

**ANNOUNCEMENT DATE: 17 JUNE 2015 (12.30PM – 1.30PM)**

**TITLE: AIRASIA BERHAD'S BUSINESS UPDATE**

Due to the recent movement in AirAsia Berhad's ("AirAsia" or "the Company") share price, the Management would like to assure the investment community that the Company has a solid footing, strong balance sheet, rich in assets and good business outlook. These can be seen from the Company's first quarter ("1Q15") performance which was recently announced. Despite the absence of marketing out of respect for the families of passengers and staff affected by the QZ8501 incident and the challenges following that, the Company still managed to perform better year-on-year, taking into account that 1Q14 was prior to the various aviation incidents that hit the country and impacted the industry for the most part of 2014.

The Management believes that 2015 will be a very good year on the back of a better operating environment with lower fuel price and a much more rational market, and the Company has shown good progress through its 1Q15 performance.

**TRANSPARENCY OF ACCOUNTS**

As highlighted by a number of research houses that have been covering AirAsia for years, the Company is transparent on its performance and prides itself on its level of transparency. The Company discloses far more than most airlines and continues to be open about what more it wants to do. In 1Q15 for example, the Company disclosed the financial statements of its two newest associates, Philippines' AirAsia ("PAA") and AirAsia India ("AAI"), on top of the financial statements of Thai AirAsia ("TAA") and Indonesia AirAsia ("IAA") that the Company has been disclosing for years.

AirAsia is one of the most transparent airlines in the world. We clearly demonstrated this in the way we handled the QZ8501 incident. We were upfront with facts and did not hide behind anything. The same goes to how we handle the Company's accounts prepared in accordance with both the international and local accounting standards, and audited by PricewaterhouseCoopers.

**AIRCRAFT LEASING BUSINESS ("ASIA AVIATION PCL")**

AirAsia has always been transparent on its aircraft leasing business and has always disclosed the amount of revenue it generated. This could be extracted from the note to the revenue line in every quarter's earnings announcement filed to Bursa Malaysia. There has been much discussion over the years on leasing income and profit; hence AirAsia created Asia Aviation Capital ("AAC"), the leasing company which was incorporated in the fourth quarter of 2014, to clearly show the Company's leasing business and to extract a fair value from AirAsia's large asset pool of owned aircraft. The income earned from aircraft leased to the associates is not excessive. The margin is very much in line with that earned by third party commercial lessors.

In the 1Q15 earnings announcement, the Management gave a flavour of what AAC will look like with the income statement of the first few aircraft that have been transferred. In addition, in the Company's 1Q15 earnings briefing presentation which is available on the Company's website, the Management had also provided forecast of what AAC would look like after all the aircraft leased out to the associates are transferred. The Company has been very transparent on its leasing income and profits and will continue to do so.

## **CONSOLIDATION OF ASSOCIATES' ACCOUNTS**

AirAsia does not consolidate the accounts of its associates' operations in Thailand, Indonesia, Philippines and India due to regulatory reasons as the Company is not allowed to own more than 49% (40% in the Philippines) equity interest in each of the entity. Therefore, the associates' profits and losses are being taken into account on AirAsia's income statement via equity accounting method set by the regulators. Although there are regulatory barriers, we recognise that we are to operate as one big economic entity because of the intertwined nature of our business.

For the best part of last year having made it known to all, the Company has been trying to get the auditors and regulators to allow it to consolidate. This has just not been possible but as mentioned before to the investment community, the second quarter will see the Company including a pro forma consolidation while the Management continues to work with the regulators to allow the Company to consolidate.

## **PERFORMANCE OF INDONESIA AIRASIA AND PHILIPPINES' AIRASIA**

### **(i) INDONESIA AIRASIA ("IAA")**

IAA was on a good recovery track prior to the QZ8501 incident. The associate was already showing signs of profitability in 3Q14 and 4Q14 after the route rationalisation exercise was executed in the middle of 2014. The Management has also seen generally healthy cash flow and in fact, IAA was cash positive in 1Q15 despite the incident which happened just before the first quarter of the year. Average fare and load factor in 2014 were also climbing before the incident. RASK-CASK spreads were positive in 2012 and 1H2013 until Indonesia was hit with the weakening Rupiah that pushed up USD-denominated costs followed by fare war in Indonesia. After the route rationalisation exercise in 1H2014, RASK-CASK spread turned positive again in 2H2014 until QZ8501 happened.

### OUTLOOK

Strong corrective actions are being implemented in IAA to drive its return to profitability in 3Q15 and 4Q15 and the Management targets to breakeven by end of the year. The Company forecasts RASK to increase in 2H15 due to forecasted higher average fare and improved demand and CASK to further reduce. IAA is cash positive and we will further improve cash flow on the back of higher cash from operations.

IAA will meet payment for lease, MRF and brand license fees due to AirAsia Berhad starting this quarter and in some months, forecasted to have surplus to pay down outstanding debt to AirAsia.

Key turnaround plans include a reduction of fleet size (to take out 4 aircraft), reduction of cost and greater dependance on international traffic.

### **(ii) PHILIPPINES' AIRASIA ("PAA")**

PAA has shown a better than expected recovery performance in the last couple of months after the turnaround plans were initiated in July 2014.

As soon as the turnaround plan was initiated, the Management has seen significant increase in load factor trend from 65% in 3Q14 to 77% in 1Q15 while average fare has been quite consistent. The Management also saw an increasing RASK trend since the middle of last year while cost reduction exercise was also executed. In 1Q15, losses have minimised significantly and the Company expects the associate to continue being cash positive.

If everything continues to go as planned, profitability is targeted for 4Q15.

## OUTLOOK

The Management expects PAA to continue being cash positive and based on the Company's internal forecast and the strategy planned, the Management is targeting for PAA to be profitable in 4Q15 with improved utilisation and load factor. The increase in aircraft utilisation and further cost savings initiatives will lead to further reduction in non-fuel CASK. There will be no new aircraft and large capacity being added to the Philippines this year but the Management will ramp up 2016 onwards to build up international capacity with two potential new hubs.

Key turnaround plans include introduction of 1-2 new hubs, focussing on international and leisure destinations, additional 3 aircraft per annum in the next 3 years, and further cost reduction initiatives.

### **(iii) POTENTIAL EQUITY NEW EQUITY BEING RAISED AT IAA AND PAA AND CONVERTIBLE BOND ISSUANCE**

#### **Step 1: Raising Share Capital to Approximately USD100 million**

Seeing the progress made by IAA and PAA's operations, the Management is now in the final stages of discussions with the local partners to raise share capital to around USD100 million for IAA and PAA from the present level of USD13.81 million and USD13.28 million respectively. Part of the cash raised will be used to pay down AirAsia Berhad's interco.

#### **Step 2: Pre-IPO - Raising a Minimum of USD100 million from New Investor(s)**

The Company is currently finalising the structure of the Pre-IPO exercise which is targeted to take place in the near term. Through this exercise, there will be new investor(s) that will come in for both IAA and PAA. The new investor(s) will inject at least USD100 million for each associate by subscribing to convertible bonds (CB) issued by IAA and PAA respectively. The CB will have a low coupon with a 2-year maturity period. The CB can be converted at a rate to be determined, tentatively discounted from the valuation of the companies in 2017. As investor(s) exercise the CB in 2017, AAB will match by capitalising our debt to ensure our shareholding remains at 49% in IAA and 40% in PAA. Part of the cash raised in the CB subscription will be used to pay down AAB's interco, while the remainder will be kept in the business for working capital.

#### **Step 3: IPO with Valuation of Approximately USD700 million for IAA and USD600 million for PAA**

The target to IPO both associates will be in 2017, with valuation of approximately USD700 million for IAA and USD600 million for PAA. The Company targets to float 20% of the shares raising minimum of USD150 million. At IPO all shareholders will be diluted proportionately. Part of the IPO proceeds will be used to pay down AAB's interco.

## **BALANCE SHEET, CASH FLOW AND MANAGEMENT OF GEARING**

AirAsia's cash flow continues to strengthen due to capacity reductions taken last year, improved demand especially with the recovery in Chinese traffic, and a much more rational marketplace in all our territories especially Malaysia.

During the Management's roadshows and the latest earnings briefing, the Management outlined various strategies in detailed, on the active measures the Company is doing to manage gearing level. This includes (i) to grow cash further through operations, (ii) capacity management, (iii) monetising non-core investments if valuation is right and as mentioned above, through (iv) recovery of debt from IAA and PAA.

Currently, the Company's net gearing level stood at 2.47 times. The Management would like to remind long-term shareholders that the Company's net gearing was at 4.2 times a few years back where the shareholders were told that the Company would reduce it down to 1.5 times. Again the Management is confident of bringing net gearing down to around 2.00 times by end of 2015.

This does not include potential cash of RM1 billion of repayment from IAA and PAA, potential additional sale and leaseback transactions, and potential sale of investments (eg. Tune Insurance, AirAsia Expedia etc., which the Management has no intention of selling as there are tremendous upside values in these investments).

The Management wants to also highlight the strength of AirAsia's balance sheet as the Company owns more than 120 aircraft. There is huge demand for sale and leaseback ("SLB") on the Company's aircraft and the Management is looking into doing SLB of up to 20 aircraft this year, with no increase in operating leverage.

AirAsia's gearing also will continue to decrease over the next 2-3 years as the Company has cut aircraft acquisition from an average of 25 aircraft per year to an average net addition of only 4 aircraft per year over the next three years.