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# APP'S PRINCIPAL INDONESIAN OPERATING COMPANIES REACH PRELIMINARY AGREEMENT ON KEY FINANCIAL TERMS FOR DEBT RESTRUCTURING AND KEY PRINCIPLES FOR COMPANY RESTRUCTURING WITH CREDITOR WORKING GROUP

**Jakarta, October 1, 2002—Asia Pulp & Paper Company Ltd** ("***APP***") confirmed today that preliminary agreement with certain creditors had been signed in Bali, Indonesia on September 28, 2002 with respect to the principal financial terms of the debt restructuring of its principal Indonesian operating companies, namely PT Indah Kiat Pulp & Paper Tbk, PT Pabrik Kertas Tjiwi Kimia Tbk, PT Pindo Deli Pulp & Paper Mills and PT Lontar Papyrus Pulp & Paper Industry. Preliminary agreement was also signed regarding the key principles for company restructuring of the four main Indonesian operating companies. Both agreements were entered into with (1) The Indonesian Bank Restructuring Agency ("***IBRA***"), (2) the export credit agencies for Germany, Austria, Canada, Spain, Sweden, Italy, France, Denmark and Finland, and (3) Nippon Export and Investment Insurance ("***NEXI***").

## Approach to Restructuring

It was agreed that, for the overall restructuring to be successful, the APP Group should undertake a debt restructuring and a company restructuring. Accordingly, separate "key financial terms for restructuring of debt of the four main Indonesian operating companies" and "summary of key principles for company restructuring of the four main Indonesian operating companies" were agreed in Bali.

## Key Financial Terms for Debt Restructuring

- **Assumed EBITDA and Cash Available for Debt Service**

The agreed key financial terms assume an average annual EBITDA of US$750 million in the aggregate for the four main Indonesian operating companies and the following aggregate amounts of monthly cash available for debt service:

2003 – 2005 : US$30 million;

| | | |
|---|---|---|
| 2006 – 2007 | : | US$35 million; and |
| 2008 – 2012 | : | US$40 million. |

If the published average Indonesian MTH pulp CIF price (being the average of Hawkins Wright and RISI where available) falls below US$400/MT for any given month, then the monthly cash available for debt service shall be reset to US$25 million for the following month. The difference between the amount of cash available before the reset and US$25 million shall be deferred and paid as soon as possible.

- **Restructured Debt Tranches**

The proposed restructuring terms contemplate that restructured debt would be split into the following three tranches, each having a 10-year term:

1. Tranche A, in the amount of approximately US$1.2 billion, would be a sustainable debt tranche, which would be amortized to zero over the ten-year term and attract the following commercial rates of interest:

| | |
|---|---|
| 2003 to 2005 | SIBOR +1% (capped at a maximum of 6%) |
| 2006 to 2007 | SIBOR +2% (not capped) |
| 2008 to 2012 | SIBOR +3% (not capped) |

2. Tranche B, in the amount of approximately US$3.0 billion, would be a refinanceable tranche, which would be refinanced at the end of its term and attract the following commercial rates of interest:

| | |
|---|---|
| 2003 to 2005 | SIBOR +1% (capped at a maximum of 6%) |
| 2006 to 2007 | SIBOR +2% (not capped) |
| 2008 to 2012 | SIBOR +3% (not capped) |

If Tranche B is not refinanceable at the scheduled maturity date, the Creditors may elect (a) to give the borrower one more year to refinance or (b) to restructure Tranche B debt.

3. Tranche C, representing the remaining debt owed, would be an unsustainable tranche with the following interest coupon:

| | |
|---|---|
| 2003 to 2005 | 1% |
| 2006 to 2012 | 2% |

Interest would be accrued and either be paid from excess cash (through the cash sweep mechanism subject to cash availability) or capitalized (in the absence of available excess cash).

Back end yield: An amount equal to 10% of the original principal amount of the Tranche C debt outstanding on the final maturity date is to be added to the amount of such debt on final maturity.

Tranche C debt would be converted, on terms to be agreed, into equity upon maturity of its ten-year term, unless retired through debt buy-backs from excess cash during the term.

- **Application of Cash Available for Debt Service**

Monthly cash available for debt service would be applied to pay interest under Tranche A, interest under Tranche B, and thereafter to repay principal under Tranche A or (in the event that Tranche A has been fully repaid prior to its maturity) principal under Tranche B.

- **Application of Excess Cash**

Available excess cash would be applied towards (1) the establishment and maintenance of a buffer in the aggregate maximum amount of US$30 million, (2) the payment of interest under Tranche C, and (3) apportioned between (a) prepayment of principal under Tranche A (for the period from 2003 to 2005) or Tranche C (for the period from 2006 to 20012) and (b) funding of debt buybacks.

- **Pre-Effective Date Escrow Account**

APP has placed US$100 million in escrow since September 30, 2002 for ultimate use in paying interest, funding debt buy-backs in the context of the restructuring and professional fees. APP agreed to place further funds in escrow in a monthly amount of US$20 million until December 2002 and in a monthly amount of US$30 million thereafter up to the effective date of the restructuring.

- **Definitive Restructuring Plan**

The intent expressed at the Bali meetings was to agree and sign a definitive restructuring plan by December 31, 2002.

**<u>Key Principles for Company Restructuring</u>**

The agreed key principles for company restructuring include the following:

- Overall review of management;
- Cash control/cash management;
- Review of trading (including sales and purchases strategies); and
- Improving efficiency and productivity.

There was agreement that the APP Group had enormous potential and the successful implementation of a good financial and company restructuring would greatly assist the APP Group in realizing this potential.

APP agreed to engage international consulting firms with representative offices in Indonesia to focus upon the tasks referred to in the key principles for company restructuring.

**APP's Comments**

Commenting upon the agreements, Teguh Ganda Wijaya, CEO of APP stated:

> "I am very pleased that significant progress has been made in the restructuring discussions relating to APP's principal Indonesian operating companies. I would like to thank IBRA, the European and United States export credit agencies and NEXI for their assistance in facilitating the signing of these agreements. We now look forward to working with creditors in the coming weeks and months in moving to a complete agreement on all relevant restructuring issues and in approaching other major creditors with a view to finalizing an overall restructuring plan."
>
> Mr. Wijaya also noted that: "The assumptions which underlie the financial terms which have been agreed are optimistic and challenging. We are, however, committed to using our best efforts to meet the terms. The future prices of pulp and paper will, of course, be a very important factor in this regard."

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APP is one of the world's leading pulp and paper companies. With current pulp capacity of 2.3 million tonnes and paper and packaging capacity of 5.7 million tonnes, it ranks number one in non-Japan Asia. Headquartered in Singapore, APP currently has 16 manufacturing facilities in Indonesia and China and markets its products in more than 65 countries on six continents.

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