

BUSINESS UPDATES

PT Garuda Maintenance Facility Aero Asia Tbk.

February 2022

Jet fuel prices continue to rise amid sanctions on Russian oil and gas

Jet fuel prices continue to rise amid sanctions on Russian oil and gas. The jet fuel crack spread is also increasing as some refineries switch from jet fuel to diesel due to the lack of supply of Ultra Low Sulfur Diesel (ULSD) from Russia. This will create upward pressure to the air travel fare price as the airline is trying to minimize cash burn due to pandemic. Furthermore, The negative impact of Omicron on air travel was broad-based across all regions. Asia Pacific airlines reported a 67.4% RPK decline in January after a 65.6% fall in December (both vs. the same month in 2019). India's domestic market was hit the most significantly among key domestic markets by escalation of the pandemic, with RPK fall versus 2019 accelerating to -49% in January, after -14.6% in December.

<i>% ch vs. the same period in 2019</i>	2021	Nov-21	Dec-21	Jan-22
Region (registration basis)				
Asia Pacific	-66.9	-70.0	-65.6	-67.4
World	-58.4	-46.9	-45.2	-49.6
Routes (segment basis)				
India domestic	-42.2	-18.8	-14.6	-49.0
Japan domestic	-57.9	-37.1	-26.4	-44.4
Australia domestic	-62.4	-71.6	-60.4	-58.2
Asia - Europe	-88.8	-83.4	-78.8	-80.8
Within Asia	-97.2	-96.1	-94.8	-95.3
Asia - Nth America	-89.8	-85.7	-83.0	-85.9
Asia - Middle East	-78.0	-66.8	-63.7	-64.6
S/w Pacific - N/S America	-96.2	-93.3	-89.8	-87.5
Asia - Africa	-91.9	-92.4	-93.8	-95.2

Figure 1 RPKs, % ch. vs. the same month in 2019 (IATA Monthly Statistics)

Improving pandemic developments globally bode well for the air travel recovery in 2022, though the geopolitical issues in Eastern Europe combined with rising inflationary pressures will negatively impact some markets. Bookings for future travel to, from and within Asia have been trending down since mid-February, largely due to deterioration in China domestic market. However, Indonesia's domestic air travel demands remain strong, amid the pandemic, government encouraged public who fully vaccinated to do leisure travel by following COVID-19 prevention protocols. Furthermore, government also enacted booster vaccination program in order to improve herd immunity, hopefully this will increase passenger confidence to travel and give positive impact to the MRO industry.

GMF received IMAA capabilities approval

Production events still records Year-on-Year (YoY) decline, relatively inline with declining flight activities throughout the year. Component Maintenance record a modest 15% MoM increase in events, mainly driven by light check and maintenance from lessors.

	Feb '21	Jan '22	Feb '22	YoY	MoM	YTD Feb '21	YTD Feb '22	YoY
Airframe	23	20	15	-35%	-25%	56	35	-38%
Engine	2	4	4	100%	0%	5	8	60%
Component	2,138	2,377	2,728	28%	15%	4,590	5,105	11%
Line	14,478	10,286	9,521	-34%	-7%	31,464	19,807	-37%

Table 1 Maintenance Production Events

In February 2022, GMF was welcoming one Boeing 747 cargo Series for Modification. Furthermore, GMF also welcome one ATR72 series for C-Check and a Boeing 737 business jet for minor maintenance from private and international customer.

Indonesia Military Airworthiness Authority approved GMF capabilities of maintaining Lockheed Martin C-130 series and Casa C-212 series. These approvals will open up new opportunities for GMF in the defense industry segment.

GMF Outlook for 2022

According to the United Nations World Economic Situation and Prospects, global output is projected to grow by only 4% in 2022. With the highly transmissible Omicron variant of COVID-19 unleashing new waves of infections, the human and economic toll of the pandemic are projected to increase again. Furthermore, Oliver Wyman predicted MRO Market will grow by 4.9% in Asia-Pacific and will return to pre-pandemic level in 2023. However, the growth of MRO market won't be as optimistic as pre-pandemic due to adjustment in fleet size by Airlines around the world. These encouraging projections is in line with GMFs expectation of modest recovery in 2022.

As government encourages booster vaccination for the public in 2022, there are optimism on economic recovery and uptrends in air travel demands. Nevertheless, governments remain cautious in relaxing travel restrictions to keep COVID-19 transmission level as low as possible. As governments regulation and policy adapt to the dynamic global situation, GMF acknowledges that there will be challenges and uncertainties moving forward. The progressive rollout of COVID-19 booster vaccines offers hope of a gradual recovery of the aviation industry and the MRO business.

Until now, GMF have received approval to restructure various bank facilities, including waiver covenant and adjustment of principal payment. Negotiation with vendors or suppliers was also initiated to ease the financial burden.

The company is pressing ahead with its Transformation efforts to emerge stronger in the post-COVID-19 future. This will complement efforts in reshaping the portfolio of business process to strengthen its ability to be sustainable company amidst a changing business environment. GMF key strategies focuses in ensuring business sustainability during low-demand period, maintaining high quality and safety standards, and making sure of the company's capability to optimize business opportunities post-COVID. To ensure the achievements of these objectives, GMF's will implement the following key strategies:



GMFAeroAsia

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1. **Cash is king**

Efficiency measures on staff expenses, contract renegotiation with supplier to lower material expenses, restructuring short-term liabilities, and prioritizing high liquidity customers.

2. **Business Diversification**

Diversify business towards high margin and liquidity segments which are minimally affected by the pandemic, such as the Defense Industry sector, Private/Business Jets, Trading & Leasing, as well as non-aviation sector such as Industrial Gas Turbine Engine (IGTE).

3. **Global Consolidation**

Explore Strategic Partnership with business partner to enhance effectivity and efficiency.

As potential for future outbreaks and emergence of Omicron variants triggers uncertainty for future demands. In 2022, GMF remain focus on improving liquidity and profitability through various business initiatives. GMF expects to record positive EBITDA by the end of the year.

Employee's health and safety has always been the company's priority. GMF implements strict health protocols within the Company's premises In line with the Indonesian Government's health protocol to prevent the spread of COVID-19. These precautionary measures are vital in ensuring the sustainability of GMFs operation amid the Pandemic.

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