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Trikomsel hosts informal noteholders call to discuss liquidity position, possible restructuring and intention to form informal noteholder steering committee

SG\$115,000,000 5.25% Senior Fixed Rate Notes due 2016 of Trikomsel Pte. Ltd. guaranteed by the Company; ISIN: SG5512992272

SG\$100,000,000 7.875% Senior Fixed Rate Notes due 2017 of Trikomsel Pte. Ltd. guaranteed by the Company; ISIN: SG6QG3000005

26 October 2015

PT Trikomsel Oke Tbk. (the “**Company**”) (IDX: TRIO), the listed Indonesian mobile phone distributor, today hosted an informal introductory call with certain noteholders of its (a) SG\$115,000,000 5.25% Senior Fixed Rate Notes due 2016 (the “**2016 Notes**”), and (b) SG\$100,000,000 7.875% Senior Fixed Rate Notes due 2017 (the “**2017 Notes**,” and together with the 2016 Notes, the “**Notes**”), each issued by Trikomsel Pte. Ltd. and guaranteed by the Company. The purposes of the call were to (a) provide noteholders with an update on the Company’s liquidity position and financial performance and to outline the steps the Company has taken to date to address the challenges it faces, including evaluating possible restructuring options, and (b) invite noteholders to establish an informal steering committee with whom the Company would engage in discussing potential options and proposals going forward.

The company and its representatives stated the following on the call:

Opening Remarks

- Since the start of 2015, the Company has faced a continuous decline in performance which has been primarily driven by certain specific challenges. The general slowdown in the Indonesian economy has resulted in curbing of consumer spending which has led to a reduction in sales, whilst the significant deterioration in the Rupiah against the US dollar has impacted its margins.
- These factors have in turn reduced the Company’s working capital position and, considering the nature of this industry, the Company relies heavily on its ability to fund new inventory purchases to generate sales, and the lack of working capital has in turn limited its ability to generate adequate revenue and cash flow.
- It is for these reasons that the Company now finds itself unable to meet its debt obligations and the Board of Directors, in discharging its fiduciary duties, has performed a

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comprehensive review of the Company's debts for a potential restructuring with the aim of sustaining its business in the long term.

- In attempting to improve cash flow, the Company has undertaken certain cost rationalisations to minimise its cost structure in line with the reduction in sales and margin, which includes a reduction in retail stores and employees. The Company will continue to implement appropriate cost saving measures to ensure it reaches its optimal efficiencies without compromising its operations.
- Whilst that is ongoing, with the significant debt maturities looming, a restructuring is now required. To assist with proposed debt restructuring, the Company has engaged professional advisors to assist with the process, including:
 1. FTI Consulting as the financial advisor
 2. Ashurst LLP as legal advisor
- The Board of Directors takes this process seriously and has devoted certain members of the Board towards this process to ensure that an equitable debt restructuring exercise is achieved within the quickest possible time. This will enable the business to start to stabilise and recover.
- At this juncture, as the President Director of the Company, I would like to take this opportunity to express my appreciation of your confidence in the Company to date and ask that you to be patient whilst the Company goes through these challenging times. The Board believes that the Company will come out of this situation stronger and hopes that its stakeholders will continue to support the business going forward.

Company's Financial Performance and Need for Restructuring

- FTI has been engaged by the Company to assist with the potential debt restructuring exercise, primarily for 2 phases of work – firstly, to review and work closely with management to develop a long term sustainable business plan; and secondly, to consider options and if appropriate, formulate restructuring proposals based on the business plan and negotiate for equitable and reasonable proposed terms with the Company's creditors.
- We have now completed our business plan review, subsequent to which the Company convened a first all bank lenders meeting on the 19th of October to discuss the current situation.

Profit and Loss

- Following an average of 8.25% yoy revenue growth from FY2012-2013, Trikomsel suffered declining sales, resulting in significant reduction of revenue in the Last Twelve Months ended 30 June 2015 from IDR10.8 trillion to IDR8.9 trillion. Total net revenue in 1H2015 declined 32.1% compared with the total net revenue generated in the same period in 2014.
- The decline in mobile phone sales was driven primarily by:
 - The reduction of retail shops from its height of 1,027 stores to its 715 as at 30 June 2015.
 - Declining margins from the mobile phone brands with increased competitive pricing in the market as well as less consumer spending; and
 - Currency exchange rate impact due to the drastic deterioration in the IDR, impacting the purchasing power of the consumer.
- Despite the decline in revenue, gross margin has remained in the region of 14.0%, primarily due to increased sales of mobile phones in Trikomsel's own retail shops which generate higher margins compared with sales to distributors.
- OPEX as a percentage of revenue has increased from 6.3% in 2012 to 7.4% for the Last Twelve Months ended 30 June 2015. Selling and G&A expenses have increased since 2012 due to an increase in rental costs and salaries.
- As a result EBITDA for the Last Twelve Month period as at 30 June 2015 declined to IDR1.0 trillion from the IDR1.2 trillion recorded for 2014.

Balance Sheet

- As to be expected with the decline in sales, accounts receivable and inventory fell in 1H2015. However, since 2012 accounts receivable days have increased from 51 days to 73 days in 1H2015, whilst inventory days increased from 64 days to 84 days in 1H2015, due to longer terms of payment offered to distributors.
- In regards to fixed assets, all retail shops are currently leased. Thus, Trikomsel's non-current assets mainly relates to furniture and fittings, offices and office equipment
- Current liabilities increased in the 6 month period to 30 June 2015 from IDR3.3 trillion to IDR3.6 trillion due to increases in short term bank loans and trade payables to third parties. Non-current liabilities remained at IDR3.4 trillion

Cash Flow

- Cash flow from operations experienced large variances over the years primarily due to the net change in working capital. For the 6 month period to 30 June 2015, CFO was negative IDR53.5 billion.
- CAPEX is relatively low given the stores are leased.

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- As a result of the weak cash flow from operations, free cash flow was negative in 2013 and 1H2015 as well, with the Company financing its operations through increased debt issuance.
- The significant cash flow from financing activities in 2012 were largely due to proceeds received from the issuance of the MCBs in 2012. In 2013, the Company issued the SGD115 million bond. In 2014, the cash flow from financing was an outflow of IDR 192 billion despite another bond issue, primarily due to the repayment of significant amount of maturing bank loans.
- Given the significant debt issuance during the period, the Company has managed to maintain positive end cash. However, this has reduced from IDR496.9 billion in 2013 to IDR 334.9 billion in 1H 2015.
- We note that of the total debt of approximately US\$460 million owing to various lenders, including the amount under the 2 bond issuances, >80% of the debts fall due in the next 2 years with the small remaining debt to be repaid in 2018. With the depleting and volatile cash flow, the Company anticipates that it is unlikely to be in a position to service interest and repay debts as they fall due.
- With the declining sales and reducing margins, this means that the Company will not have sufficient cash and is unlikely to be capable of meeting these debt repayments as they mature.
- As such, the Company has limited alternatives but to initiate a debt restructuring exercise in order to right-size its capital structure for long term sustainability of the business.

Process & Timeline

- In terms of process and timeline, as mentioned earlier, the Company has contacted its bank lenders and has also updated them regarding the matters discussed on this call.
- The next steps in this process will be for the Company to revert with restructuring proposals to all relevant creditors in the next 2-3 weeks with the aim of entering into restructuring term sheets with all relevant parties by 31 January 2016 and execute definitive documentation by 29 February 2016.
- We note that this is an aggressive timeline based on our experience and is subject to the feedback of the relevant creditors in the negotiation process which may delay or expedite the process, nevertheless we are committed to work hard towards achieving this timeline.

Process for Noteholders, Formation of Steering Committee and Next Steps

- As a first step, the Company will be proposing a formal standstill of its obligations to its bank creditors as well as the bonds. For transparency, the Company does not anticipate it will be in a position to make the upcoming interest payments due in November and December 2015. It will continue to service interest on certain essential banking facilities in Indonesia which are required for it to continue operations.
- The Company will engage directly with its bank creditors to discuss the business plan and a restructuring solution over the next few months. The Company would like to make sure that noteholders are fully represented in the process, however, we do have some constraints in that restructuring discussions need to be held on a confidential basis with access to non-public information.
- Accordingly, we are inviting holders of the bonds to establish a steering committee to represent the interests of the noteholders in these discussions. If any holders are interested in becoming part of a steering committee, please contact us by email corsec@oke.com
- The Company is also in discussions with FTI and legal advisors to assist with the communication process to noteholders and representation of their interests. The Company hopes to update you with details on this shortly. The idea is to ensure the interests of noteholders are properly represented and there are appropriate lines of communications – even though most of you will not be in the room for the actual restructuring discussions.
- Should the proposed restructuring discussions be successful, we would expect to make a formal announcement to noteholders and an explanation of the restructuring terms. The final decision on these terms would be ratified by noteholder vote. Based on the timeline outlined by FTI, this is not likely to be until the first quarter of 2016. We will of course make appropriate announcements to holders in the meantime to update on the status of the process.
- All of us at Trikomsel want to provide you with our assurance that we will face our company's challenges promptly and diligently and we will work to present a fair and equitable plan to you and our other stakeholders.

Any discussion or other communication between the Company and noteholders will be without prejudice to their, other noteholders' or the trustees of the Notes rights and will not bind the trustees or any non-participating holder unless and until the requisite level of noteholder consent has been obtained in accordance with the applicable trust deed.

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Any other requests for information from the Company can be directed to the contact details below:

corsec@oke.com

In accordance with normal practice, none of the trustees or any of its officers, employees or affiliates expresses any opinion on the information set out in this letter. Noteholders who are unsure about the impact of such information should seek their own independent financial, legal and taxation advice.

THE NOTES HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY PERSON, EXCEPT IN CERTAIN TRANSACTIONS EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

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