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AIRASIA: FLYING LOW-COST WITH HIGH HOPES

AirAsia started out as a Malaysian government-controlled, full-service regional airline that offered slightly lower fares than its number-one competitor, Malaysia Airlines (“MAS”). In December 2001, private entrepreneur Tony Fernandes took over the debt-ridden airline for the symbolic sum of US\$0.26. Despite the air-travel downturn following the 11 September 2001 terrorist attacks, Fernandes believed that the timing for entering the airline market was just right, as aircraft leasing costs had dropped sharply and experienced staff were readily available due to airline layoffs. Moreover, the acquisition was welcomed by the Malaysian government, which hoped to boost the under-used Kuala Lumpur International Airport (“KLIA”). Fernandes restructured AirAsia into the first no-frills, low-cost carrier (“LCC”) in Asia, and the new business model was a huge success. The company generated impressive profits after its relaunch in January 2002, and soon inspired many LCC followers in the region. Being innovative down to the corporate bone, AirAsia pioneered several new services for its operation and threatened the well-being of full-service operators. In mid-2008, amid surging oil prices and intense competition, how could AirAsia increase its competitiveness?

No Frills, Low Cost

In the mid-1990s, Fernandes saw great potential for a no-frills LCC in Asia after witnessing the success of LCCs in the West. Upon acquisition of AirAsia in 2001, he invited Connor McCarthy, the former director of successful European LCC Ryanair, to join AirAsia’s executive team. They restructured AirAsia’s business model [see **Exhibit 1**] and made it the first airline operator in Asia to adopt the low-fare, no-frills concept. AirAsia also became the region’s first airline to introduce fully ticketless travel and implement a free seating policy. With the LCC model, AirAsia offered only one standard-class cabin. It did not provide in-flight entertainment or free meals, but instead had food and beverages ready for sale on board. Occasionally, lucky draws were conducted on board to surprise passengers. Under the tagline “Now Everyone Can Fly”, the airfares were 40% to 60% lower than those of its rivals. Some even cost less than bus fare. Many domestic leisure travellers were attracted to purchase air tickets through its multilingual website, which offered regular fare promotions for specific

Dr. Claudia H.L. Woo prepared this case under the supervision of Dr. Stephen Ko for class discussion. This case is not intended to show effective or ineffective handling of decision or business processes.

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travelling periods to encourage early booking. In line with its “Easy to Book, Easy to Pay & Easy to Fly” approach, seats were also sold through a telephone booking centre, sales offices, travel agents, and partnerships with local banks and post offices.

Just seven months into its operations, AirAsia announced its first profit of approximately US\$6 million in December 2002. Research firm AC Nielsen revealed that AirAsia’s website was the most popular online shopping site for Malaysia’s internet users in 2003. Adding to the convenience of customers, AirAsia was the world’s first airline to enable booking by mobile phone through Short Messaging Service in August 2003.

Domestic and Short-Haul Regional Services

In addition to its primary hub at the KLIA, AirAsia had set up three other hubs within Malaysia to better serve the domestic market. In 2004, while continuing to expand its domestic business, AirAsia started to provide regional flights to neighbouring countries. To make this possible, a joint-venture subsidiary company, Thai AirAsia, was formed in affiliation with Thailand’s Shin Corporation, the telecommunications company initially belonging to former Thai prime minister Thaksin’s family [see **Appendix 1**]. With the hub set up in Bangkok. The joint venture enabled AirAsia to gain easier and cheaper access to other South-East Asian countries and the lucrative Chinese market.¹ Shin Corporation, which held a 51% stake in Thai AirAsia, also helped support AirAsia’s electronic booking system. Another subsidiary, Indonesia AirAsia, was established in 2005 through affiliation with the Indonesian airline formerly known as Awair, and hubs were established in Jakarta and Bali.

As a result of the joint ventures, which broadened the destination selection for domestic consumers in Malaysia, the number of AirAsia passengers grew significantly. In March 2006, the main hub of AirAsia in Malaysia was moved from KLIA to the nearby Low Cost Carrier Terminal,² specifically built by the government to meet the increasing number of LCC passengers.

In August 2006, AirAsia entered into a domestic-route rationalising arrangement with MAS [see **Appendix 2**]. Under this arrangement, AirAsia took over more than two-thirds of MAS’s loss-making domestic routes, making AirAsia the largest domestic national airline in Malaysia, with the number of passengers expected to increase to 18 million in 2007.

Because all of AirAsia’s domestic and short-haul flights took less than four hours, its planes could pick up a new load of passengers from its destinations and return to the original departing cities on the same day, reducing costs for crew accommodation and other allowances at the arriving cities. To save on the large slotting fees charged at major airports, AirAsia chose to focus on secondary airports. AirAsia’s high-flying success in terms of its rapid route expansion and growing sales and profit inspired many potential LCC followers in the Asia-Pacific region, especially those from neighbouring countries [see **Exhibit 2**]. To compete with these new entrants, the company introduced innovative services [see **Exhibit 3**].

Value-Added Services

In early 2007, AirAsia became the first airline in Malaysia to offer an internet check-in service, allowing domestic travellers to enjoy online check-in and to print out their own boarding passes. It even planned to pioneer a check-in service using customers’ handheld devices in the near future. In spite of its unassigned-seat policy, AirAsia allowed a limited number of passengers who paid extra for its Xpress Boarding service to board first so as to

¹ Thai AirAsia was the first budget carrier granted landing rights in mainland China.

² The Low Cost Carrier Terminal was also built with a no-frills approach, with no aerobridges linking to the aircraft, requiring passengers to walk to the aircraft.

choose their seats with ease. Passengers could also pre-book their checked baggage for a lower rate, and AirAsia introduced checked-baggage handling fees in April 2008 to encourage customers to travel lighter so that less fuel was burnt and less pollution was caused.

The LCC was also proud of its “Real 5 Star” offerings, such as its cosy leather seats and in-flight hot meals, which included a wide selection of popular Malaysian and Asian delicacies. Passengers could either buy the food on board or opt to pre-order meals on the AirAsia website at a discounted rate. In addition to the Real 5 Star features was the first-of-its-kind “on-time guarantee”, introduced by AirAsia in June 2008. In face of passengers’ complaints about AirAsia’s punctuality, each passenger whose flight was delayed by more than three hours was awarded US\$61 worth of AirAsia e-gift vouchers. The company also planned to introduce this guarantee for flights delayed more than one hour.

Long-Haul Regional Service: AirAsia X

Despite most LCCs being hesitant to operate long-haul routes due to cost concerns, AirAsia launched its first long-haul flight to Australia’s Gold Coast in late 2007 through its sister airline, AirAsia X. The key individual investor, with a 20% stake of AirAsia X, was Sir Richard Branson, the British tycoon and founder and chairman of the Virgin Group.³ The long-haul arm of AirAsia shared a common ticketing website, uniforms and management style but, unlike AirAsia, it offered two-class cabins (ie, economy seats and premium XL seats) and allowed passengers to reserve seats when booking in advance.⁴ AirAsia X also sold full meals with more food options than AirAsia, which sold only light meals [see **Exhibit 4**]. One day after AirAsia X started operations, Jetstar, the low-cost subsidiary of Australia’s Qantas Airways, launched its long-haul service from Sydney to Kuala Lumpur. However, in June 2008, Jetstar, which was ranked as the world’s best LCC in 2007 by leading airlines research firm SkyTrax, axed this route due to escalating fuel prices, which had been hurting the bottom line of almost all leading LCCs [see **Exhibit 5**].

By exploring partnerships with LCCs in the Asia-Pacific region such as Australia’s Virgin Blue, Singapore’s Tiger Airways and Indonesia’s Lion Air, AirAsia intended to grab a bigger slice of the flourishing Australian market.⁵ It also explored ties with other airlines in the West, such as easyJet and Virgin Atlantic Airways, to venture into the European market and make cheaper fares possible for its long-haul flights to the region. In 2008, AirAsia announced that it would commence flights to Stansted Airport on the outskirts of London on 11 March 2009. For Asia, it was aiming high to fly to more cities in northern China and to the liberalising skies of India and the Middle East.

Moving Down the Value Chain

AirAsia had evolved from a classic LCC into an integrated service provider, offering not only no-frills air tickets but also financial services such as travel insurance, as well as other holiday products. Having sought out various companies to partner with, the company offered online booking services for hotels, hostels, car rentals, cruises and medical care. Rather than the mileage programmes offered by full-service airlines, AirAsia launched the co-branded Citibank–AirAsia credit card, which allowed eligible cardholders to earn free flights by

³ The core business of the Virgin Group included travel, entertainment and lifestyle. It owned a stake in Virgin Atlantic Airways, a long-haul cross-regional airline, and in Virgin Blue, a budget airline in Australia.

⁴ In February 2009, it introduced the Pick A Seat service, allowing all passengers of both AirAsia and AirAsia X to choose their seats for a fee. The service, which was previously available for AirAsia X passengers only, had two categories: “hot seat” and “standard seat”. Hot seats, whose fee was US\$6.85, were seats in the first five rows of the aircraft cabin and the two rows of seats at emergency exits. The standard seats were the remaining seats on board, at a fee of US\$1.36. Passengers who did not opt for the service would be automatically allocated seats so that they would not need to rush onto the aircraft to get their seats.

⁵ eTurboNews (21 February 2008) “AirAsia Reveals Virgin Plan”, <http://www.eturbonews.com/1392/airasia-reveals-virgin-plan> (accessed 28 May 2008).

accumulating reward points, named as AirAsia Ringgits, through purchases at specified stores. Cardholders could also enjoy discounts on holiday packages and privileges at over 40,000 hotels, restaurants and retail outlets worldwide.

Fuel costs had a significant impact on AirAsia's bottom line [see **Exhibit 6**]. With oil prices showing high volatility and reaching record levels by mid-2008, AirAsia opted for a dynamic, layered-hedge strategy to pay for fuel in advance and to qualify for low prices. Fernandes believed that his staff's positive work ethic had also contributed much to lowering the airline's fuel cost and operational cost: "Our pilots have cut fuel consumption by nearly 20% and doubled the number of landings that we get from the tyre".⁶ Moreover, new and more fuel-efficient Airbus A320-200 aircraft had been ordered by AirAsia to replace its fleet of Boeing 737-300s. The 175-aircraft commitment to Airbus—a purchase made possible by its listing on the Malaysia Stock Exchange in November 2004—would potentially turn it into the Asia-Pacific region's single-largest Airbus A320 operator by 2012.

Distinctive Image and Leadership

Having started as a three-aircraft operation in 2002, AirAsia owned 72 aircraft by 2008 and served over 100 routes in the Asia-Pacific region, with more than 300 flights per day [see **Exhibit 7**]. Its speedy expansion from domestic routes to regional flights was supported by its cheeky advertising strategy. For instance, in 2004, when it began the route from Singapore to Bangkok, its full-page newspaper ad read: "There's a new girl in town: twice the fun, half the price", poking fun at the iconic Singapore Airlines's female flight attendants, who were widely known as "Singapore girls" and had an elegant image. AirAsia's flight attendants, on the other hand, could style their hair and apply makeup however they liked, projecting a much more relaxed and refreshing image than those of other airlines, which required cabin crew to assume a more uniform appearance. While all AirAsia ads focused on low fares, they also reflected the LCC's intention to be seen as an airline of high quality [see **Exhibit 8**]. With the ambition of being a low-cost but high-quality and innovative airline, it signed on to become the official airline sponsor of the world-famous Manchester United football club and the AT&T Williams Formula One team, painting some of its aircraft with the club colours and sport stars. Fernandes further tied up with Tourism Malaysia to make AirAsia a sponsor of Manchester United's training centre in Trafford, UK, enhancing AirAsia's relationship with the tourism board. Philanthropic activities were also pursued, such as transporting aid to cyclone-hit Myanmar in 2008 and donating free seats to China's Red Cross to raise funds for the Sichuan earthquake recovery. Addressing global concern about carbon emissions, AirAsia's website illustrated how its operations conserved the environment, such as its ticketless system reducing paper waste.

As the chief executive officer of AirAsia, Fernandes himself was a walking advertisement for the company. He wore AirAsia's official red cap and T-shirt to almost every official function. He even gave his mobile phone number to all the media representatives he talked to, making it easier for them to approach him for company news. AirAsia gained free publicity on many occasions. Between 2003 and 2008, AirAsia received several local and international accolades for its service excellence and success in brand-building, business management and leadership [see **Exhibit 9**]. For example, it was recognised as the best LCC in the Asia region in 2007 by SkyTrax. By 2008, AirAsia maintained the lowest cost structure among all listed airlines in the world [see **Exhibits 10 and 11**]. It could break even by filling only 56% passenger load per flight, compared with 70% for MAS.

⁶ Air Transport World (February 2005) "Airline Market Leadership Award: AirAsia", <http://www.atwonline.com/channels/airlineFocus/article.html?articleID=1132> (accessed 27 May 2008).

Price War with Malaysia Airlines

Although AirAsia and MAS seemed to compete in different markets (ie, AirAsia targeted the budget segment, whereas passengers on full-service airlines were mostly businessmen or upper-middle-class consumers) this only held true at the beginning of AirAsia's participation in the industry. AirAsia became a real threat to the former monopoly operator with the emergence of more value-conscious consumers who were more receptive to the low-cost, no-frills concept. MAS had at times lowered its ticket price to fight back, but this effort had not produced a significant profit turnaround. It was not until 2007, after the route rationalisation process in 2006, that MAS began to turn a profit. In March 2007, it also founded Firefly, a low-cost subsidiary that flew domestically and to a few cities in Thailand and Indonesia.

On 6 May 2008, MAS launched its unexpected "Everyday Low Fare" campaign, offering 1 million free seats (excluding fuel surcharge and taxes) for its domestic flights and other short-haul routes within South-East Asia. The campaign received an overwhelming response from the public. The managing director of MAS, Idris Jala, commented, "we are the first full service airline to do this in a big way [...] This is a win-win situation for all. Our customers enjoy low fares and five-star services while we fill up our planes, we are not losing any revenue for this."⁷ This campaign was strongly opposed by Fernandes, who regarded the competition as unhealthy and unfair. He accused the premium airline of turning into an LCC and concentrating its low-fare promotion on AirAsia routes. He also alleged that the MAS campaign was subsidised by the government and urged the government to allow a level playing field by removing subsidies for MAS.⁸ Jala defended that the zero-fare campaign was not directed against AirAsia and was not funded by the government; rather, it was only a move to fill up the 30% surplus seats that would otherwise have remained unsold. Besides, the fuel surcharge paid by passengers who bought the "free" seats could also recover some of MAS's operational costs. He stressed that the government no longer bailed out the company, so MAS was fully accountable for its profitability.⁹

AirAsia fought back with its "Sub-Zero Fare" campaign, offering ticket prices below the prices offered by MAS [see **Exhibit 12** for the campaign advertisement]. As of 29 May 2008, AirAsia recorded its 25th consecutive quarter of profitability since 2002. How could AirAsia sustain its cost advantages and status as a low-cost but high-quality airline amid unstable oil prices and fierce competition among LCCs and full-service carriers tapping into the low-cost segment?

⁷ Ng, E. (2008) "Malaysia Air Offers a Million Free Seats on Regional Flights", *USA Today*, http://www.usatoday.com/travel/flights/2008-05-14-malaysia-air-free_N.htm (accessed 29 May 2008).

⁸ The Star (15 May 2008) "AirAsia Raps MAS over Deals", <http://thestar.com.my/news/story.asp?file=/2008/5/15/nation/21257533&sec=nation> (accessed 28 May 2008).

⁹ BorneoPost Online (16 May 2008) "MAS-AirAsia Debate Unlikely", <http://www.theborneopost.com/?p=35553> (accessed 29 May 2008).

APPENDIX 1: AIRASIA AND THE SINGAPORE ROUTE

In 2006, Thailand's Shin Corporation, the initial joint-venture partner of Thai AirAsia, was sold to Tamasek Holdings, which was linked to the Singapore government. However, this did not affect the operations of Thai AirAsia. Instead, some believed Tamasek Holdings had a role in gaining the Singapore government's approval of Thai AirAsia's Bangkok–Singapore route,¹⁰ while AirAsia in Malaysia had struggled to get permission for its Kuala Lumpur–Singapore route. On 1 February 2008, AirAsia was finally given permission to launch the inaugural flight between Kuala Lumpur and Singapore. Six months later, on 14 August 2008, Indonesia AirAsia was also allowed to land at Singapore's Changi Airport.

Singaporean air travellers made up the largest market in terms of total arrivals in Malaysia. MAS and Singapore Airlines used to share a duopoly on the Kuala Lumpur–Singapore route, and they charged steep fares despite less than an hour's flying distance between these two places. Therefore, AirAsia regarded the Singapore route as a huge addition to its sales revenue and fought hard for the landing permission. As a regional financial hub in Asia, Singapore attracted many foreign visitors. Its two casino resorts, which were to start operations in 2010, would also attract more tourists to Singapore, suggesting a great market opportunity in the island country.

APPENDIX 2: ROUTE RATIONALISATION OF MAS

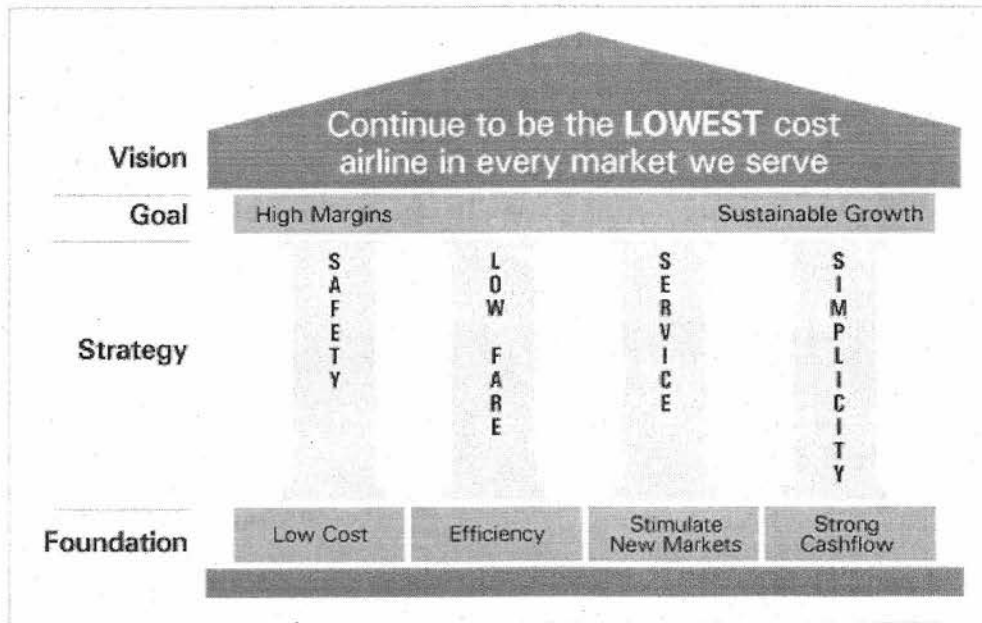
To avoid cannibalisation between the two national airlines and to make Malaysia the key Asian aviation hub, the Malaysian government had repeatedly tried to bring MAS and AirAsia together to work on a route rationalisation programme. The aim of the route rationalisation was to promote healthy competition and for MAS and AirAsia to focus on their respective market segments (ie, the premium segment for MAS and the budget segment for AirAsia). After prolonged negotiations and arguments, in August 2006, AirAsia took over 96 of the 118 domestic routes of MAS, whose loss-making routes and fuel costs had been reported to be heavily subsidised by the government. Both MAS and AirAsia also agreed to share 19 domestic trunk routes that had high international connectivity and business traffic levels, such as Kuala Lumpur–Penang, Kuala Lumpur–Langkawi, Kuala Lumpur–Johor Bahru, Kuala Lumpur–Kuching, Kuala Lumpur–Kota Kinabalu and Kuching–Kota Kinabalu.

As compensation, MAS was paid approximately US\$195 million by the Malaysian government. Meanwhile, the government terminated the business unbundling agreement between MAS and its state-owned parent company, Penerbangan Malaysia Berhad ("PMB"). Previously, under the unbundling agreement, PMB reimbursed costs incurred from MAS's domestic routes, and MAS paid PMB all revenue it earned from domestic routes. Although this arrangement protected the flag carrier from losses, it left MAS with limited potential profits. When the unbundling agreement was terminated, MAS was allowed to be accountable for its own profit or loss.

In the following year, 2007, MAS recorded a net profit of about US\$255 million, marking its highest profit in 60 years. Its rival, AirAsia, who overtook MAS as the largest domestic national airline, achieved an earnings growth of over 290 times since the financial year 2002.

EXHIBIT 1: BUSINESS MODEL OF AIRASIA

¹⁰ Ze, S. and Ng, J. (2008) "The AirAsia Story: How a Young Airline Made it Possible for Everyone to Fly and Became a Runaway Success", Kanyin Publication: Malaysia.



Source: AirAsia.com (2008) "Investor Relations: Strategy", :
<http://www.airasia.com/site/my/en/pageWithMenu.jsp;jsessionid=EBC4AE4418E923F41F1177C84C87FC49?name=Strategy&id=ad371afe-ac1e00ae-645fd000-87b34c09&rootId=50ae1200-c0a8c85d-1410a850-baad6a43&parentId=ad371afe-ac1e00ae-645fd000-87b34c09> (accessed 23 May 2008).

EXHIBIT 2: SOME KEY LOW-COST CARRIERS FOUNDED IN SINGAPORE, THAILAND AND MALAYSIA AFTER AIRASIA'S RELAUNCH IN JANUARY 2002

Low Cost Carriers in Asia	Country Of Origin	Founded	Primary Hub	Notes:
Tiger Airways	Singapore	December 2003	Budget Terminal in Changi International Airport, Singapore	<ul style="list-style-type: none"> 100% owned by Singapore's holding company Tiger Aviation which also established Australian subsidiary, Tiger Airway Australia, in 2007 to become full-scale domestic airline in Australia. Singapore Airlines as a shareholder of Tiger Airways
ValuAir	Singapore	2004	Changi International Airport, Terminal 1, Singapore	<ul style="list-style-type: none"> On 24 July 2005, Australia's Qantas Airways and Jetstar Asia, and Valuair merged to form Orange Star After merger, ValuAir still operated under its own brand
Jetstar Asia	Australia	2004	Changi International Airport, Terminal 1, Singapore	<ul style="list-style-type: none"> Orange Star as parent company. Sister Airline of Jetstar, which is the low cost subsidiary of Qantas Airlines Merged with Singapore's LCC ValuAir on 24 July 2005, operated under its own brand. Other key corporate shareholder included Singapore government's investment company, Temasek Holdings (Private) Limited
Nok Air	Thailand	December 2003	Don Mueang International Airport, Bangkok	<ul style="list-style-type: none"> Thai Airways International as major shareholder
One-Two-Go	Thailand	December 2003	Don Mueang International Airport, Bangkok	<ul style="list-style-type: none"> Orient Thai Airlines as parent company
Firefly	Malaysia	April 2007	Penang International Airport, Penang	<ul style="list-style-type: none"> Malaysia Airlines as parent company

EXHIBIT 3: COMPARISON OF AIRASIA'S ON-BOARD SERVICES WITH THOSE OF OTHER AIRLINE OPERATORS

	AirAsia	FireFly <i>(Wholly-owned low cost subsidiary of Malaysia Airlines)</i>	Jetstar <i>(Wholly-owned low cost subsidiary of Qantas Airlines)</i>	Malaysia Airlines
Carrier	Low Cost Carrier	Low Cost Carrier	Low Cost Carrier	Full Service Carrier
Founded	Re-launched as no frill, low cost carrier in January 2002	April 2007	2003	1947
Sister Airline	AirAsia X , to operate the long haul services. Its inaugural flight was on 2 November 2007 from Kuala Lumpur to Gold Coast, Australia	Nil	Jetstar Asia , to tap into the Asian low-cost market. It took off its first flight from its Singapore hub to Hong Kong on 13 December 2004	Nil
Destination countries by mid 2008	14 countries: Malaysia, Singapore, Thailand, Indonesia, Vietnam, Myanmar, Philippines, Cambodia, Laos, Brunei, Macau, Hong Kong, China, Australia, UK.	3 countries: Malaysia, Thailand, Indonesia	15 countries: Malaysia, Australia, Cambodia, Hong Kong, Indonesia, Japan, Macau, Myanmar, New Zealand, Philippines, Singapore, Thailand, Taiwan, United States, Vietnam	31 countries: Malaysia, Argentina, Australia, Bangladesh, Brunei, Cambodia, China, France, Germany, Hong Kong, India, Indonesia, Italy, Japan, Korea, Lebanon, Macau, Maldives, Netherlands, New Zealand, Philippines, Saudi Arab, Singapore, Nordic Sweden, Taiwan, Thailand, Turkey, United Arab Emirates, United States, United Kingdom, Vietnam
Aircraft (seats)	<ul style="list-style-type: none"> • Airbus 320 (180 seats) • AirBus 330-300 (312) • Boeing 737-300 (148) <p><i>phasing out Boeing aircrafts</i></p>	Fokker 50 (50 seats)	<ul style="list-style-type: none"> • Airbus 320-200 (180 seats) • Airbus 330-200 (303) • Boeing 787-800 (250) 	<ul style="list-style-type: none"> • Boeing 747-400p (386 seats) • Boeing 777-200 (278) • Boeing 737-400 (144) • Airbus 330-300 (294) • Airbus 330-200 (229)

	AirAsia	FireFly <i>(Wholly-owned low cost subsidiary of Malaysia Airlines)</i>	Jetstar <i>(Wholly-owned low cost subsidiary of Qantas Airlines)</i>	Malaysia Airlines
Cabin:	Single Cabin	Single Cabin	Single Cabin	Economy Class, Business Class,
<ul style="list-style-type: none"> Domestic flights and International short-haul International long-haul 	Operated by AirAsia X. Two cabins: Economy seat and premium XL seats	Not applicable	Economy class (JetSaver Light, JetSaver, JetFlex) and Star class	Economy Class, Business Class, First Class (First Class only available for USA and UK routes)
Fares Class and Calculation	<ul style="list-style-type: none"> One standard fare. For any additional service opted by customer during booking (eg, pre-booked checked baggage, meal), related fees will be added to the standard fare. For AirAsia X, there are two standard fares for Economy Class and XL Class respectively. For any additional service opted by the customers, related fees will be added to the standard fare. Economy Promotional fare and XL Promotional fare are available during promotion period 	One standard fare for all	<p>Four type of Fare Class</p> <p>Economy Class:</p> <ul style="list-style-type: none"> JetSaver Light: with carry bag only JetSaver: passengers: Carry On + 20kg Checked Bags <i>(JetSaver Light and JetSaver are non-refundable and name changes are not permitted).</i> JetFlex: Carry On + 20kg Checked Bags, allowed changes of date <p>Star Class</p> <ul style="list-style-type: none"> StarClass: Carry On + 30kg Checked Bags 	<p>Economy Class:</p> <ul style="list-style-type: none"> Super Saver Flex Saver Full Flex <p>Business Class</p> <ul style="list-style-type: none"> Business Special Business <p>First</p> <ul style="list-style-type: none"> First Special First

	AirAsia	FireFly <i>(Wholly-owned low cost subsidiary of Malaysia Airlines)</i>	Jetstar <i>(Wholly-owned low cost subsidiary of Qantas Airlines)</i>	Malaysia Airlines
Seat Option	<ul style="list-style-type: none"> Free seating and Xpress boarding for AirAsia Assigned seating with advance seat request option for AirAsia X. AirAsia X passengers could choose window or aisle seat, or one with extra leg room during booking 	<ul style="list-style-type: none"> Assigned seating 	<ul style="list-style-type: none"> Customers selecting their seats when booking Extra Leg Room seating in selected exit row seats can be requested at a fee for JetSaver Light and JetSaver passengers; free of charge for JetFlex passenger 	<ul style="list-style-type: none"> Assigned seating Spacious seat for Business Class and bed seat for First Class
Refund and changes options	<ul style="list-style-type: none"> No refund for cancellation of flight. Changes of flight date/time are permitted with payment of fee and fare difference and within defined deadline Passenger name change permitted except for Promotional Fare Class 	<ul style="list-style-type: none"> No refund for cancellation of flight. Changes of flight date/time are permitted with payment of fee and fare difference and within defined deadline and request more than 48 hours prior to departure Passenger name change not permitted 	<ul style="list-style-type: none"> Non-refundable for Jetsaver Light and JetSaver passengers and changes of flight date/time are permitted with payment of fee and fare difference. Tickets for JetFlex and Star Class refundable at certain fixed amount and no charge for changes of flight date/time Passenger name change permitted to Jetstar passengers but not Jetstar Asia passengers 	<ul style="list-style-type: none"> No refund for SuperSaver and FlexSaver Changes of flight date/time not permitted for SuperSaver

	AirAsia	FireFly <i>(Wholly-owned low cost subsidiary of Malaysia Airlines)</i>	Jetstar <i>(Wholly-owned low cost subsidiary of Qantas Airlines)</i>	Malaysia Airlines
Frequent Flyer Program	No	No	<ul style="list-style-type: none"> • Yes, Qantas Frequent Flyer • Only JetFlex and StarClass passengers can earn the frequent flyer point 	<ul style="list-style-type: none"> • Yes, ENRICH Frequent Flyer Program • GRADS, designed specially for students study in Malaysia to enjoy discounted airfares
Checked Baggage	<ul style="list-style-type: none"> • Fee for every checked-in baggage; • Lower rate for checked baggage pre-booked at least 24 hours prior to departure 	Free of charge checked baggage up to a maximum weight of 20 kg	Determined by the fare class passengers chose during booking	<ul style="list-style-type: none"> • Determined by the fare class passengers chose during booking • Additional baggage allowance given to our ENRICH Silver (5kg), Gold (50%) and Platinum (100%) members.
Member Lounge	No	No	Qantas Lounge available for certain passengers travel on Jetstar, but not for those travel on Jetstar Asia	Yes, Golden Lounge

EXHIBIT 4: DIFFERENCE BETWEEN AIRASIA AND AIRASIA X

	AirAsia	AirAsia X
Concept	Low-cost, short-haul, no-frills	Low-cost, long-haul, no-frills
Flying Range	Within four hours flying time from departing city	More than four hours flying time from departing city
Aircraft	Airbus A320 with 180 seats	Airbus A330 with more than 330 seats
Seat Type	Single seat	Economy seat and XL seat
Seat Option	Free seating with Xpress Boarding option	Assigned seating with advance seat request option
In-flight Dining	Wide range of light meals and snacks available for purchase onboard the aircraft	Pre-ordered full meals are available including Asian, Western, Vegetarian and Kid's Meal. Light snacks are also available for purchase onboard

Source: AirAsia.com (2008) "Company Profile", <http://www.airasia.com/site/my/en/page.jsp?name=Company+Profile&id=75dbf230-ac1e2082-29962900-ac960618&nav=5-0> (accessed 23 May 2008).

EXHIBIT 5: SHARE PRICE COMPARISON OF LISTED LOW-COST CARRIERS, 2007/2008

Airline Name	Price on 3 December 2007 US\$	Price on 11 January 2008 US\$	Share Price Change
AirAsia	0.52	0.43	-16%
Ryanair	6.86	5.62	-18%
EasyJet	8.06	6.66	-17%
SouthWest Airlines	13.74	11.70	-15%
JetBlue Airways	6.93	4.74	-32%
Virgin Blue	1.45	1.16	-20%
GOL Airways	19.53	15.42	-21%

Source: Fernandes, T. (15 January 2008) "AirAsia Clarifies Fuel Hedging Position", AirAsia Press Releases, [http://announcements.bursamalaysia.com/EDMS/annweb.nsf/all/482568AD00295D07482573D100369B6C/\\$File/AirAsia%20PR%20Clarification%20on%20Fuel%20Hedge%2015Jan2008.doc](http://announcements.bursamalaysia.com/EDMS/annweb.nsf/all/482568AD00295D07482573D100369B6C/$File/AirAsia%20PR%20Clarification%20on%20Fuel%20Hedge%2015Jan2008.doc) (accessed 7 June 2008).

EXHIBIT 6: OPERATING COST STRUCTURE OF AIRASIA

Operating Expenses (US\$ '000)	Jan-Mar 2008	Jan-Mar 2007	% Revenue	
			2008	2007
Revenue	146,731.5	111,346.3		
- Staff Cost	12,420.02	10,582.73	(8.5%)	(9.5%)
- Fuel and Oil	74,164.88	44,488.62	(50.5%)	(40.0%)
- User & Station Charges	9,084.50	7,689.60	(6.2%)	(6.9%)
- Maintenance & Overhaul	6,314.17	9,374.50	(4.3%)	(8.4%)
EBITAR	35,837.20	34,811.80	24.4%	31.3%
- Cost of aircraft	3,093.77	2,138.25	2.1%	(1.9%)
EBITA	38,930.97	32,673.54	26.5%	29.3%
- Depreciation & Amortisation	18,810.93	12,709.74	(12.8%)	(11.4%)
EBIT	20,120.04	19,963.8	13.7%	17.9%
Pretax Profit	27,731.79	11,806.04	20.6%	10.6%
Net Income	44,206.03	23,811.89	30.1%	21.4%

*Note: EBITDAR: Earnings Before Interest, Taxes, Depreciation, Amortization and Rent
EBITDA: Earnings Before Interest, Taxes, Depreciation and Amortization
EBIT: Earning Before Interest and Taxamortization*

Source: AirAsia (29 May 2008) "Financial Report".

**EXHIBIT 7: AIRASIA DESTINATIONS FROM KUALA LUMPUR LOW COST
CARRIER TERMINAL**

AirAsia's Hubs:	
Kuala Lumpur (LCC Terminal)	Jakarta (Sotkamo Hatta Intl. Airport)
Johor Bahru (Sultan Ismail Int. Airport)	Bangkok (Suvarna Bumi Airport)
Kuching (Kuching Int. Airport)	Bail (Ngurah Rai International Airport)
Kota Kinabalu (LCC Terminal)	
China	Australia
Hangzhou (Shanghai & Suzhou) ★	Perth ★
Guangzhou	Gold coast (Brisbane) ★
Shenzhen	Singapore
Hong Kong	Johor Bahru
Macau	Brunei
Haikou	Brunei
Laos	Malaysia
Vientiane	Kota Kinabalu
Vietnam	Kuching
Hanoi	Miri
Ho Chi Minh City	Labuan
Thailand	Tawau
Bangkok	Sandakan
Chiang Mai	Sibu
Krabi	Bintulu
Phuket	Kuantan
Philippines	Kuala Terengganu
Clark (Manila)	Kota Bharu
Indonesia	Alor Star
Jakarta	Penang
Banda Aceh	Langkawi
Medan	Cambodia
Pekanbaru	Siem Reap (Angkor Wat)
Padang	Phnom Penh
Palembang	
Bandung	
Yogyakarta	
Solo	
Surabaya	
Bali	★ Operated by AirAsia X

Source: adapted from AirAsia.com (2008) "Route Map",
<http://www.airasia.com/site/en/page.jsp?jsessionid=F1A2559B0145B44F532DE31B8D219881?name=Route+Map&id=1b04a6d8-ac1e00ae-511e0a00-167ce76f&nav=1-1> (accessed 25 May 2008).

EXHIBIT 8: ADVERTISEMENT WAR BETWEEN MALAYSIA AIRLINES AND AIRASIA

BEST AIRLINE TO ASIA | **Langkawi** | **WORLD'S** | **skymiles**

25 reasons to fly a truly Malaysian airline.



24hr on-line web World-class Compassionate 25% off 50% off for	services Cabin Crew 1st class for families senior citizens
Fast Economy Relaxed seats 10% off for adults 10% off for students 20% off for parents	Class 200 on-board and disabled MAX GRANTS and 10% off for
Excellent More legroom Priority boarding & Customer lounge for 40% off for First &	in-flight on most routes First & Business class Langkawi & Penang Business class on both
Service Bring baggage All service city Wide aisles Insurance (D&A) on the	excellence of 2005 & 2006 check-in easy access to aircraft First & Business class
Touch & Go Direct connectivity Airside facility Comfortable seating Refreshments	Programme 1000 to & from international for passengers for domestic on board

Call 1 300 88 3000, your travel agent or visit www.malaysiaairlines.com

malaysia

You don't need 25 reasons to fly. Only one reason why you should upgrade to AirAsia.



At AirAsia, no one gets treated like a second-class citizen.

For a few Ringgit, you'll get a comfy leather seat and a fun and friendly crew who treats you the way you like to be treated. It's so easy to book and you can even choose to sit anywhere you like!

It's no wonder more than 20 million guests have embraced the AirAsia experience.

AMAZING AirAsia

airasia.com

Source:FLYDAMNIT.com (2 September 2006), "MAS & AirAsia Advertisement War", <http://www.flydamnit.com/2006/09/02/mas-airasia-advertisement-war/> (accessed 12 April 2009).

EXHIBIT 9: AWARDS AND RECOGNITION RECEIVED BY AIRASIA

Year	Awards
2008	<ul style="list-style-type: none"> • Airline Strategy Award in the Finance Category by Airline Business • one of the 50 Most Innovative Companies In The World by FastCompany.com • Airline Market Penetration Leadership of the Year by Frost & Sullivan • Rising Leaders - The Next 10 Years by Singapore Institute of International Affairs (SIIA) in collaboration with AXN Asia • Commendations of Prestige Award for outstanding contribution in Macau by Macau Special Administrative Region
2007	<ul style="list-style-type: none"> • Airline Of The Year 2007 by Centre for Asia Pacific Aviation (CAPA) • Asia's Best Budget Airline under Best In Travel Poll 2007 by SmartTravelAsia.com • Airline Human Capital Development Strategy Award by Frost & Sullivan • Asia's Best Emerging Companies with regards to Corporate Governance by The Asset • Best Low Cost Airline in Asia by SkyTrax • The Brand Laureate 2006-07 for brand excellence in the Airlines-Low Cost Carrier Category
2006	<ul style="list-style-type: none"> • Malaysia's Ernst & Young Entrepreneur of the Year 2006 awarded to YBhg. Dato' Tony Fernandes • Low Cost Airline of the Year in KLIA Awards 2006 by Malaysia Airports Holdings Berhad • Merit Award for CAPA Airline of the Year 2006 by Centre for Asia Pacific Aviation (CAPA) • Asia's Best Budget Airline under Best In Travel 2006 by SmartTravelAsia.com • Best Managed Company, Best Corporate Governance, Best Investor Relations, and Most Committed to Strong Dividend Policy under The Annual Investor Poll by FinanceAsia.com
2005	<ul style="list-style-type: none"> • The CAPA Aviation Executive of the Year 2005 awarded to YBhg. Dato' Tony Fernandes • Regional/ Low Cost Leadership Award in Airline Business Strategy Awards 2005 by Airline Business - awarded to YBhg. Dato' Tony Fernandes • Airline Market Leadership Award by Air Transport World (ATW) • Transport Company of Excellence Award by Ports World Sdn. Bhd • Asia's Top 200 "Best Under A Billion" Companies by Forbes Asia • RHB AirAsia Credit Card by Superbrands • Best Chip Program for MasterCard Marketing Leadership Award 2005 by MasterCard
2004	<ul style="list-style-type: none"> • Asia Pacific Low Cost Airline of the Year 2004 by Centre for Asia Pacific Aviation (CAPA) • Asia Pacific Aviation Executive of the Year 2004 awarded to Tony Fernandes, Group CEO by Centre for Asia Pacific Aviation (CAPA) • Asia Pacific Low Cost Advertising Award for Best Asia Pacific / Middle East Low Cost Airline Print Advertisement 2004 by Centre for Asia Pacific Aviation (CAPA) • Asia's Best Managed Company in the Airlines and Aviation Sector by Euromoney • Best Newly Listed Company (3rd place) by Euromoney • Triple A Regional Award for Best Airline IPO for 2004 by The Asset Magazine • Best IPO of the Year by The Edge Singapore • 25 Stars of Asia honoree listing (Tony Fernandes) by Business Week • Best Uniform' for Miss Airlines International Contest 2004 5th China Air Show, Zhuhai • Market Leadership Award, 2005 Airline Achievement Awards by Air Transport World Magazine
2003	<ul style="list-style-type: none"> • Developing Airline of the Year 2003 by Airfinance Journal • CEO of the Year (Tony Fernandes) by Business Times and American Express • CIO Top 100 Honoree for excellence in strategic IT deployment • Obtained Malaysian Superbrands status by Superbrands International • www.airasia.com voted as the most popular website for online shopping in the 11th Malaysia Internet User Survey conducted by AC Nielsen Consult

Source: AirAsia.com (2008) "Awards & Recognition",
http://www.airasia.com/amazing/en/pageWithHeader.php?menu=one&content=one_awards (accessed 25 May 2008).

EXHIBIT 10: COST PER AVAILABLE SEAT KILOMETRE ("ASK")*, 2007

Operating Expenses (Us Cents)	Cost/Ask		Reason
	AirAsia	Others**	
Staff cost	0.33	1.18	Superior Productivity
Fuel and Oil	1.59	1.78	New fuel efficient Airbus A320 in fleet
Maintenance & Overhaul	0.28	0.34	New aircraft requires less maintenance
Sales & Marketing	0.11	0.36	Effective distribution channel
Cost of aircraft, depreciation and amortization	0.48	0.70	Purchased aircraft on attractive terms
User Station & Aviation	0.22	0.97	Asian/KL user charges are much lower
Others	0.15	0.48	Lower overheads
TOTAL cost per ASK	3.16	5.81	46% lower than comparable peers

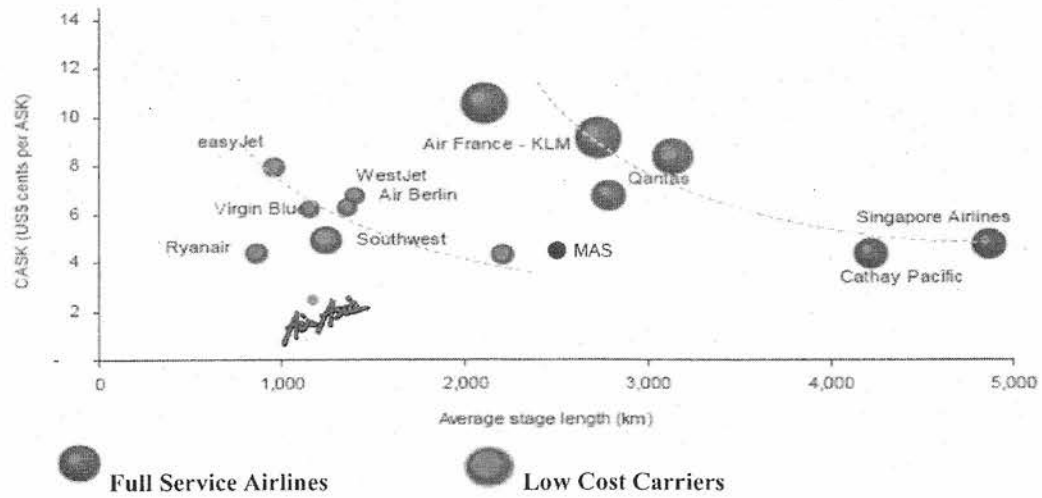
* *Available Seat per Kilometre ("ASK")* is "the total number of seats available on schedules flights multiplied by the number of kilometres these seats were flown. ASK is generally be used as the denominator when calculating unit cost". Cost per ASK ("CASK") is "the total operating expenses (excluding finance costs and taxation) divided by ASK"¹¹

** *Others* refers to other popular low cost carriers in the world which included Gol, JetBlue, Southwest, Air Tran, EasyJet, Ryanair, WestJet, and VirginBlue.

Source: AirAsia (30 August 2007) "Financial Report".

¹¹ AirAsia (2008) "Investor Relations: Airline 101", <http://www.airasia.com/site/my/en/pageWithMenu.jsp?name=Airline%20101&id=2f762de7-c0a8c85d-177e6b40-855c5e80&rootId=50ae1200-c0a8c85d-1410a850-baad6a43&parentId=2ecd455d-c0a8c85d-177e6b40-a7cb7dbc> (accessed 25 May 2008).

EXHIBIT 11: UNIT COST VS. AVERAGE STAGE LENGTH,* 2007



* Stage length refers to the distance travelled by an aircraft from takeoff to landing. Average stage length is computed as the ratio of aircraft kilometres (or miles) to aircraft departures.¹²

Source: AirAsia (30 August 2007) "Financial Report".

¹² Air Transport Association of America (2008) "Glossary: Stage Length", <http://learningcenter.airlines.org/Pages/Stage%20Length.aspx> (accessed 25 May 2008).

EXHIBIT 12: AIRASIA'S ONLINE SUB-ZERO ADVERTISEMENT

★ Promotion of the Month

Even Lower Than 0 Fare

AirAsia, the true low fare airline, provides the lowest fares for all flights in our extensive route network, both domestic and international. We boast a spanking new aircraft fleet, great in-flight food and friendly service without compromising on our safety standards. You have to admit, it's a bargain!

Smart consumers know the difference. Get your calculator out and start doing the math. **Calculators don't lie.**

	AirAsia (RM)	0-Fare Carrier (RM)
Airport Tax + Fuel Surcharge + Insurance + Admin Fee	44.50	76.00
Promo Fare*	15	0
Baggage Fee**	3	0
You Pay	RM 62.50	RM 76.00

*Applicable for domestic flights only
 ** For pre-booked check baggage online

We are the leading low fare airline and we guarantee the lowest fares. Check out for yourselves by logging on to www.airasia.com now.

Find out more

Source: AirAsia.com (2008) "Promotion of the Month", <http://www.airasia.com/nl/nl080506-en.htm> (accessed 25 May 2008).