

## AIRASIA BERHAD (“AIRASIA” OR “THE COMPANY”)

### SUBSCRIPTION BY AIRASIA OF PERPETUAL CAPITAL SECURITIES (AS DEFINED HEREIN) ISSUED BY ITS 49% ASSOCIATE, PT INDONESIA AIRASIA

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*For the purpose of this announcement, the following definitions shall apply to currencies:*

IDR : Indonesia Rupiah  
MYR : Ringgit Malaysia  
USD : United States Dollar

## 1. INTRODUCTION

The Board of Directors of AirAsia (“**Board**”) has considered and approved the subscription of up to IDR 3,042 billion (equivalent to USD 227 million or MYR 1,014 million) nominal value of perpetual capital securities to be issued by its 49% associate, PT Indonesia AirAsia (“**IAA**” or “**Issuer**”), at 100% of its nominal value (“**Series 2**”) (“**Subscription**”).

On 29 September 2015, the Company subscribed to IDR 2,058 billion nominal value being 49% of the perpetual capital securities issued by IAA to comply with the directive received from the Directorate General of Civil Aviation of the Republic of Indonesia (“**DGCA**”) to address its negative equity position based on the submitted audited financial statement of IAA for financial year 2014 to DGCA (“**Series 1**”).

The Board of AirAsia has approved for the Company to enter into an addendum to align the periodical interest distribution rate under the Series 1, to be consistent with the Subscription as detailed in section 2.2 (b).

In a letter dated 10 May 2016, the Indonesian DGCA had again instructed IAA to increase its capital to address the negative equity balance, in accordance with the Law No.1/2009 on aviation (“**the Directive**”).

Subsequent to that, IAA has offered to issue a total of IDR 3,042 billion of new perpetual capital securities to AirAsia.

Further details of the Subscription are set out in the following sections in this announcement.

## 2. DETAILS OF THE SUBSCRIPTION

### 2.1 Particulars of the Subscription

The Subscription involves the subscription by AirAsia of IDR 3,042 billion (equivalent to USD 227 million or MYR 1,014 million) nominal value of perpetual capital securities issued by IAA, at 100% of its nominal value by way of converting existing amount due from IAA to AirAsia of USD 227 million (equivalent to IDR 3,042 billion or MYR 1,014 million) as of 30 June 2016.

In this respect, AirAsia had, on 15 December 2016, entered into a Perpetual Security Purchase Agreement (“**Purchase Agreement**”) with IAA to formalise the issuance and terms and conditions between IAA and AirAsia with respect to the Subscription.

## 2.2 Salient terms of the Perpetual Capital Securities

The salient terms and conditions of the perpetual capital securities include, inter alia, the following:

- a. Direct, unsecured and unsubordinated obligations of IAA and ranks ahead of IAA's other share capital instruments or securities for the time being outstanding;
- b. Carry an initial periodic distribution rate of 2% per annum for the first twelve (12) months and subsequently 8% per annum on outstanding principal amount to the perpetual capital securities until the first call date, then step up to 13% per annum on outstanding principal amount of the perpetual capital securities post the first call date thereafter;
- c. Perpetual in tenure with no fixed maturity date, with IAA having a call option to redeem the perpetual capital securities at the first call date, which is at the end of the seventh (7<sup>th</sup>) year from date of issuance and on each subsequent periodic distribution date thereafter at their principal amount;
- d. The periodic distribution rate will step-up by 5% if the perpetual capital securities are not redeemed at the first call date;
- e. Periodic distributions on the perpetual capital securities can be deferred (in part or in full) at IAA option, where the deferred periodic distributions are cumulative and compounding;
- f. Should the periodic distribution be deferred, IAA will not be able to (i) declare or pay any discretionary dividends, distribution on junior or parity securities or (ii) redeem, cancel, buyback any of its junior or parity securities;
- g. The applicable periodic distribution rate will step-up by 5% per annum should IAA breach the covenants in the terms and conditions of the perpetual capital securities. Upon covenant breach, IAA has a call option to redeem the perpetual capital securities at 101% of the principal amount plus accrued distributions;
- h. An Accounting Event will occur if, as a result of any changes or amendments to, or change in the interpretation of, relevant accounting standards, the perpetual capital securities must not or must no longer be recorded as "equity" in the Issuer's financial statements based on those relevant accounting standards;
- i. If the Issuer becomes obligated to pay additional amounts in respect of certain withholding tax due to certain changes in the applicable tax laws (including Indonesian withholding tax imposed at a rate in excess of 20.0%), the Issuer may, opt to redeem the perpetual capital securities in whole but not in part at a redemption price equal to 100% of the principal amount;
- j. A Cash Surplus Event will occur if the Issuer having a cash balance exceeding 30% of Preceding Year Revenue or a free cash flow generated by the Issuer equal or more than IDR500 billion (equivalent to USD 37.3 million or MYR 166.6 million);
- k. During the non-redemption period of the Series 2 issuance, the Subscriber shall have the right (but not the obligation), at its absolute discretion and opinion, to convert the whole or a portion of the outstanding amount of the securities, into fully paid-equity shares of IAA, at IDR 1,000,000 par value or at such par value then applicable due to change(s).
- l. The perpetual capital securities will not be rated and will not be listed in any stock exchange;

- m. The perpetual capital securities may also be redeemed by IAA upon the occurrence of certain events as more particularly detailed in the terms and conditions of the perpetual capital securities;
- n. The initial holder of the perpetual capital securities can transfer its perpetual capital securities to any other third parties without prior approval from IAA; and
- o. The governing law shall be the laws of the Republic of Indonesia.

### **2.3 Basis and justification of arriving at the Subscription Price**

The Subscription Price was arrived at after taking into consideration the current financial profile of IAA, benchmarked against recent corporate bond issuance by other Indonesian corporations and also the current interest rate on the amount due from IAA.

### **2.4 Information on IAA**

IAA was incorporated on 6 December 1999 as a limited liability company duly established and validly existing under the laws of the Republic of Indonesia.

IAA is principally engaged in commercial air transport services.

Currently, AirAsia Investment Limited, a wholly owned subsidiary of AirAsia, and PT Fersindo Nusaperkasa each hold 49% and 51% equity interest respectively in IAA.

As at 31 August 2016, the issued and paid-up share capital of IAA is IDR180,000,000,000 or RM54,720,000 comprising 180,000 ordinary shares of IDR1,000,000 each (based on exchange rate being IDR100 : RM0.0305).

Based on the audited financial statements of IAA for the financial year ended 31 December 2015 the negative equity of IAA was IDR2,649 billion.

## **3. RATIONALE FOR THE SUBSCRIPTION**

The Subscription is to enable IAA to attain positive equity position as directed by the DGCA in compliance with the Directive. Failure to address the capital shortfall carries the risk that the Minister of Transportation of the Republic of Indonesia would deny IAA's requests for new route approvals or even impose a suspension of operations.

Indonesia is a crucial market for AirAsia. International Air Transport Association forecasted that Indonesia is expected to be the sixth largest market for air travel by 2034 with 270 million passengers. The risk of suspension of IAA would not only affect the AirAsia brand but also affect the network and future growth of AirAsia Group.

The Board of IAA has approved a resolution on 21 October 2016 for issuance of new perpetual capital securities amounting to a nominal value totaling IDR 3,042 billion (equivalent to USD 227 million or MYR 1,014 million).

The Subscription will help to reduce IAA's gearing without any need for AirAsia to inject further funding or capital to IAA as it entails a conversion of the amount owed to the Company into equity of IAA.

## **4. INDUSTRY OVERVIEW, OUTLOOK AND PROSPECTS**

### **4.1 Overview and outlook of the Indonesian economy**

The Indonesian economy posted 4.8% (yoy) growth in 2015, down from 5.0% (yoy) the year earlier and below the Bank Indonesia projection of 5.4-5.8%. External sector performance decreased significantly, reflecting the deep export contraction. Due to the heavy reliance on natural resources exports, rupiah depreciation did not improve export performance in general. Meanwhile, manufacturing exports confronted a range of challenges stemming from sluggish demand for exports and a large import content amidst exchange rate depreciation. A decline in export earnings also affected domestic demand, particularly private consumption and non-building investment. In line with the export contraction and drop in domestic demand, imports also experienced a sufficiently deep contraction. By sector, economic moderation that initially affected the primary sector ultimately spread to other sectors.

In 2016, the Indonesian economy is forecasted to grow by 5.2-5.6% with an upward trend over the medium term, commensurate with the expanding capacity of the economy. With greater capacity in the economy, inflation is projected within the target range of  $4\pm 1\%$  for 2016-2016 and  $3.5\pm 1\%$  for the medium term. In view of the improved structure of the economy and more diversified sources of economic growth, current account deficit is forecasted to maintain at a safe level with more sound structure.

(Source: 2015 Economic Report of Indonesia, Bank Indonesia)

### **4.2 Overview and outlook of the Indonesian aviation industry**

Indonesia's air passengers grew at a Compound Annual Growth Rate of 16.1% from 2006 to 2013. Despite that, air travel penetration is still extremely low compared to other more mature Asian economies, with the number of air transport passengers at a small fraction of its population size. As Gross Domestic Product per capita expands, significant opportunity exists to increase air travel penetration and the number of air passengers in Indonesia as compared to more developed Asia Pacific countries.

### **4.3 Prospects of IAA**

IAA recorded an operating profit of IDR 229.3 billion in the third quarter, 2016 ("3Q16"), compared to an operating loss of IDR 59.5 billion in the third quarter, 2015 ("3Q15"). In addition, IAA recorded a net profit of IDR 486.6 billion in 3Q16 as compared to a net loss of IDR 262.1 billion in 3Q15. For the nine (9) month period of 2016, IAA recorded significant improvement compared to first half of 2015 with reduction in net losses. IAA is expected to turn in a strong performance for the remaining months in 2016 buoyed by high load factor and average fare as IAA are continuing to observe strong demand across most sectors due to the year end holidays and festivities. This is coupled with a favorable fuel price environment.

## **5. RISK FACTORS**

AirAsia's future source of return from Subscription will be mainly in the form of interest. The ability of IAA to pay interest will be dependent on several factors, such as its operating results, cash flow position, capital commitments, working capital requirements as well as covenants in its future loan agreements.

Furthermore, IAA operates in a very competitive industry where performance will significantly depend on how effectively it competes with other airlines in Indonesia. Any future policy or regulation change could significantly impact IAA's business.

## **6. EFFECTS OF THE SUBSCRIPTION**

### **6.1 Issued and paid-up share capital**

The Subscription will not have any effect on the issued and paid-up share capital of AirAsia as it does not involve any new issuance of AirAsia Shares.

### **6.2 Net Assets (“NA”), NA per share and gearing**

The Subscription will not have any effect on the NA, NA per share and gearing of AirAsia as it only involves the conversion of the amount due from IAA into investment in IAA by AirAsia.

### **6.3 Earnings and earnings per share (“EPS”)**

The Subscription is expected not to have any significant impact on the EPS.

### **6.4 Substantial shareholders’ shareholdings**

The Subscription will not have any effect on the substantial shareholders’ shareholdings in AirAsia as it does not involve any new issuance of AirAsia Shares.

## **7. APPROVALS REQUIRED**

The Subscription is not subject to approvals of the shareholders.

## **8. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED TO THEM**

None of the Directors and/or major shareholders of AirAsia and/or persons connected to them have any interest, direct or indirect, in the Subscription.

## **9. PERCENTAGE RATIO PURSUANT TO PARAGRAPH 10.02(G) OF THE MAIN MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD (“LISTING REQUIREMENTS”)**

The highest percentage ratio applicable to the Subscription pursuant to paragraph 10.02(g) of the Listing Requirements is 21.3%, being the aggregate value of the consideration given in relation to the Subscription compared with the audited consolidated net assets of AirAsia as at 31 December 2015.

## **10. DIRECTORS’ RECOMMENDATION**

The Board, having taken into consideration all aspects of the Subscription including but not limited to the rationale, prospects, risk factors and effects of the Subscription, and after careful deliberation, is of the opinion that the Subscription is in the best interest of the AirAsia Group.

## **11. DOCUMENTS AVAILABLE FOR INSPECTION**

A copy of the Purchase Agreement is available for inspection at the registered office of AirAsia at B-13-15, Level 13, Menara Prima Tower B, Jalan PJU 1/39, Dataran Prima, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia during normal office hours from Monday to Friday (except public holidays) for a period of three (3) months from the date of this announcement.

This announcement is dated 16 December 2016.