

AIRASIA BERHAD (“AIRASIA” OR “COMPANY”)

COLLABORATION AGREEMENT BETWEEN THE COMPANY, MALAYSIAN AIRLINE SYSTEM BERHAD (“MAS”) AND AIRASIA X SDN BHD (“AAX”) (“COLLABORATION AGREEMENT”)

1. INTRODUCTION

CIMB Investment Bank Berhad on behalf of the Company wishes to announce that the Company had on 9 August 2011 entered into a collaboration agreement with MAS and AAX (“**Collaboration Agreement**”). Pursuant to the Collaboration Agreement, the parties wish to establish a framework to explore the possibilities of mutual co-operation.

To strengthen the collaboration and to further align their respective interests in AirAsia and MAS, Tune Air Sdn Bhd (“**Tune Air**”) and Khazanah Nasional Berhad (“**Khazanah**”), the major shareholders of AirAsia and MAS respectively, have agreed to acquire from each other existing shares of both companies (“**Share Swap**”). As a result, Tune Air will hold 685,142,000 ordinary shares of RM1.00 each in MAS representing 20.5% equity interest in MAS. Khazanah will hold 277,650,600 ordinary shares of RM0.10 each in AirAsia representing 10.0% equity interest in AirAsia.

2. SALIENT TERMS OF THE COLLABORATION AGREEMENT

The salient terms of the Collaboration Agreement are as follows:

Salient Terms	Description
Overarching Principles for Collaboration	<p>The parties wish to explore the possibilities of collaboration in order achieve the following:</p> <ul style="list-style-type: none">• to be able to utilise each other’s respective core competencies, optimise efficiency and increase all parties’ competitiveness to the benefit of consumers; and• to become more able to compete effectively with other industry players. <p>The parties shall in good faith negotiate for the purpose of reaching and finalising detailed agreements in a reasonably hastened duration, to realise the principles of the Collaboration Agreement, in a manner whereby each party will benefit relative to its position prior hereto, and a party’s benefit shall not be at the expense or loss of any of the others.</p>
Anti-trust	<p>Notwithstanding anything to the contrary, the Collaboration Agreement does not give rise to any commitment as to any particular form of collaboration, or give any effect to any form of collaboration, until anti-trust analysis has been completed in respect thereof, and such form is in compliance with the applicable laws as regards anti-trust, and any next step, implementation or action to give effect to any collaboration in this regard will be taken only after such anti-trust analysis is completed. In addition, in the course of such anti-trust analysis, should the parties identify any area in which they can collaborate, they will make the necessary anti-trust assessment and seek all necessary and desirable anti-trust approvals prior to undertaking or implementing the same.</p> <p>To the extent that there is any anti-trust, competition or other equivalent legal requirement that is applicable to any matter or transaction under the Collaboration Agreement, such that the matter or transaction cannot be proposed and/or undertaken unless certain legal requirements are complied with, then such matter or transaction will not be proposed or undertaken until such legal requirements have been complied with.</p> <p>To the extent that a proposal in respect of any such matter or transaction has to be amended or varied in order to achieve such compliance, the parties will discuss and agree in good faith an amendment or variation to</p>

	<p>the same which is in compliance with the relevant legal requirements, and yet is economically closest to the matter or transaction as originally intended by the Collaboration Agreement.</p>
Business Model Principles	<p>Subject to appropriate anti-trust review, the Company, MAS and AAX agree that each party (whether by itself or through a subsidiary or affiliate) will focus only on the following business segments:</p> <ul style="list-style-type: none"> • MAS will focus on being a full-service premium carrier (“FSC”). • AirAsia will focus on being a regional low-cost carrier (“LCC”). • AAX will focus on being a medium-to-long haul LCC. <p>The parties will mutually discuss and agree, based on value proposition to the market, the appropriate definitions of FSC and LCC for the implementation of the matters under the Collaboration Agreement.</p> <p>MAS intends to review Firefly Sdn Bhd’s operations, and MAS’s short-haul FSC business may be undertaken by itself and/or through a new MAS subsidiary (“Sapphire”), and MAS has the flexibility to re-designate capacity, assets and resources from Firefly Sdn Bhd to form Sapphire.</p>
Network	<p>Subject to appropriate anti-trust review, the parties shall negotiate in good faith for the purpose of concluding from time to time agreements in relation to the provision of network services so as to be able to provide, collectively, a competitive offering of services and products to all passengers in all business segments.</p>
Flow, Feed	<p>Subject to appropriate anti-trust review, MAS and AirAsia shall:</p> <ul style="list-style-type: none"> • assess the viability of enabling selective interlining passengers transiting from AirAsia points of origin to MAS flights, where MAS (and/or Sapphire, as the case may be) does not operate any overlapping route; and • assess the viability of enabling selective interlining for passengers transiting from MAS (or Sapphire, as the case may be) points of origin to AirAsia flights, where MAS (and/or Sapphire, as the case may be) does not operate any overlapping route.
Other Areas for Potential Collaboration	<p>Subject to appropriate anti-trust review, the parties will mutually discuss and agree, in good faith, to collaborate in areas where there are substantial synergies to be realised, either through joint procurements, increased scale, migration to best practices, lower cost, enhanced ability to capture non-captive third party revenues, and suchlike. At this juncture, the parties recognise this potential in areas like:</p> <ul style="list-style-type: none"> • maintenance, repair and overhaul; • ground-handling; • training; • catering; and • cargo. <p>The early phase for collaboration should focus on quickly-achievable synergies which can be realised without significant effect on any party’s operations, such as joint procurements. Any such collaboration under this clause should avoid overloading unnecessary restructuring costs on any one party.</p> <p>To the extent that any future transaction or arrangement under the Collaboration Agreement is a recurrent related party transaction, the parties agree that the provisions of the Bursa Malaysia Securities Berhad’s Main Market Listing Requirements shall apply to the same.</p>
Joint collaboration committee	<p>For the purposes of administering and overseeing such collaboration, the parties shall forthwith establish a committee constituted by persons representing each of them in order to enable the parties to plan, direct and manage jointly all issues and matters pertaining to the Collaboration Agreement.</p> <p>The primary responsibilities of the JCC are:</p>

	<ul style="list-style-type: none"> • Kick starting the collaboration process. • Undertaking an anti-trust review of all matters to be proposed for exploration or assessment hereunder, prior to their implementation. • Coordinating the activities of MAS, AirAsia and AAX under the collaboration agreement to ensure maximum synergy capture. • Monitoring and enforcing the implementation of the collaboration agreement. • Resolving deadlocks. <p>Prior to any review of the areas for collaboration, exchange of information between the companies, and implementation of any aspect of collaboration, the anti-trust compliance protocol must be established by the JCC.</p>
Resolution of disagreements	In the event a deadlock cannot be resolved by the JCC, it will be referred to the companies' boards of directors for resolution. If still not resolved, then any party may terminate the Collaboration Agreement by giving three months' written notice to the other parties.
Timeframe	The Collaboration Agreement is effective immediately upon execution. It will remain in full force and effect for a period of five years, unless terminated as a result of unresolvable deadlock as stated above. It may be renewed for a further period of five years on expiry by the parties' mutual agreement.

3. INFORMATION ON MAS

MAS was incorporated on 12 October 1937 in Malaysia. MAS is a public limited liability company and is listed on the Main Market of Bursa Malaysia Securities Berhad. As at 5 August 2011, the issued and paid-up capital share capital of MAS stands at RM3,342,156,240 comprising 3,342,156,240 ordinary shares of RM1.00 each and 1 special rights redeemable preference share of RM1.00 in the Company. Emerald has in issue 417,747,955 of Redeemable Convertible Preference Shares of RM0.10 each.

The Company is principally engaged in the business of air transportation and the provision of related services. It has won the World's Best Cabin Crew title from the Skytrax airline quality rating agency in six of the past ten years and it is currently holder of Skytrax's World's Best Economy Class award.

4. INFORMATION ON AAX

AAX was incorporated on 19 May 2006 and had its name changed from Fly Asian Xpress Sdn Bhd to AirAsia X Sdn Bhd on 21 September 2007. AAX is principally engaged in the provision of long haul air transportation services. AirAsia is holding the entire 42,666,667 Redeemable Convertible Preference Shares Series I of RM1.00 each in AAX.

5. RATIONALE

AirAsia may be able to reap positive benefits from its co-operation with MAS and AAX. Through the collaboration, and subject always to the appropriate anti-trust assessment, reviews and clearances from the relevant regulatory authorities, the parties hope to achieve:

- Improved performance from enabling the respective airlines to focus on their core markets in which they are most capable of developing value;
- Enhanced network services so as to enable the provision, collectively, of a competitive offering of services and products to all passengers in all business segments;
- Growth in passenger capacity due to enhanced and improved service offerings; and

- Deriving possible economies of scale benefits from potential cost and other synergies to be realised.

6. APPROVALS OF SHAREHOLDERS AND AUTHORITIES

The Collaboration Agreement is not subject to the approval of the shareholders of the Company, shareholders of MAS or any other regulatory authorities, but all aspects of the collaboration (including as to any discussion, assessment and review on the areas to collaborate) will be subject to the applicable anti-trust compliance protocols, prior anti-trust assessment and review, and (where required) approvals and clearances from the relevant anti-trust regulatory authorities.

By virtue of the Share Swap between Khazanah and Tune Air, the major shareholders of MAS and AirAsia respectively, certain transactions or arrangements under the Collaboration Agreement may be related party transactions and shareholders' approval will be sought if such is the case. Shareholders' mandate for recurrent related party transactions may be sought upfront if the transactions are of revenue nature and in the ordinary course of business.

7. FINANCIAL EFFECTS

The entry into the Collaboration Agreement does not have any effect on the issued and paid-up share capital of the Company and is not expected to have any material effect on the earnings, gearing and net assets of AirAsia group for the financial year ending 31 December 2011.

However it is expected to contribute positively to AirAsia group's earnings moving forward.

8. DIRECTORS' AND MAJOR SHAREHOLDERS' INTEREST

Save as disclosed below, none of the major shareholders and directors of the Company and/or persons connected with them has any interest, direct or indirect, in the Collaboration Agreement.

8.1 Major shareholders' interests

After the completion of the Share Swap, Tune Air remains as a major shareholder of the Company holding 13.07% of AirAsia Shares. Khazanah will also hold 10.00% of the equity interest in AirAsia and is therefore a major shareholder of the Company.

As such, Tune Air and Khazanah ("**Interested Major Shareholders**") are deemed interested in the Collaboration Agreement.

8.2 Directors' interests

By virtue of their interests in shares in the major shareholder of the Company, Tune Air, Dato' Abdel Aziz @ Abdul Aziz bin Abu Bakar, Tan Sri Dr. Anthony Francis Fernandes and Dato' Kamarudin bin Meranun are deemed interested in the Collaboration Agreement.

Accordingly, Dato' Abdel Aziz @ Abdul Aziz bin Abu Bakar, Tan Sri Dr. Anthony Francis Fernandes and Dato' Kamarudin bin Meranun (collectively referred to as the "**Interested Directors**") have abstained from deliberating and voting on the Collaboration Agreement at the relevant Board meetings.

9. DIRECTORS' OPINION

Save for the Interested Directors, The Board of Directors of the Company is of the opinion that the Collaboration Agreement is in the best interest of the AirAsia group.

10. APPOINTMENT OF DIRECTORS

The Board is pleased to announce that Datuk Mohamed Azman bin Yahya and Encik Mohammed Rashdan bin Mohd Yusof (as his alternate) has been appointed as Non-independent Non-Executive Directors of the Company with effect from 11 August 2011.

This announcement is dated 9 August 2011.