seen dramatic improvements in our Indonesian operations as soon as we are allowed to advertise our fares; daily pickup rates has more than doubled and we are enjoying high load factors with better yields. We reaffirm our belief that the Indonesian operations is set for a turnaround in financial year 2007.

Domestic Rationalization
There have been some amendments to the domestic rationalization structure. The Government has granted MAS to fly an additional 3 routes; therefore the definition of trunk route is expanded to 22 routes. In addition, the price floor restriction has been removed and MAS is free to decide how to price its inventory. On the other hand, we are not burdened with any interlining requirements and the Government grants us equal status for any international air service bilateral agreements. We believe this is a fair and amicable resolution to all parties.

Financial Review and Outlook

Fleet Growth
The Group will have a net addition of 13 aircraft in its fleet (compared to FY2005 net increase of 15 aircraft). We will take delivery of 14 Airbus A320 and return 1 Boeing 737-300 as its lease expire during the period. The addition of aircraft will be used to launch new routes, add frequency and build our Kota Kinabalu and Kuching hubs.

Route Network – connecting the dots all over Asia
We have launched 8 new routes since July and we are looking to introduce another 3-5 routes for the remainder of the financial year. We are ecstatic with the prospects and we will continue our effort to expand the low cost phenomenon for everyone to enjoy. We are very pleased with the strong support shown on these new routes, notably Kuala Lumpur to Brunei, Kota Kinabalu to Kuching, and Bangkok to Yangon which are enjoying exceptional load factors since its launch. This highlights the strong demand and eagerness to embrace low cost travel in places we haven't flown to before.

Costs – there is scope for improvement
We refuse to let fuel prices hinder our efforts to reduce cost. The low cost terminal is delivering numerous cost benefits and the impact will be apparent as it will be full year accounted. The addition of the Airbus A320 aircraft will bring forth better productivity, lower fuel consumption and lower maintenance cost. However, our depreciation and interest charges will increase with addition of these aircraft. On a net basis, we believe these initiatives will help drive down ex-fuel cost items by 5-9%.

Jet Fuel – capricious cost
Jet fuel price continues to exhibit significant volatility and exert negative pressures on our cost structure. We remain unhedged and purchase fuel at spot rates. We are constantly monitoring the market for suitable opportunities to hedge out our outstanding requirements for the fiscal year. We increased our fuel surcharges on 1 August 2006 and this should render an equivalent recovery of US$30/bbl of our unit fuel cost. We will monitor the fuel surcharge and assess the need to make any adjustments; thus far we have not seen any impact on demand.

Associate – will contribute positively to the Group
Thailand's operations are generating consistent profits given its adequate scale and established routes. Barring any abnormal swings in the Ringgit Malaysia and Thai Baht forex, Thailand will contribute positively to the Group. Indonesia is headed in the right direction and we believe it should break-even in financial year 2007.

Deferred taxation charge
In the preparation of the financial statements, the Company has complied in all material respects with Financial Reporting Standards ("FRS") except for FRS 112 $_{2004}$ on Income Taxes. The Directors are of the view that compliance with FRS 112 $_{2004}$ will not present a true and fair financial position and performance of the Company.

FRS 112 $_{2004}$ requires that a deferred tax liability be recognised for all taxable temporary differences. In addition, a deferred tax asset should be recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. However, FRS 112 $_{2004}$ does not allow companies to recognize unutilised investment tax allowance as deductible temporary differences, even though such recognition is permissible under International Financial Reporting Standards ('IFRS').

Based on the confirmed number of new Airbus A320 aircraft ordered by the Company, agreed purchase price and a reasonable assumption of future profitability, it is projected that the Company will accumulate unutilised capital allowances of approximately RM8.2 billion by the end of the financial year ending 30 June 2011.

Over and above the unutilised capital allowances, the Company expects to have an increasing amount of untilised investment tax allowances granted by the Malaysian Government over the next few years as its aircraft acquisition program continues. Both the unutilized capital and investment tax allowances arising on the significant investment can be carried forward indefinitely. Accordingly, the Company does not expect to pay any tax in the foreseeable future.

Application of FRS 112 $_{2004}$ would require the Group and Company to record a charge of RM26.1 million in the income statement for the financial year ended 30 June 2006 and a deferred tax liability of RM39.7 million as at 30 June 2006, consequently resulting in a reduction in profit after taxation and earnings per share. In the light of both the capital and investment tax allowances available and the prevailing practice under IFRS, the Directors are of the view that compliance with FRS 112_{2004} for the financial year ended 30 June 2006 would distort the Company's earnings and does not present a true and fair view of the Company's financial performance and cash flows under FRS 101_{2004} and the Malaysian Companies' Act 1965. Adoption of this approach has resulted in the Group recording a deferred tax

International Financial Reporting Standards (IFRS)
AirAsia will adopt IFRS for its 2007 financial year. The IFRS requires mark to market valuation for all derivative products and valuation of any joint ventures and associates. IFRS requires quarterly adjustments for unrealized gains/losses for our interest rate swaps, fuel derivatives and currency futures. For the purpose of consistency and ease of understanding, the Company will continue to publish results that reflect cash related statements in addition to the IFRS requirements.

Outlook
We are confident that traffic will grow by 40% to 8 million passengers and our associates will carry between them 6-7 million passengers in financial year 2007. We will continue to drive our fares down to entice more people to fly and retain our high load factors. As a result of lower fares, our yields will be generally flat, as our stage length will reduce and some our routes will mature. Assuming fuel prices remain at current levels and barring any unforeseen circumstances, the Directors remain positive with the Group's prospects and expect pre-tax profits to achieve growth for the financial year ending 30 June 2007. However, the Directors would caution that the first quarter 2007 will be distinctively weak due to the presence of Ramadan fasting month.

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