

## 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  
RM : Ringgit Malaysia  
USD : United States Dollar

#### 1. INTRODUCTION

The Board of Directors of AirAsia (“**Board**”) has considered and approved the subscription of up to IDR4,200 billion nominal value of perpetual capital securities issued by its 49% associate, PT Indonesia AirAsia (“**IAA**”), (“**Perpetual Capital Securities**”) at 100% of its nominal value. In this connection, the Company has now subscribed to IDR2,058 billion nominal value being 49% of the Perpetual Capital Securities been issued by IAA (“**Subscription**”).

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

#### 2. DETAILS OF THE SUBSCRIPTION

##### 2.1 Particulars of the Subscription

The Subscription involves the subscription by AirAsia of IDR2,058 billion nominal value of Perpetual Capital Securities issued by IAA, at 100% of its nominal value by way of converting part of the existing amount due from IAA of IDR2,058 billion as of 30 June 2015. The total amount due from IAA as of 30 June 2015 was IDR4,280 billion.

In this respect, AirAsia had, on 29 September 2015, 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 12% per annum which is payable semi-annually;
- c. Perpetual in tenure, 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 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 of in full) at IAA option, where the deferred periodic distributions are cumulative and compounding;

- f. Should the periodic distribution is 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% 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 per cent of the principal amount plus accrued distributions;
- h. The Perpetual Capital Securities will not be rated and will not be listed in any stock exchange;
- i. 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;
- j. 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
- k. 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 30 September 2015, 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 : RM0.0304).

Based on the audited financial statements of IAA for the financial year ended (“FYE”) 31 December 2014, the negative equity of IAA is IDR3,181 billion.

The board of commissioners of IAA and their respective shareholdings in IAA as at 30 September 2015 are as follows:

Commissioner	Designation	Nationality	<----- Direct ----->		<----- Indirect ----->	
			No. of ordinary shares	%	No. of ordinary shares	%
Pin Harris	President Commissioner	Indonesian	-	-	91,800	51 <sup>(1)</sup>
Sendjaja Widjaja	Deputy President Commissioner	Indonesian	-	-	91,800	51 <sup>(1)</sup>
Tan Sri Dr. Anthony Francis Fernandes	Commissioner	Malaysian	-	-	88,200	49 <sup>(2)</sup>
Datuk Kamarudin Bin Meranun	Commissioner	Malaysian	-	-	88,200	49 <sup>(2)</sup>
Johnny Gerard Plate	Commissioner	Indonesian	-	-	91,800	51 <sup>(1)</sup>
Mohamad Riza Chalid	Commissioner	Indonesian	-	-	91,800	51 <sup>(1)</sup>
Dharmadi	Commissioner	Indonesian	-	-	91,800	51

**Notes:**

1. Deemed interested by virtue of his indirect shareholdings in PT. Fersindo Nusaperkasa.
2. Deemed interested by virtue of his indirect shareholdings in AirAsia Investment Limited.

The directors of IAA and their respective shareholdings in IAA as at 30 September 2015 are as follows:

Director	Designation	Nationality	<----- Direct ----->		<----- Indirect ----->	
			No. of ordinary shares	%	No. of ordinary shares	%
Sunu Widyatmoko	President Director	Indonesian	-	-	-	-
Imron Fadil Siregar	Director	Indonesian	-	-	-	-
Rd Achmad Sadikin	Director	Indonesian	-	-	-	-
Andy Adrian Febryanto	Director	Indonesian	-	-	-	-
Perbowoadi	Director	Indonesian	-	-	-	-

### 3. RATIONALE FOR THE SUBSCRIPTION

The Subscription is to enable IAA to raise funds to attain positive equity position as directed by the Directorate General of Civil Aviation of the Republic of Indonesia (“**DGCA**”) in compliance with Law No.1/2009 on aviation (“**the Directive**”).

As the DGCA requires the IAA to address its negative equity position by 30 September 2015, there is a risk that the Minister of Transportation of the Republic of Indonesia (“**MOT**”) would deny IAA’s requests for new route approvals or even impose a suspension of operations. This may result in the airline having to cease operations, which would have a negative impact on public perception of the AirAsia brand and a material adverse effect on our Group business.

According the International Air Transport Association, by 2034, Indonesia is expected to be the sixth largest market for air travel. By then, some 270 million passengers are expected to fly to, from and within the country which is three times the size of today’s market.

In view of the future growth of Indonesia and in line with our growth strategies in the region, IAA would help to maximise route opportunities for the Group in Indonesia. IAA currently operates 23 Airbus A320 aircraft in Indonesia. The growth of IAA would provide the following benefits to the Company and AirAsia Group:

- Extended leverage on AirAsia brand and distribution presence;
- Strengthen AirAsia Group commercial and operational economies of scale; and
- Ability to feed traffic between South East Asia and Indonesia domestic network and vice versa.

The Subscription will also 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 interest in IAA.

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

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

In 2014, the Indonesian economy charted a 5.0% growth, down from 5.6% in 2013 and below the level forecasted at the beginning of 2014 at 5.5%-5.9%. On the external side, the slowdown resulted mainly from tapering export growth caused by falling demand, mainly from emerging markets, weakening global commodity prices and the government policy restricting exports of raw minerals. Despite the overall decline in export growth, manufactured exports showed an improving trend consistent with the ongoing recovery in the United States of America and movement in the Indonesian Rupiah in line with fundamentals.

On the domestic side, the slowdown was driven by thin growth in government consumption as a result of the expenditure savings programme aimed at bolstering fiscal sustainability. At the same time, with exports slowing and investors taking a wait and see stance due to the election, investment activity was also an area of flagging growth. Nevertheless, the still quite brisk performance of the economy was bolstered mainly by solid household consumption. Compared to the average economic growth of the ASEAN 5 nations, the Indonesian economy achieved relatively high growth in 2014.

In keeping with forecasts of continuing recovery in global economic conditions, the outlook for the Indonesian economy in 2015 is of further improvement with growth coming within the range of 5.4%-5.8%. Indonesia's economic growth will be driven more by strengthening domestic demand, while growth in external demand is predicted to be relatively moderate.

In 2015, moderate growth is predicted in household consumption in the range of 5.0%-5.4%. Growth in household consumption is supported by the vast population of working age, which has also swelled the work force. The Government plan in accelerating structural reforms through development of infrastructure may also promote greater employment, and thus expand the available sources of income. This is expected to support a downward trend in poverty and increase the numbers of the middle class, which in turn will spur growth in household consumption. The predicted inflation within the 4%±1% targeting range will also help maintain public purchasing power. Pay rises for manual workers and salary increases for civil servants, military, police and government pensioners will be one factor contributing to higher incomes that will in turn promote fairly resilient growth in household consumption.

*(Source: 2014 Economic Report of Indonesia, Bank Indonesia)*

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

According to the IMF World Economic Outlook published in April 2014, Indonesia is the largest economy in Southeast Asia with a GDP of USD870 billion in 2013 and a population of 248 million inhabiting 6,000 of over 17,000 islands in the archipelago. Its GDP represented approximately 36% of the total GDP of ASEAN countries in 2013 and had grown by a CAGR of 13.2% from 2006 to 2013.

While Indonesia's air passengers grew at a CAGR of 16.1% from 2006 to 2013, 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 GDP per capita expands, significant scope exists to increase air travel penetration and the number of air passengers in Indonesia as compared to more developed Asia Pacific countries.

Indonesia is experiencing one of the fastest urbanisation rates in the Southeast Asia region. Based on the UN 2014 World Urbanisation Prospects published in July 2014, the percentage of urban population in Indonesia increased from 31% in 1990 to 53% in 2014. Coupled with rapid urbanisation, the rising middle class in Indonesia will also support strong domestic demand growth.

Air travel, when compared to other modes of travel, has grown the fastest from 2009 to 2013 and it is expected to continue to substitute for other transport modes such as sea and rail. Air travel is an efficient mode of transport given the archipelago nature of the country. The rising middle class and urbanisation, will serve to bolster income levels, in addition to competition amongst regional airlines and other technological advances, are expected to result in air transport becoming more affordable, thereby increasing sea/rail substitution.

*(Source: IMF World Economic Outlook dated April 2014 and other publicly available information)*

## **4.3 Prospects of the IAA**

IAA's forward load and average fares for the remaining months in 2015 are encouraging and there have been improvement quarter-on-quarter as a result of the brand recovery efforts launched in April 2015.

Demand for domestic routes is expected to improve after floor fare revision in September 2015. Furthermore, IAA is expected to increase its focus on international operations, a strategic move given the challenges it has faced in Indonesia's highly competitive domestic market.

IAA is planning further capacity and network adjustments as part of turnaround efforts. IAA is reducing its fleet but should be able to reduce unit costs as aircraft utilisation rates increase and cost reduction initiatives are implemented.

## **5. RISK FACTORS**

The 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 existing/future loan agreements.

Furthermore, IAA operates in a very competitive industry where performance will significantly depends on how effectively it compete with other airlines in Indonesia. Any future policy or regulation change could significantly increase competition and may have a material adverse effect on the IAA's business turnaround.

## 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

For illustrative purposes only, based on the audited consolidated statement of financial position of AirAsia as at 31 December 2014 and on the assumption that the Subscription had been effected on that date, the proforma effects of the Subscription on the NA, NA per share and gearing of the AirAsia Group are as follows:

	<b>Audited as at 31 December 2014</b>	<b>After the Subscription</b>
	<b>(RM'000)</b>	<b>(RM'000)</b>
Share capital	278,297	278,297
Share premium	1,230,941	1,230,941
Foreign exchange reserve	8,818	8,818
Retained earnings	2,898,035	2,423,835 <sup>(a)</sup>
Other reserves	139,000	139,000
<b>Shareholders' funds</b>	<b>4,555,091</b>	<b>4,080,891</b>
No. of outstanding ordinary shares of RM0.10 each in AirAsia (“ <b>AirAsia Share(s)</b> ”) ('000)	2,782,974	2,782,974
NA per AirAsia Share (RM)	1.64	1.47
Total borrowings (RM'000)	12,728,018	12,728,018
Gearing ratio (times) <sup>(b)</sup>	2.79	3.12

Notes:

(a) Decrease in retained earnings is attributable to the recognition of prior year losses of IAA

(b) Calculated as total borrowings over shareholders' funds.

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

The Subscription will reduce profit before tax of AirAsia in financial year 2015 by approximately RM474.2 million, as at 30 June 2015, as a result of the recognition of prior year losses of IAA.

The Subscription is expected to contribute positively to the future consolidated earnings and EPS of AirAsia when the benefits arising from the Subscription are realised and recognized by AirAsia through equity accounting.

### 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 from any authorities and/or parties.

**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 SECURITIES (“LISTING REQUIREMENTS”)**

The highest percentage ratio applicable to the Subscription pursuant to paragraph 10.02(g) of the Listing Requirements is 13.7%, 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 2014.

**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 1 October 2015.