Performance Review

Chairman & Group CEO's Statement

Dear Shareholders

As paradoxical as it may seem, the year 2023 – with all its challenges – stands out as the year we are most proud of since the start of AirAsia and, now, Capital A. While much of the world carried on with a semblance of normalcy, for airlines with a focus on Asia, it marked a pivotal year in which international borders finally fully re-opened, catapulting us into the colossal task of building up our aviation businesses once again. In all sincerity, the endeavour proved to be much more daunting than when we started from scratch 22 years ago. Just reviving a single aircraft demands 40 worker hours; compound this by a factor of 41, which is the number of aircraft we eventually brought out of hibernation. What's more, aircraft maintenance facilities in the region were severely restricted with high demand and supply chain bottlenecks everywhere. Beyond mere mechanical revival, we also had to bring in people, re-establish routes and jostle for limited airport slots amid a burgeoning and competitive landscape.

TAN SRI ANTHONY FRANCIS FERNANDES
Non-Independent Executive Director
and Chief Executive Officer

DATUK KAMARUDIN BIN MERANUN
Non-Independent Executive Chairman

Yet… we made it. What's more, unlike many airlines across East Asia, Europe and Australia, we survived with zero state support except for one RM300 million loan (USD63 million) from a development bank in Sabah. While getting the airlines off the ground, the team also worked extremely hard on building all our non-AirAsia businesses, laying solid foundations for future growth. Thanks to everyone's commitment, we are today a low-cost, high-quality holistic aviation and travel services group made up of value-creating companies in aviation (AirAsia Group), aviation services (Capital A Aviation Services), logistics (Teleport) and branding/intellectual property (Capital A International) with our own travel platform (MOVE Digital, formerly airasia Digital) and venture capital arm (RedBeat Capital).

As highlighted in the theme of this report, our focus is Asean. All our businesses are geared towards stimulating greater integration and economic growth in this region, which we have always considered our home. As we drive value for communities in Asean we are also laser-focused on realising the true value of all our companies for our shareholders. It is to this end that we are disposing of our airline business to AirAsia Group.

This disposal of Capital A's aviation business is a deliberate and deeply considered move. It is not a response to COVID-19, but an effort that started in 2018. It came on the back of investors' strong interest for a pure-play aviation company, and the vision of bringing together short-haul and long-haul airlines for the creation of the first low-cost carrier with a global network, akin to the successful models of Middle Eastern airlines, but with a unique anchor in the Asean region. This would set us apart as trailblazers in the aviation industry, something that is deeply ingrained in our corporate DNA.

The ultimate aim is for both airlines to have a converged fleet strategy operating on a single narrowbody family; AirAsia will upscale our Airbus A320 aircraft to the Airbus A321 and A321LR (Long Range) while AirAsia X downscales its widebody A330 to the narrowbody A321XLR (Extra Long Range). With the A321LR and A321XLR, our flight range would extend to between seven and 10 hours, effectively enabling us to connect to any destination anywhere in the world with just one stop. The choice of the A321 is based on various compelling factors. Most significantly, the aircraft have better fuel efficiency and larger capacity than the existing A320 which would result in lower cost per seat for every trip. They will also allow us to carry more guests to congested airports in the short-haul network, while opening up many more possibilities in the medium-haul segment as we will be able to fly to secondary and tertiary cities more efficiently. Given the weight advantage of the A321 over A330 aircraft, we can land them in more airports; plus we only need to fill 240 seats instead of 377 seats in the bigger A330 model. In addition, the A321 requires a shorter turnaround time than the A330, allowing for greater utilisation. The financial benefits seal the deal; by sticking to the same family, we save on the cost of maintenance and spare parts, as well as pilot training.

Aviation

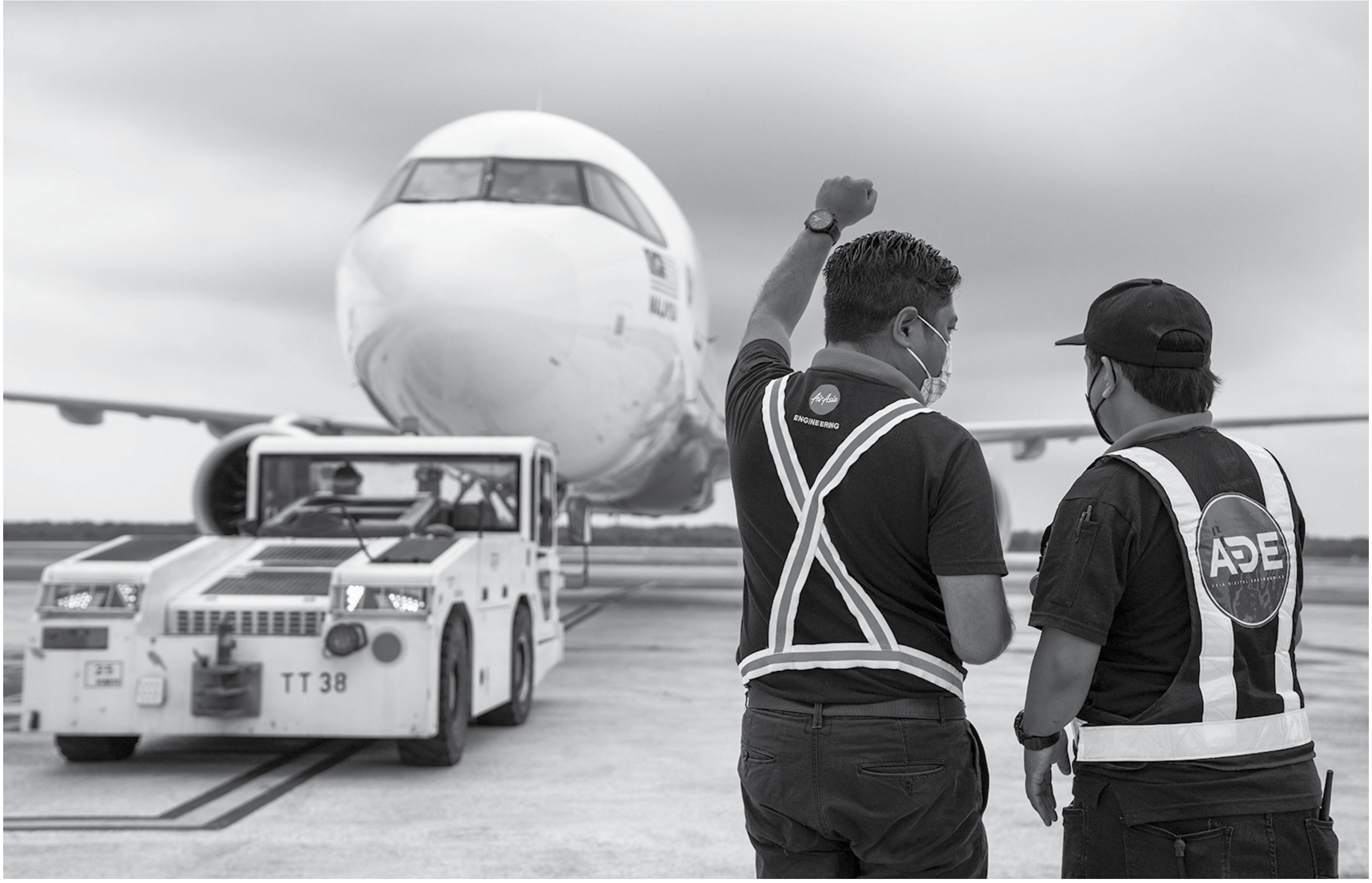
To capitalise on the strong rebound in international travel, we focused on reactivating our fleet – bringing back into service as many aircraft as possible, as quickly as possible. As mentioned above, it was an onerous task; nevertheless, we achieved significant success. MRO restrictions and other challenges aside, we brought 41 aircraft out of storage to end the year with 167 aircraft back in operations, with just 36 more to go. Although our seat capacity was only 74% of that pre-COVID, we flew 77% of our pre-COVID guest volume, achieving a higher load factor of 88% compared to 85% pre-COVID. We also worked intently on the groundwork for our latest AOC, AirAsia Cambodia, which will become operational by Q2 2024.

Over the years, we have been fine-tuning the use of big data and data analysis to enhance our ancillary income. This year, along with the pick-up in travel, we reaped the tangible benefits of personalised marketing and optimised pricing, with checked-in baggage, seats and inflight products enjoying robust take-up rates resulting in a substantial boost to revenue. In 2023, we recorded our highest ever ancillary income of RM2.4 billion with ancillary per pax at RM48, approaching our long-held goal of RM50.

We have also completed the restructuring of contracts with Airbus, GE and lessors encompassing substantial sums in the billions, placing us closer to a regularisation plan that aligns with the expectations and needs of our stakeholders. On the topic of regularisation, the Aviation business bore the brunt of COVID-19, calling for the tough decision of having to let go a number of our valued Allstars. From the outset, we had promised to bring them back when circumstances improved. On 16 August 2023, we celebrated accomplishing this mission, which marked a meaningful milestone for our company and our dedicated team members.

Performance Review (cont'd)

Chairman & Group CEO's Statement (cont'd)



Capital A Aviation Services

This business segment comprises all our aviation support service companies, namely MRO service provider Asia Digital Engineering (ADE), food services company Santan, Capital A Consultancy, and the newly-formed shared service centre DARTS.

In 2023, ADE completed its 100th C-check, a remarkable milestone for an MRO only in its second year of operation. Further accelerating its growth, ADE secured USD100 million in funding from OCP Asia which is being used to add 14 lines to its current seven. Once these are completed in Q3 2024, ADE's basic maintenance capacity will be significantly enhanced, enabling the team to grow its third-party client base. Meanwhile, its newly established digital marketplace AEROTRADE is now a thriving platform serving the needs of more than 150 airlines, MROs, distributors, OEMs, agents and stockists worldwide. ADE's second groundbreaking digital solution, ELEVADE FLEET, is revolutionising aircraft maintenance with predictive and preventative capabilities.

Santan has bounced back in tandem with AirAsia Aviation's recovery, selling more than 19 million units of inflight meals, beverages, merchandise and duty-free, an increase of 114% year on year (YoY). It also expects to add third-party clients soon. We are especially optimistic about its ambient food technology which will significantly reduce wastage while opening up more revenue possibilities. Other than food, Santan is growing our inflight duty-free offerings with more Malaysian and eventually Asean brands, in line with our Asean-centric focus.

Capital A Consultancy continues to provide advisory to a new low-cost airline being set up in Bangladesh while marketing its services far and wide. DARTS was set up towards the end of 2023; however, it is not entirely new. It carries on the work of AirAsia SEA but now as a profit-making business in its own right. We believe that converting it into a business will help to increase efficiencies and reinforce our culture of minimising costs as far as practicable.

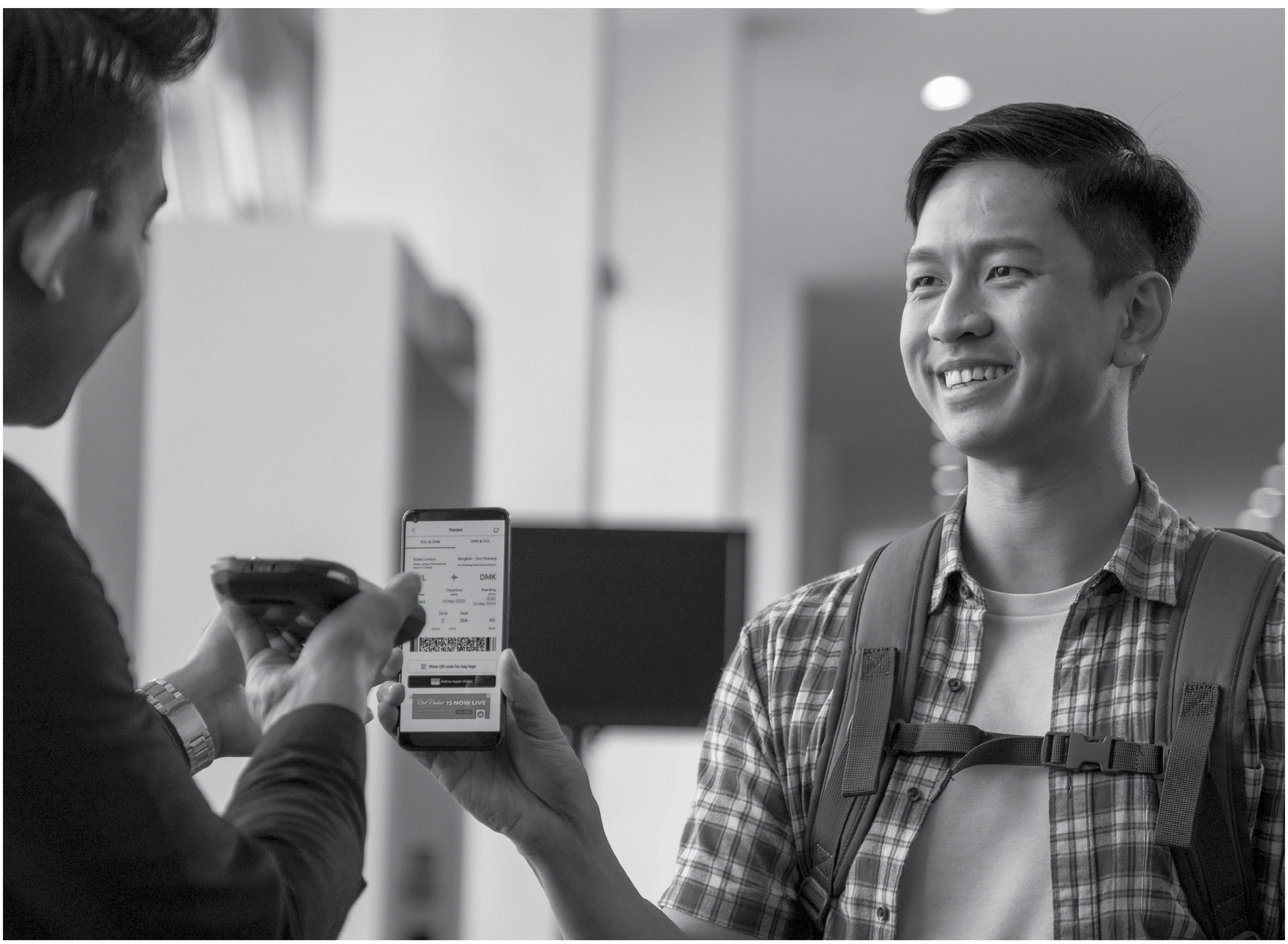
GTR is also experiencing significant growth along with increased flight and cargo traffic. Of note, it is ensuring this growth is green, introducing electric vehicles in klia2 for towing baggage and cargo. We are heartened to see small yet steady steps by our businesses that support the Group's overall mission to reduce our emissions.

Teleport

Teleport has undergone several business model iterations since its inception as a general sales agent (GSA). First, it consolidated the belly space of all AirAsia passenger aircraft across six AOCs to transport cargo. When the pandemic struck, it swiftly adapted, converting passenger aircraft into cargo carriers and establishing interlining partnerships with other airlines to boost capacity. Today, it is an integrated logistics solutions provider, operating a multi-modal, first- to last- mile network infrastructure -- its mid-mile comprises the largest air logistics network in Southeast Asia. Its air network combines a hybrid model of AirAsia's belly space and over 30 partner airlines, as well as three new freighters, inducted in 2023. With expanded capacity, its total tonnage increased 88% YoY to nearly 200,000 tonnes while parcel delivery surged by 275%, hitting close to 30 million parcels, leading Teleport to cement its position as the leading air logistics provider in Southeast Asia.

MOVE Digital

airasia digital rebranded to MOVE Digital and airasia Superapp to AirAsia MOVE to better reflect our commitment to moving people, funds and innovation forward within the travel space. During the pandemic, when air travel was curtailed and demand for delivery skyrocketed, we seized the opportunity to diversify into various online products and services, including even fresh fruit and seafood. With travel recovery, we are now refocused on evolving into a leading values-driven online travel agency (OTA) in Asean underpinned by AirAsia's vast network in the region. The results are evident, with significant growth in non-AirAsia flight and other bookings. As always, we aspire to be more than just another OTA; we want travellers to see AirAsia MOVE as an all-in-one travel platform where they can even research and plan the perfect holiday. Central to this vision is our Community where travellers can connect, share stories, and exchange tips for the best travel experiences.



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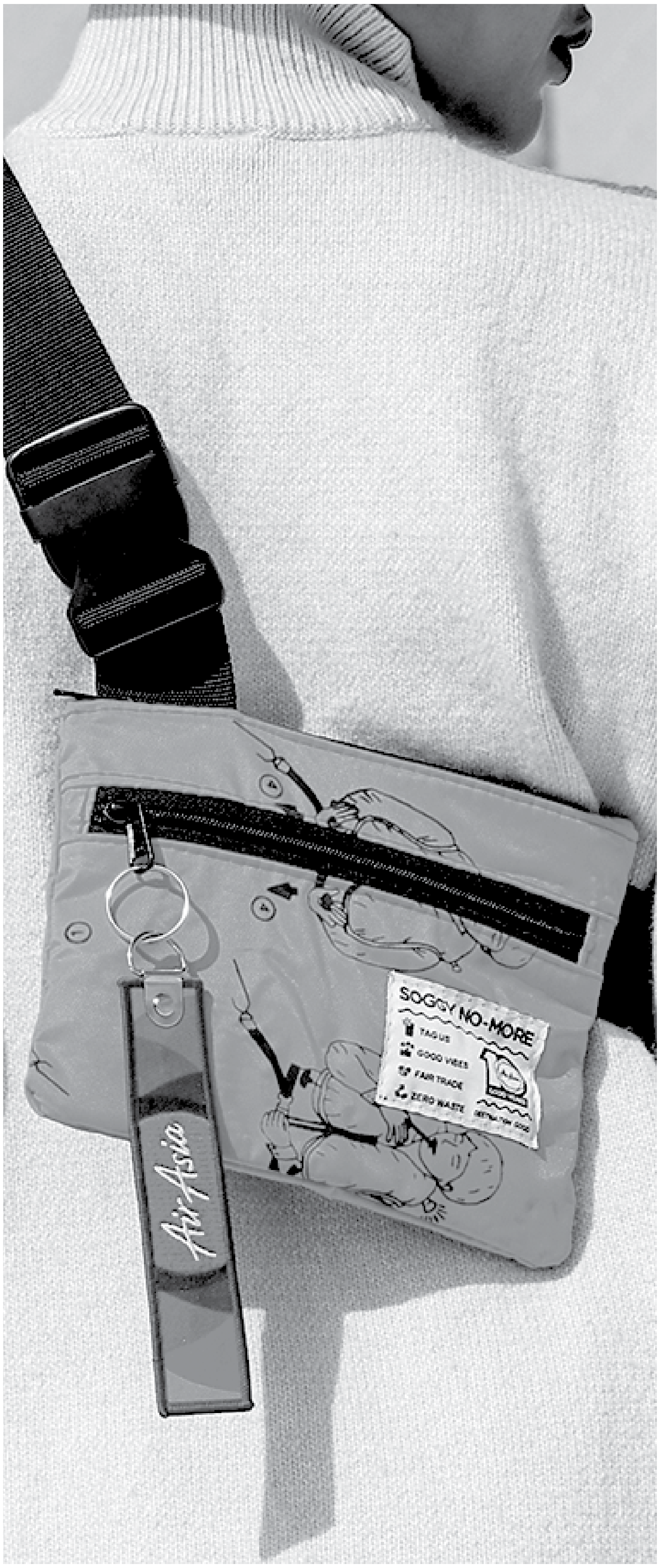

In a strategic move, we have integrated our inclusive financial platform BigPay into AirAsia MOVE, allowing customers to access the financial services they need for travel and more.

The initiative contributed to a 60% surge in the closed loop payment business YoY. Meanwhile, BigPay is rapidly becoming regional, enabling DuitNow QR payments in China, Indonesia, Thailand and Singapore. It has also launched a Thai operation and is partnering UnionDigital Bank in the Philippines to serve this market.

Capital A International

While letting go of AirAsia the airlines, Capital A has plans to further build the brand and monetise it the way other IP-led companies such as Disney have done with their brands. This new business direction comes under the purview of Capital A International, our latest business, driven by AirAsia brand co. (Abc.), which was established in January 2023. The idea is to become a leading global brands and IP management powerhouse, leveraging our two-decade legacy of AirAsia brand assets and brand management expertise. While the lead brand is AirAsia, our portfolio extends from Santan to ADE and even BIG.

Our vision is to infuse our ethos of value, inclusivity and efficiency into diverse industries via ventures such as airasia academy, AirAsia Ride and, possibly in future, AirAsia Hotel and maybe even AirAsia Hospital.

RedBeat Capital

RedBeat Capital currently supports two companies – airasia academy and ikhlas.com – both of which are growing from strength to strength. The academy's platform has been used to replace the Workday Learning Management System across Capital A. Externally, the team is forming numerous partnerships with government agencies, especially in the area of technical training, and is looking into the possibility of creating a TVET marketplace linking institutions and industry. Meanwhile, along with travel recovery, IKHLAS Umrah packages have finally taken off, and the team is developing non-pilgrimage related Muslim-friendly travel packages to exciting destinations all over the world as it taps into the growing niche market.

Group revenue

RM14.7 billion

Group EBITDA

RM1.9 billion

Financial Performance

Financially, it has been a rewarding year, indicating we are on a firm path to full recovery. The Group's revenue increased by 128% YoY to RM14.7 billion, and even surpassed our 2019 revenue by RM2.8 billion despite operating at only 79% of the number of aircraft flown in 2019. We also recorded a 39x increase in earnings before interest, taxes, depreciation and amortisation (EBITDA) of RM1.9 billion.

The Aviation business contributed to RM13.7 billion of our revenue, or 91% of the total. This represents a 2.3x increase from RM6.4 billion in 2022 and, more hearteningly, a 20.3% increase from revenue in 2019. Our strong performance was supported by a 26% increase in average fares as well as 103% growth in the total number of guests carried. As mentioned earlier, ancillary income of RM2.4 billion was also significant. In addition, Aviation recorded RM1.5 billion in EBITDA (pre-elimination), marking 285% growth YoY. The 15% drop in fuel price was a contributing factor, and helped to cushion a more than doubling of maintenance costs in line with the reactivation of aircraft.

ADE's segmental revenue grew to RM574 million in 2023, doubling from the previous year. This growth was mirrored by a robust 136% YoY increase in EBITDA. Santan, meanwhile, celebrated an earnings rebound, recording a positive EBITDA of RM23 million following a loss in 2022, fueled by 281% YoY surge in revenue.

Teleport saw its revenue increase by 56% YoY to RM731 million while posting an EBITDA of RM18 million, a significant improvement from making a loss in 2022. Its total capacity grew by 69% while tonnage increased by 88%, seeing its utilisation rate improve by two percentage points to 14%.

MOVE Digital recorded a 40% increase in revenue to RM379 million, of which AirAsia MOVE achieved a 71% increase in revenue driven by a surge in flights and hotels bookings - more than doubling compared to the previous year – while BigPay saw its segmental revenue increase by 42% YoY and its EBITDA loss narrowed by 44%.

Rebooting Our Culture

Having diversified rapidly into new business verticals over the last few years while managing to survive the pandemic, we have inevitably experienced the growing pains of expansion and restructuring. But we are determined to go back to our roots, reviving the unique culture that underlines AirAsia's success, allowing us to get to where we are today. To bring back that distinctive entrepreneurial, dare to dream, can-do culture across the entire Group, we refreshed our eight core values at the start of 2024. They are the following: All for one, one for all; Dare to dream; Make a difference; Celebrate all individuals; Keep it simple; Be transparent; Have empathy and respect; and Safety is #1. Our people are our biggest asset and we will do all it takes to create the right environment that motivates them and encourages each one to realise his and her true potential.

We have also always believed that happy Allstars make happy customers, which is another area we are focusing on today. It's both amazing and humbling that we have won the World's Best Low-Cost Airline award 14 years in a row. Yet, we know we can do better. As a result of our company-wide drive to enhance the customer experience, in December our on-time performance was close to 84%, which is extremely commendable. Additionally, our new and significantly improved AI chatbot AskBo has been elevating our customer service, helping us to answer more queries more efficiently.

Sustainability

Now that the pandemic has abated, the most pressing sustainability issue facing the world is climate change. The effects are incontrovertible; floods, typhoons, drought, forest fires and unusually hot temperatures are frequent reminders that everyone – governments, businesses, non-governmental and civil organisations as well as individuals – need to play our part in reducing carbon emissions.

We at Capital A have always prided ourselves on the most energy-efficient aviation operations, both for the cost as well as environmental benefits. The adoption of over 20 green operating procedures has allowed us to avoid thousands of tonnes of CO_2 emissions steadily year after year. In 2023, we achieved a reduction equivalent to the sequestration of more than two million trees, which is substantial. And we can do even better. However, some fuel-efficient manoeuvres require approval by the relevant authorities. For example, air traffic management could be enhanced to reduce the need to fly aircraft in a holding pattern while awaiting permission to land, as this is extremely fuel inefficient.

Performance Review (cont'd)

Today, many are excited about the potential of sustainable aviation fuel (SAF). We, too, are fully supportive of SAF and look forward to using it... so long as it is economically viable. The reality is that SAF is currently very expensive, and various challenges, including land use as well as feedstock shortage, need to be overcome if biofuel production is to reach the scale needed for commercial aviation use.

These challenges aside, we have committed to becoming a net-zero carbon organisation by 2050. While driving optimum fuel efficiencies through operational manoeuvres, we recognise this will not be enough. To aid us in our net-zero journey, we will be investing in carbon offsets funded by a soon-to-be-implemented carbon fee in our airfares. Our focus will be on carbon projects in Asean, to advance the carbon markets and enhance regional sustainability efforts in general.

In terms of creating social value, our business promise right from the start – "now everyone can fly" – was premised on a key sustainability principle of creating greater equity among people. Along the way, we started connecting second and third tier cities in our growing network, increasing tourism to these areas and promoting economic development. Then, in 2012, we set up the AirAsia Foundation which distributes seed grants to social enterprises across the region. To date, it has supported 32 enterprises directly impacting 3,375 beneficiaries and 12,206 families and communities. Going forward, we will be working with the Foundation towards promoting sustainable tourism, as this would create positive social as well as environmental outcomes.

Meanwhile, greater corporatisation of Capital A has necessitated added emphasis on good governance. Part of this is to establish greater independence on our boards for better checks and balances ensuring the interests of shareholders and other stakeholders are protected. Accordingly, when we set up AirAsia Aviation Group to house our aviation business, we elected as Chairman Tan Sri Jamaluddin Ibrahim, the former CEO of Axiata Group Bhd who has no previous ties with Capital A. Neither of us is on the board, nor will we be on the board of AirAsia Group post-disposal.

The Board of Capital A itself comprised 50% independent directors, meeting Bursa Malaysia's stipulated minimum. On 31 January 2022, we appointed our newest (independent) Director, Surina binti Shukri, formerly the CEO of MDEC, a firm advocate of gender equality who brought with her many years of experience in the fields of finance and technology primarily in New York and Kuala Lumpur. Surina always lifted our discussions with her energy and fresh perspectives. It was with deep sadness that we heard of her passing on 29 February 2024 following a long battle with cancer. We will remember her as a leader, a visionary and a friend, whose legacy will continue to guide us as we navigate the path she helped shine.

Outlook

The year 2024 has started on a promising note despite ongoing geopolitical uncertainties. The prevailing consensus is that jet fuel prices will continue to decrease and that the US Federal Reserve's interest rate cuts will lead to a favourable shift in the US dollar against key Asean currencies. This will be a significant boon for us given that 70% of our costs are denominated in US dollars.

While "revenge travel" was a prominent trend in the Western world in 2022 and 2023, the phenomenon is gaining momentum in 2023 and 2024 in Asian markets, which have been slower to open up.

This will be further boosted by easing of tourist visa requirements, especially with regard to travel to/from the largest markets in the region, China and India.

These factors collectively signal a positive outlook for our aviation and aviation-related businesses, the latter including Capital A Aviation Services, Teleport and MOVE Digital. Teleport, in particular, stands to benefit greatly from this optimistic outlook. As yields in the intra-Asean air cargo space are expected to outpace the global air cargo market's projected 2%-3% growth in the first half of 2024, our cost-effective structure will be to Teleport's advantage.

With the big picture above in mind, in 2024 we will continue the journey that we started in 2023, focusing on five strategic themes, namely:

- Operational excellence: A highly productive and efficient organisation dedicated to delivering best-in-class products that precisely meet customer needs.
- Financial sustainability: Cost conscious and lowest cost in our operating spaces, financially disciplined and focused on delivering positive cashflow and getting the best returns.
- Data and tech driven: Data informed in all we do, leveraging insights and analytics to make fast, precise decisions while leveraging AI and technology to stay true to our innovative DNA.
- Customer obsessed: Putting customers at the heart of everything we do, and continuously delight and overdeliver by ensuring they are served by engaged and empowered Allstars.
- Fixing the organisation: Rejuvenate our people-first and continuous improvement culture as an organisation and refocus on providing great customer experience.

At the same time, we seek to grow our four companies aggressively. Barring unforeseen circumstances, Capital A International will become the next big global brand/IP management company. As for the remaining businesses, the aim is to undertake corporate exercises to unlock their value subject to conducive market conditions and the requisite approvals. MOVE Digital, Teleport and Capital A Aviation Services may see possible spin-off listings or merger and acquisition exercises. The final business to remain will inherit the listing status of Capital A Berhad.

It promises to be another bustling year ahead, but one we are confident will create clarity on our business direction and demonstrate the intrinsic value of all our business verticals to our shareholders. We take this opportunity to express heartfelt gratitude to all our shareholders, indeed all our stakeholders, for your continued support, especially in these challenging few years. Unlocking value for you remains one of our top priorities, and we eagerly look forward to doing so as we move forward in 2024 and beyond.