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AirAsia X Records Revenue of 16.2% to RM698.8 million In Third Quarter 2014 And Re-Strategizes For 2015

- **Capacity Reductions Through Deferrals and Allocation to Associates**
- **Yields Improving Since September and Benefit from Capacity slowdown**
- **Fuel Price Declining: US\$10/barrel drop = RM120 million bottom-line**
- **Positive Cash Flow and Strengthened Liquidity From Sale-Leasebacks**
- **TAAX and IAAX Cash Flow Positive and Will Anchor 2015 Growth**

SEPANG, 19 November 2014 – AirAsia X Berhad (“AAX” or “the Company”), the long-haul low-cost airline affiliate of the AirAsia Group today reported its financial results for the Third Quarter (“3Q14”) and 9 months (“9MFY14”) ended 30 September 2014.

Azran Osman-Rani, CEO of AirAsia X said, “Our third-quarter financial performance was set back by the second shock suffered by the aviation industry in July and the resultant demand slowdown. However, we have seen the critical measure of year-on-year yield rebounding back into positive growth by September and October. With the observed rationalisation of industry capacity and the significant drop in global fuel prices in recent weeks, we expect this positive momentum to contribute to a turn-around this current fourth quarter”.

"With the recent launch of Indonesia AirAsia X ("IAAX"), we have now already accomplished the primary strategic objective of achieving market leadership in our core markets through the aggressive capacity expansion we embarked in 2013-2014. In light of the changing market landscape in Malaysia where travel demand has softened and the industry capacity moderating, we see less need to continue expansion in our core Malaysian route network in 2015. This will allow more time for routes and capacity added in 2013-2014, to mature and reach profitability as average fares increase in line with demand".

The Company plans to slow down aircraft capacity growth by making the following fleet changes:

- **2015:** From a planned delivery of 8 aircraft, reduce to 6 with two planned outright sale
- **2016:** From a planned delivery of 8 aircraft, reduce to 4, with deferrals to NEO models from 2018 onwards
- **2017:** From a planned delivery of 8 aircraft, reduce to 5, with deferrals to NEO models from 2018 onwards

"The growth strategy for 2015 will shift to a consolidation phase, where no new aircraft capacity to be allocated to core routes in Malaysia's network in 2015, although ASK capacity is expected to increase by 5% vs 2014 due to the 12-month effect of capacity introduced mid-2014".

"Capacity allocation in 2015 will see a drop in the number of flights to Australia, while North Asia and Other regions will see an increase in number of flights".

"A majority of the 6 aircraft deliveries will be allocated to associates in Thailand and Indonesia, which are generating positive cash flow and have more growth upside".

"Meanwhile, in Malaysia, the capacity will be tactically managed with frequency reductions during lean

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seasons in Q2 and Q3, to reduce the need to lower yields to fill up excess capacity. We have firmed contracts to redeploy aircraft capacity from Malaysia to wet lease operations that coincide during our lean season where there are short-term peak demand elsewhere (e.g, Peak European summer season and Umrah travel season). By deploying our excess capacity, instead of incurring low yields, the capacity will instead be generating healthy margins during this period. These wet lease aircraft capacity will then be returned back to Malaysia operations during our peak period in the fourth quarter where it will be able to contribute positive returns. The charters and wet lease operation is expected to generate about 13% of 2015 revenues, and 23% of 2015 operating income. Between the charters and wet lease operations and income from aircraft lease to associates, over 12% of 2015 revenues will be denominated in US-dollars, providing the Company with better currency mix as a natural hedge against adverse foreign exchange movements”.

"Operationally, AirAsia X will continue to pursue further unit cost reduction initiatives through greater operational consolidation and resource sharing with the rest of the AirAsia Group".

"We continue to work on maintaining our financial integrity and have implemented a number of key initiatives to deliver positive cash growth in 2014 and strengthen our liquidity position and balance sheet. AirAsia X has executed a sale-and-leaseback of two A330-300 aircraft from its operating fleet, currently on its balance sheet on a finance lease, to AirCastle Limited. This will see the early retirement of RM420 million of debt, and generate net proceeds of approximately RM150 million from the sale. The two aircraft will remain part of AirAsia X's operating fleet. This reduction in net debt and increase in cash will bring down the Company's net gearing ratio from 2.15 as at 30 September 2014, to an adjusted level of 1.71. This transaction turns around the Free Cash Flow ("FCF") for the year-to-date of -RM126 million to an FCF of +RM444 million, on an adjusted basis".

"In addition, there is another series of aircraft and engine related transactions currently being finalised this quarter that will have a similar positive cash accretion. This includes expected cash gains from net proceeds of sale-and-leaseback of two additional new aircraft next week and another in mid-December. On top of this, the Company has raised RM84 million through its recent schedule extension sale".

"These various cash raising initiatives, together with any additional increases in working capital and debt facilities that will be raised on the back of these additional cash injection, will increase the Company's cash position in the current quarter, and put the Company on track to complete the full year with positive free cash flow. Oil price declines since the current quarter will be a big advantage, as every USD10/barrel drop in fuel price will give us a savings of about RM120 million in 2015", concluded Azran.

The Company posted revenue of RM698.8 million for 3Q14, 16.2% year-on-year ("y-o-y") growth from RM601.5 million, and 9MFY14 revenue of RM2.1 billion, 30.2% y-o-y growth during the same period under review.

The Available-Seat-Kilometre ("ASK") capacity grew 24% y-o-y to 6,366 million from 5,137 million in 3Q14 given that less new routes and frequencies were added as compared to 3Q13. The quarter-on-quarter ("q-o-q") capacity growth was a mere 1.6%, mainly for a new route - Xian, China, which commenced on 2 July 2014. The ASK capacity will taper off in subsequent quarters as planned to allow the previously added capacity to mature and be profitable. Passenger traffic volume in Revenue-Passenger-Kilometre ("RPK") grew by 21% in 3Q14 to 5,129 million from 4,227 million. The Company maintained a healthy passenger load factor of 80.6% in 3Q14, and above 80% during the 9 months period, on the back of a softer market environment.

The Company trimmed its frequencies of scheduled flights and deployed capacity to charters and wet-leases in other regions during this lean period, which contributed a 83.5% y-o-y growth to RM65.7 million in 3Q14, from RM35.8 million in 3Q13 revenue from this segment, and a 211.2% y-o-y growth to RM214.2 million for 9MFY14. These flights are not captured in the ASK and RPK tabulations as they are unscheduled flights. Ancillary revenue grew 36.1% y-o-y to RM432.8 million for 9MFY14, as compared to RM318.0 million in the previous period, resulting in an ancillary revenue per passenger of RM135.93 from the 3.1 million passengers carried. Fuel surcharge revenue gained 41.0% y-o-y from RM175.7 million to RM247.8 million for 9MFY14. Cargo segment contributed RM85.2 million for 9MFY14 and increased 32.7% y-o-y from the previous corresponding period.

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Two A330-300 aircraft were leased to Thai AirAsia X ("TAAX") and one A330-300 aircraft was leased to Indonesia AirAsia X ("IAAX"), its affiliates, generating RM55.7 million in lease income revenue in 9M14. In September 2014, IAAX was awarded the Air Operator's Certification ("AOC") to operate from its Bali hub, and in October 2014 announced its maiden route to Melbourne, with the first flight commencing on 26 December 2014.

The resultant unit-revenue yield, as measured by Revenue-per-Available-Seat-Kilometre ("RASK") improved 2.1% q-o-q to RM11.02 sen but declined -7.8% y-o-y in 3Q14. The slower than expected yield improvement is due to the two aviation incidents. Post the first event, the year-on-year growth in RASK was on an improving trend from -13% in April, -8% in May and -3% in June. However, after second event it retracted to -12% in July and -11% in August before turning positive in September at +0.1% and also October +1.5%, with November and December expected to reach double digit positive growth after the 12-month maturity period from capacity increases initiated in the fourth quarter of 2013.

Operating expenses increased 54.6% y-o-y from RM1,575.1 million to RM2,435.6 million in 9MFY14. Unit-cost as measured in Cost-per-Available-Seat-Kilometre ("CASK") for 3Q14 increased 12.5% y-o-y to RM13.10 sen, CASK-excluding fuel increased 22.2% y-o-y to RM7.31 sen relating to higher maintenance and overhaul cost as well as higher aircraft lease. Average fuel price increased from US\$130/barrel in 3Q13 to US\$132/barrel in 3Q14. This is due to more aircraft were deployed to charters and wet lease operations, and leased to hubs, which incurs costs but does not contribute to ASK tabulations. Adjusting for these non-scheduled flight operational activities, CASK was flat for 9MFY14 versus the same period last year.

Earnings Before Interest, Tax, Depreciation, Amortisation and Rental ("EBITDAR") margin for 3Q14 was -1.3% and for 9MFY14 was +2.1%.

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About AirAsia X

AirAsia X is the long-haul, low-cost affiliate carrier of the AirAsia Group that currently flies to destinations in China, Australia, Taiwan, Korea, Japan, Nepal and the Middle East. The airline currently serves 21 destinations across Asia (Nagoya, Haneda, Narita, Osaka, Seoul, Busan, Taipei, Xian, Beijing, Hangzhou, Chengdu, Shanghai, Chongqing, Colombo and Kathmandu), Australia (Sydney, Melbourne, Perth, Adelaide and Gold Coast) and the Middle East (Jeddah). AirAsia X currently operates a fleet of 21 Airbus A330-300s, each with a seat configuration of 12 Business Class seats and 365 Economy seats. The airline has carried over 12 million guests since it commenced long-haul in 2007. AirAsia X was awarded the World's Best Low Cost Airline Premium Cabin and Best Low Cost Airline Premium Seat titles for two consecutive years at the 2014 Skytrax World Airline Awards. Our vision is to further solidify our position as the global leader in low-cost, long-haul aviation and create the first global multi-hub low-cost carrier network along with other carriers of the AirAsia Group. AirAsia is the first airline globally to collaborate with INTERPOL to implement the I-Checkit system to screen the passports of all its prospective passengers against information contained in the world police body's Stolen and Lost Travel Documents (SLTD) database.

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