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PRESENTATION

Operator

Good afternoon, ladies and gentlemen. Welcome to XL's announcement conference call. My name is Celine and I will be your coordinator today. (Operator Instructions). As a reminder, this conference is being recorded for replay purposes.

Now I would like to turn the conference over to our host, Mr. Feiruz. You may proceed.

Feiruz Ikhwan - PT XL Axiata Tbk - Head of IR

Thank you, Celine. Good afternoon, everyone. On behalf of the XL management team, welcome to the call. We will share with you the details of our recent corporate action announcement and address questions at the end of the presentation.

Now with us on the call today from XL we've got Pak Wim and Pak Adlan. And from Axiata we've got Dato' Sri Jamaludin, President and Group CEO; and Mr. James Maclaurin, Group CFO.

Now over to you Pak Wim.

Pak Wim - PT XL Axiata Tbk - COO

Thank you, Feiruz. Good afternoon, everyone. First of all, Pak Hasnul sends his regrets. He had prior arrangements outside Jakarta, so unfortunately, he cannot make it on the call. But rest assured, he was there this morning to place his signature on the documents.



We are extremely pleased to announce that we have reached agreement with STC and its subsidiary, Teleglobal, for the acquisition of Axis. This has been a long trajectory. I think all of you are very well aware of that.

If we go back to where we started, I think we have been working on this acquisition for about two years. Therefore, I think no one should even think of us having rushed into this. It has been not an easy trajectory but I think we have now come to a point where we are very satisfied with the result that's on the table.

With this acquisition we ensure that our spectrum is -- that spectrum-wise we are future proof and it will strengthen us and reinforce our position as leading operator in the Indonesian telecom sector.

Essentially, we will acquire Axis for \$865 million on a debt-free, cash-free basis. We will come back to that later I think in the pack, but it has been very important for us to go for a deal that has no open ends. So what we are looking at here is \$865 million debt-free, cash-free; a clean deal.

The way we look at this transaction is as a spectrum-driven asset acquisition, which meets our strategic objectives.

And if we move on to the next page, I'm just flipping through the pack that I assume everyone has in front of him, so I'm on page 3 now. This transaction clearly is the first of its kind in Indonesia that has -- it's the first major sector consolidation.

I think all industry stakeholders, including regulator as well as the minister, I think have been publically stating recently that they are of the opinion that market needs to consolidate, so this is clearly one first step into that direction.

We have demonstrated a will and the ability to drive this consolidation. It represents a proactive and significant step taken by us to benefit Indonesian consumers, the country as a whole, employees, as well as the XL shareholders. So, in fact, looking from all stakeholders' angles, we feel actually that we have addressed interests.

We immediately secure benefits with regards to spectrum. Axis holds 25 megahertz in total; 15 megahertz in 1800 and 10 megahertz in 2100. With this spectrum, we will be able to significantly reduce future CapEx spend and improve the quality of the services.

Furthermore, we do believe that consolidation somehow will improve market discipline going forward. And I think as you all know, the market has been extremely competitive, so some discipline, I think, is something that I would say generally the major operators will definitely welcome.

So then if we move on to page 4. We do believe that we have ensured an optimum transaction structure. Teleglobal, the subsidiary of STC, will deliver us 95% of Axis. So that 95% includes the 15-odd-% that was held by Maxis, so Teleglobal delivers us the 95%.

The 5% will continue to be held by a local shareholder, which is in compliance with foreign ownership regulations. The further details around this will be worked out by the closing of the transaction.

For a consideration -- as mentioned, the agreed consideration value for Axis is \$865 million enterprise value on a cash-free and debt-free basis. From this \$865 million, we will pay a nominal amount in equity, and the rest will be used to repay part of Axis' total indebtedness.

I think most of you are aware that Axis was quite significantly in debt. We will take -- we will handle up to \$865 million of that amount and Teleglobal will settle all other Axis' indebtedness prior to closing.

What we have signed this morning is a conditional sales purchase agreement and the transaction completion is subject to three key conditions. All three will need to be met, being that we obtain all regulatory approvals; that we obtain XL shareholders' meeting approval; and that spectrum will be retained. I think the last point is a key point of the transaction.

Clearly, our main reason has been to ensure spectrum going forwards. Therefore, if spectrum cannot be retained, all rationale for the deal would fall away and the deal would become null and void. And it is -- this has been explicitly agreed in the CSPA.



Then moving on to page 5, I think it's probably best to look at page 5 and page 6 together. On page 5, we feel actually this is the slide that tells the whole story.

Essentially, what we show you here is the waterfall, showing what we pay and what we get. I think even at first glance, it should be pretty obvious that we are going to get more than what we pay, so our bottom line is that the deal is justified.

So, if we walk through the various elements here, first of all, Axis has 1,600 towers that we will get and those towers we value at approximately \$200 million. The reason that we do that is that Axis has been in the process of selling those towers earlier on and that has given us a benchmark for a possible valuation of these towers.

Going forward, we will evaluate, re-use our sale of these assets. We are undecided, but clearly, one can see that in both situations, whether we keep them or whether we were to decide to sell them, that this clearly represents a value.

Second element there is about \$80 million in terms of the equipment that we can re-use, that is across radio core and transmission assets. So that is \$80 million that we would save straight away out of our CapEx budget. And that \$80 million is net of decommission and redeployment expenses, so this is a net saving.

So, then on CapEx and OpEx saving, moving on to the next block. With the additional spectrum, we expect significant CapEx and OpEx spend efficiency going forward, which is essentially the key benefit of this transaction.

For incremental CapEx going forward, incremental CapEx and OpEx going forward, we expect that we can save 50% to 60% relative to not having this spectrum. In particular because it will, in many cases, prevent us from the need of having to split cells. So that we will save on both tower lease, as well as on equipment, so ultimately, the cell count can be kept lower with this additional spectrum.

So what we're looking at is immediate two-year CapEx and OpEx savings in the magnitude of around \$200 million; medium-term savings on the 2100 spectrum of around \$200 million; and longer term savings on LTE, in the magnitude of around \$400 million.

Then the next element is the spectrum savings itself. Had we -- would we have had to acquire this spectrum, then that would have cost us \$250 million in terms of spectrum requirements, so that cost is now avoided.

Then we are looking 2G quality of service improvement and 3G update. What we have learned, and I think we have alluded to that in earlier conference calls, is that in order to get people to 3G and to use data services on 3G, that you do need to have a proper fallback quality and capacity in the 2G layer.

That is precisely what we are getting with this additional spectrum where, for a limited amount of CapEx, where we can essentially provide a fallback layer, adding to the overall -- enhancing the overall data experience and, therefore, being able to, more effectively, move people to the 3G network.

Then some short-term business benefits that we have actually never really considered given the fact that we are looking at this as an asset play, but which is nice to come on top.

We will get an additional subscriber base from Axis. We will get additional revenues; and a couple of additional areas where we can synergize and get tangible benefits.

Then last, it's a little bit longer term I think, with this spectrum, we will be able to run LTE on the 1800 spectrum, which is definitely a lot more efficient than as compared to doing that, for instance, on the 2,300 or the 2,600. Again, it's a matter of CapEx savings. Due to a lower band spectrum here, if we are able to do it on the 1,800.

Moving on to page 6, I think essentially I've covered that on page 5. Bottom line, I think we feel that it is financially a prudent transaction, both in structure as well as in amount relative to the benefits that we are getting here.



Definitely that meets our disciplined Group M&A criteria, Group referring to Axiata Group. I think we have looked from all angles, and we definitely feel that this transaction is within the stringent criteria that we have.

We have achieved an optimal transaction structure, and we do have an optimum funding plan in place. Midterm, we expect that this transaction will have a positive financial impact on our financial metrics.

Moving on to page 7, I think nothing too new here. Indonesia is fundamentally strong. The market is growing. In particular, data usage is growing. Demographics are changing in an interesting way, with a very fast-growing middle class and a rising affordability.

So, from that angle, we feel that this is a critical time to ensure spectrum adequacy in order to secure the highest-value 3G customer base, and also to retain the strong 2G customer base as anchor, and as basis going forward, slightly more on return towards to what is 4G LTE services.

Moving on to page 8, clearly, we have gone into this transaction again for the spectrum, and the fact that the spectrum will provide us with a much more efficient CapEx deployment going forward.

However, I think what we do want to note here is that even with half the spectrum of our major competitors, so far, we have been more efficient, yes? So if you look both on effective cost per minute, operating cost per minute, we have been more efficient than both Telkomsel, as well as Indosat.

Also, if we look at CapEx deployed on a per-minute basis, it's pretty obvious that XL has been, even with the limited spectrum, more efficient than our two major competitors.

So this can only improve going forward is our view. And, therefore, we feel that the additional spectrum should help us to enhance our cost leadership.

Moving on to page 9, essentially I think I referred to this earlier. Relative to not having the spectrum, we feel that in terms of total cost of ownership, in terms of CapEx and OpEx, that with this spectrum, that we can save about 50% to 60% on future deployment cost.

We have run very business cases here. Clearly, the savings are bigger in more -- let's say, in the denser areas, urban and suburban. But across the board, we are looking at, at least, a 50% savings on future CapEx deployment and, as such, looking at about \$200 million short-term savings, \$200 million medium-term savings, and longer term another \$400 million.

More importantly, with this conditional sales purchase agreement in place, we are now confident enough to essentially reduce our CapEx pipeline, our CapEx commitment, from \$900 million to \$600 million this year.

In terms of the cash out for this year, you will not see much of a change. So I think we will maintain our cash out guidance, IDR8 trillion to IDR9 trillion.

However, clearly, with taking less CapEx into the pipeline this year, you will see a further reduction in both cash out CapEx, as well as capitalized CapEx, in 2014. So there's this \$300 million reduction is exactly in hard savings; that will appear going forward.

Moving on to page 10, I don't want to dwell too much on it, but essentially, having more spectrum allows you to deploy cheaper, but also allows you to provide a better quality.

For those of you who have been to Indonesia, you are aware that quality, especially in Jakarta, regardless, I would say, whose network you are using, has never been something that is too impressive. With this additional spectrum, we feel that we are now in a position where we can significantly improve.



Just for the records, if I say significant improvement to the average perception and average experience, I'm by no way implying that our quality in Jakarta would have been inferior relative to our major competitors. I think everyone has been facing challenges in the very dense network of Jakarta.

And, as mentioned, it also provides us with a platform to drive 3G service update.

Moving on to page 11, we have here a few numbers on Axis. In fact, if you look at Axis, and, obviously, we have taken a close look at Axis in the due diligence and the various management team meetings that we have had, Axis has actually done a quite impressive job in terms of growing out of nowhere to somewhere in the magnitude of plus \$250 million in terms of annualized revenues.

On the other hand, let's say in a competitive market as the market we are operating in and lacking the scale, clearly, that performance has not been profitable, which is the main reason also that we have been able to come to an agreement with Saudi Telecom.

So, essentially, what we are getting, what does Axis have? About 12 million, 13 million customers; about \$250 million-plus in run rate of revenues; adequate spectrum allocation; Axis has a good traction in mobile data services; and in terms of brand and market positioning, clearly skewed to the younger users and the data heavy users; a leading presence in the online space, and best in class CRM practices.

So subscale, but essentially, the way we look at it is good building material. So, by combining the strengths of both entities, we believe that we can build something better out of XL as we would have been able to do it on a stand-alone basis. And that goes beyond spectrum only.

Page 12, we have mentioned it. There are immediate tangible benefits. The reason that we want to mention it is because, let's say, mentally, we straight away deduct this from the \$865 million consideration, which is about \$200 million for the towers and \$80 million hard savings on equipment re-use.

So the first \$280 million and, let's say, also considering the \$300 million commitment reduction for this year, essentially bring down the net acquisition price to something which is about half of the headline consideration.

Moving on to page 13, this transaction actually will help us to reinforce and I would say slightly expand our market position. I think we are nudging a bit closer to a slightly higher market share.

As you can see from the graph, it's essentially a three-player market. And I think with this transaction, it will become even a more three-player market.

Probably the other interesting element as a slight sidestep here to XL, is that you see that actually the combined market share of all the small players is declining over time, which is very much in line with our feel of these markets; mix consolidation and will be consolidated of which we are now taking a first step.

So, with this transaction, we get adequate spectrum and the combined customer base will be somewhere in the magnitude of around 65 million customers, who will all enjoy an increased scope of benefits and a better experience.

Then, moving on to page 14, we'll probably go a little bit more in detail here. First of all, we believe that we have structured this in such a manner that we are looking at a viable capital structure on closing, especially because we are acquiring Axis on a clean, cash-free, debt-free, basis.

The \$865 million consideration that we pay will be used to settle part of the overall Axis indebtedness at closing. Teleglobal will handle or settle all other outstanding indebtedness at closing to ensure that we will receive a clean Axis.

As mentioned in the introduction, this was a very important must have for us because we clearly did not want to commit ourselves to a situation where we will be facing a kind of open-ended structure.

So we know exactly what we pay, we know exactly what we get. There should be no further surprises.



This transaction will be debt funded. Initially, we will be looking at a shareholders' loan from Axiata on a to-be-agreed size internal, on arm's length basis, arm's length and clearly, we will benchmark it against market.

Axiata is cash rich and definitely has a very good access to global capital markets. Therefore, at this point in time, both Axiata and ourselves feel that a shareholders' loan is the best possible solution at this point in time. Clearly, Axiata is -- obviously, I haven't mentioned it before, but Axiata is totally supportive of this transaction in the first place, obviously.

The way we look at this transaction is a spectrum-driven asset acquisition. We have spent, as said, significant time and essentially the significant time is longer than two years, more than two years, on evaluating Axis and ensuring the right structure.

What we will be doing going forward, because there will still be some time in between today, the signing and moment when we can actually close, together with Axis' management -- and I think I should mention at this point in time that we have had a very constructive discussion and cooperation with Axis' management during the whole set up of this transaction.

So, essentially, Axis' management will right-size Axis and, together with us, will be identifying everything, the more profitable elements of this business.

For which, we have already laid out, essentially, an integration of synergy roadmap. Both in Axis, as well as in XL, we have integration teams in place.

In this call, we are not specifically going too much into integration details. But rest assured that we do have integration teams in place and that we do have an integration plan in place, to be fully prepared and to commence a smooth and efficient integration process immediately after receipt of regulatory approvals.

So let's also be clear that prior to obtaining regulatory approvals, Axis will continue to remain as a separate legal entity. Axis will continue to meet the regulatory and license requirements, so we will not do anything that would put license requirements at risk, nor do anything that would put the ultimate regulatory approval at risk. So, we are clearly looking at a situation here in between signing and prior to closing and the integration to be done post-closing.

We do believe that with our execution track records that we can achieve an accelerated and successful integration with minimal business disruption. Even more so because, once again, I think we are very encouraged by the proactive and constructive cooperation that we have gotten so far from the Axis senior management team.

Moving on to page 15, this is a prudent transaction. It does enhance our growth profile. It will be adding something to our top line. It will immediately help us to reduce CapEx spend. And with that, I think we are looking at a growth profile with a better -- let's say a more profitable growth profile, with overall better return growth profile. And this actually is quite a critical factor for profitability as well as, as let's say, being successful longer term.

Immediate leverage upon closing would increase less than 2 times. And let's say if you map it, and I'm sure that most of you have modeled it anyway, if you model it for the next couple of years, you will likely see that we have a quite strong de-leveraging profile with -- let's say, where essentially, we will be generating free cash flow to de-leverage.

Also, with this transaction, we definitely still stay comfortably within covenants and ratings triggers.

While there will be some short-term pressure on results, this transaction is definitely EPS accretive in the medium term. Axis currently has a negative EBITDA and clearly, a negative profit. As such, integration plans are in place and right-sizing will be done, so that upon closing of the transaction and consolidation of the transaction, as well as the integration going forward, that some of the immediate pain points would have been addressed already.



Last, I think our intention is to maintain our current dividend policy, which has been in place for the last three years, four years, which I think or you know is at least 30% of net income, with the objective to increase the annual payout last year.

Then moving on to page 16, the time line. As you can see, we still have to obtain a couple of approvals, BKPM, that's the investment body approval; KPPU, which is the anti-monopoly body and the Ministry of Information and Telecommunication; followed by obtaining XL ordinary shareholders' meeting approval, upon which then the transaction will be able to close; and post-closing, we will still have to go through a second KPPU notification.

Having said that, I think we have, over the last couple of months, worked very closely together with all parties involved and particularly with BKPM, with KPPU and with the Ministry of Communication, the minister himself, as well as the regulatory bodies.

I think you also are aware that we obtained the in-principle approval, subject to further review, for this transaction about two months ago. So, from that angle, it looks that we are pretty much on track to basically obtain the three outstanding approvals we need in the next couple of weeks; followed by a shareholders' meeting, likely in the course of November, which would, let's say, in best case, allow us to close the transaction before year end. In any case, we are looking at a time line that should not stretch too far beyond year end.

So, with that, I think I've come to the end of the presentation. So the way we look at it, I think, is nicely outlined on this last slide, where we did have some challenges with regards to spectrum and high CapEx intensity, where those challenges are now being addressed, when we close this transaction and by getting the spectrum.

So that we feel that, actually, we have built a good starting position to a sustainable leadership and a sustainable and profitable presence in this market for many years to come.

With that, I think I hand back to Feiruz and then I think we should go into Q&A.

Feiruz Ikhwan - *PT XL Axiata Tbk - Head of IR*

Celine, let's proceed with the Q&A, yes?

QUESTIONS AND ANSWERS

Operator

Thank you, Mr. Feiruz. (Operator Instructions). Sachin Salgaonkar, Goldman Sachs.

Sachin Salgaonkar - *Goldman Sachs - Analyst*

Congratulations for this acquisition. I have two questions. First, any numbers you could share in terms of dilution on EBITDA and EPS for next two years? That would be pretty helpful.

And second, just wanted to understand from a branding perspective, will the Axis brands be merged with the XL brands or will they continue to remain as separate brands going forward?

Pak Wim - *PT XL Axiata Tbk - COO*

Thanks, Sachin. We, at this point in time, I think do not provide any particular numbers on dilution, given the fact that we are still at a point of signing, not at a point of closing of the transaction. I think going forward, we will probably, at some point, provide some further guidance, but this is still early.



So I think directionally what we can see is that medium term, and medium term I think you should think after two years, this should be positive on both EBITDA, as well as bottom line; whereas I think quite immediately, it's still very positive on the top line.

After, let's say, in the next two years, we see some potential pressure on EBITDA, depending on how quickly we can improve the cost profile in Axis and we will see some pressure on earnings per share.

However, I saw this morning a report from one analyst referring that if we're going to consolidate right now, that we would end up in a net loss position. I think our forecasts are definitely not showing us that we would have to expect net loss positions going forward.

So we talk about some pressure, but not dramatic pressure. I think that's all we can say at this point in time.

Regarding the branding, likewise, this transaction is signed today, but not yet closed. So clearly, for the period in between signing and closing, the Axis brand will remain exactly as it is.

Going forwards, this provides us with flexibility to either consolidate or, alternatively, to keep a second brand alive. So there are pros and cons to both scenarios. I think also in our quarterly conference calls, we have spoken about this.

I think all we can say at this point in time is that we have now the flexibility to go both ways.

Sachin Salgaonkar - *Goldman Sachs - Analyst*

Okay, this is very clear. A small couple of follow-ups out there. One is any sort of a tentative cost of debt figure which could be provided for us to better analyze this entire dilution impact?

And secondly, just wanted to double confirm that XL will be retaining all the spectrum, including the 10 megahertz of 3G spectrum.

Pak Wim - *PT XL Axiata Tbk - COO*

Okay, I think the cost of debt Pak Adlan will handle.

On the spectrum, clearly, this transaction is done with the objective to obtain spectrum. I think, at this point in time, what we can say is that we have been working and will continue to work in very close cooperation with both the Minister of Telecommunications as well as with the regulator, to ensure that, let's say, we can obtain approval, and that this deal continues to make sense.

There have been some headlines, I think, in the past, speculating on how much spectrum could be retained, and how much spectrum would have to be returned.

I think all we can say at this point in time, is that we are working closely together with regulators in particular, to ensure that this deal will continue to make sense for us going forward.

Pak Adlan - *PT XL Axiata Tbk - Director & CFO*

Sachin, sorry, Adlan here. Can I just clarify, when you refer to cost of debt, you are talking about the cost of debt to fund the transaction, or the cost of debt that is currently sitting indebtedness in excess? Hello? Sachin? Hello?



Operator

Mr. Sachin's line got disconnected.

Pak Adlan - *PT XL Axiata Tbk - Director & CFO*

Oh, he got disconnected is it?

Operator

Yes. We have another question from Mr. McCallum.

Pak Wim - *PT XL Axiata Tbk - COO*

Okay, Colin McCallum?

Operator

Yes. Mr. McCallum, Credit Suisse.

Colin McCallum - *Credit Suisse - Analyst*

Two questions from me. First of all, for Adlan, I think probably the previous question was to ask the projected cost of funds and what you would have to pay for the shareholders' loan from the parent. Any sort of rough ballpark? Are we looking at 6%, or are we looking at 10%? And what currency would you borrow in, and would you hedge it? I suppose that's the questions on the interest side.

Secondly, can I just another one of Adlan, which is what exactly is the net book value of what you're acquiring, so we can calculate goodwill? And what will be the policy for goodwill? Will you amortize goodwill, or will you adopt a fair value impairment-type approach? Thank you.

Pak Adlan - *PT XL Axiata Tbk - Director & CFO*

Okay, just very quickly, on the shareholders' loan, it's something that we will work out, with Axiata. But essentially, whatever amount that we will agree and reach, that will be with Axiata, would definitely be at arm's length. So, essentially, as we are looking at raising a USD debt, essentially, because I think the payment will be in USD.

I think, depending on market position at that point in time, we may look -- we may decide whether we would partially hedge or do a hybrid or potentially swap back to a rupiah maybe at that point in time, or maybe some time in the future.

I think what we're looking on, with regards to the Axiata shareholders' loan, is essentially a short term, but renewable on demand, right.

So whatever rates have not been agreed at this point in time, but essentially, what we will agree is would be rates that would be at market rates, yes.

Secondly, if you look at the net book value of the assets of -- sorry, if I can just -- so, essentially, if I look at the latest number that we have, they would have approximately about IDR9 trillion of total assets. And essentially, if you take out the loans, I think you would actually -- you take out the liability in terms of the indebtedness, that has to be paid off.



So essentially you're looking at a total liability of about IDR9 trillion. So net-net, I think if you talk about the net book value, it's close to about zero.

Colin McCallum - *Credit Suisse - Analyst*

How will you treat the goodwill, Adlan? Thanks.

Pak Adlan - *PT XL Axiata Tbk - Director & CFO*

I think as far as goodwill is concerned, I think we need to adopt this on the financial IFRS. Potentially in the New Year, I think on goodwill treatment we will base on fair value. We need to fair value the goodwill.

So, essentially, if you look at this acquisition, the bulk of the value would be in spectrum. So, essentially, is the bulk of the fair value will be justified through recognition of spectrum assets in the balance sheet.

Colin McCallum - *Credit Suisse - Analyst*

Got it, very clear. Thanks very much.

Operator

Sachin Gupta.

Sachin Gupta - *Analyst*

Just the two questions. One is just on slide 9, when you talk about the CapEx savings potential. You mentioned that, obviously, there's a CapEx commitment reduction of \$300 million straight away. But then in the charts you have, you're actually talking about CapEx savings, tangible benefit of about \$200 million in the next three years.

So I was wondering, can you explain what exactly is going to be the CapEx saving now and where does the \$300 million and \$200 million figure come from? That's one thing.

And second thing, just to confirm, obviously, the fact you are announcing all this stuff now. Would it be fair to assume that management is reasonably confident, or they've had reasonable indications that the CapEx will remain both on 1800 and on 2100?

Pak Wim - *PT XL Axiata Tbk - COO*

Thanks for the question, Sachin. Yes, what we are indicating on page 9 is essentially looking -- in fact, if you look at page 9 and you look at -- where is it?

Pak Adlan - *PT XL Axiata Tbk - Director & CFO*

Starting page 5.



Pak Wim - *PT XL Axiata Tbk - COO*

So, as I understand, it's --

Pak Adlan - *PT XL Axiata Tbk - Director & CFO*

Overlapping.

Pak Wim - *PT XL Axiata Tbk - COO*

So, on page 5, we actually give the building blocks of the valuation, leading to (inaudible) relative to the \$865 million. On page 9, we give purely the CapEx component across 2G, 3G and LTE, so that is the short term, the medium term and the long term.

The \$300 million commitment reduction that we are looking at is essentially pipeline. So that is what we are committing, less, this year, what you would see appearing in the books, let's say, mostly next year and partly maybe even the year after, for some of the transmission projects.

So the savings, actually, the short-term and the medium-term savings go across 2G and 3G, I would say, straight away. So let's say the fact the numbers are not completely matching up, is especially when you deploy 2G, and typically you deploy what is additional capacity, and later on maybe you stick in an additional card to add further capacity, so that's why actually you have the two stages there.

The \$300 million reduction for this year that you're looking at is actually, in terms of commitments, mostly coming from the fact that we have identified that because of this additional spectrum, that we're going to need less sites, because, in many cases, in the high-density areas, all sites are running at full configuration, so the only way to add capacity would be to add a new site with additional equipment.

So what we can do now, instead, is on existing sites add further equipment. So that was driving predominantly the \$300 million commitment reduction that we are looking at right now.

In terms of spectrum, clearly, we have not just put a condition in the CSPA and signed it with Saudi Telecom without having a reasonable degree of confidence regarding spectrum.

I think we have closely worked with the Minister of Communication and with the regulators to see on what's possible for a very simple reason that we did not want to embark on, I would say, a pretty complicated exercise that took us two years, and then find out that what we had in mind would not work. So yes, I think we do have a fair degree of confidence that this transaction can be closed with retention of the spectrum.

Obviously, what we have so far is the in-principle approval but not yet the final approval. So we are not 100% sure, but we are fairly reasonably sure at the moment.

The 100% certainty will only come upon final approval of the transaction, for which we have to be, I think, a bit patient, and which we expect somewhere in the next, probably, two months or so.

Sachin Gupta - *Analyst*

Okay. Thank you very much.

Operator

Navin Killa.



Navin Killa -- Analyst

I have two questions, actually. First one is just trying to understand if there is any tax credit implications from the deal? I would imagine Axis might be sitting on carried forward losses. So is there is any tangible value that you might be able to put to that? Or at least, if you could show any number on how much losses they have carried forward?

Second, you mentioned about the book value of spectrum at \$250 million. I just want to understand a little bit where this comes from because if I understand it correctly, you are paying annually for both the 1800 and 2100 bands, or rather, Axis probably would have been paying annually for those bands. So I would image that those recurring annual liabilities will now be taken over by you. So what does that \$250 million book value refer to? Thank you.

Pak Adlan - PT XL Axiata Tbk - Director & CFO

Okay, Navin, Adlan here. Okay, on your first question on tax credit, yes, essentially if you look at Axis, they have a huge tax credit sitting in the books, what essentially I think the amount is close to about IDR1 billion.

But essentially, we have not taken that into our valuation in terms of the ability to potentially realize that because on the grounds of prudence. But essentially, if we are able to do a little bit of tax planning and moving forward on actually Axis with XL, then potentially, if we are able to do some transfer pricing potentially -- we could potentially utilize that (inaudible).

Nevertheless, I think on grounds of prudence and looking at basically the tax scenario in Indonesia, given that for utilization of these tax losses moving forward, we also need to be with consent of the Ministry of Finance, we have not accounted any of the amount in the valuation. But they do have a tax credit of close to about IDR1 billion in the books.

Secondly is if you look at the spectrum valuation here, essentially, these are basically -- what we have put in is basically potentially the upfront fee of spectrum that was actually avoided. We benchmarked that, the five blocks, against latest auction of the 3G that was recently done.

I think the upfront fee was valued at about \$15 million. So we just did a simplistic calculation; if we were to buy the spectrum in the market, based on auction basis, we may have to pay that amount.

You are right, there is an old spectrum fee that you still have to pay, but essentially, these are the spectrum book value that you are avoiding by not having to pay the upfront fee. The formula for that is \$15 million times 5 blocks.

Navin Killa -- Analyst

Right, thanks. Sorry, can I just -- one quick follow-up on the tax credit. What is the validity of that, any timeframe to that, like two years, three years, or longer?

Pak Adlan - PT XL Axiata Tbk - Director & CFO

So they are in various tiers, Navin. So it ranges from three years, four years and five years. So there are various amounts in various years, in terms of an expiry.

Navin Killa -- Analyst

Yes, thank you. Thank you very much.

Operator

Riaz Hyder.

Riaz Hyder -- Analyst

Just really one question from myself. In terms of the CapEx/OpEx savings you refer to, highlighting that it will be EPS accretive medium term. Can you give a sense of how much you would need to actually make it EPS neutral?

Pak Wim - PT XL Axiata Tbk - COO

In terms of time, you mean, or in terms of amount?

Riaz Hyder -- Analyst

Yes, well, in terms of medium term, if it was to be EPS neutral medium term. Can you give a sense of how much CapEx/OpEx savings you'd be looking at?

Pak Wim - PT XL Axiata Tbk - COO

The savings essentially will start immediately. But let's say, once we close the transaction, we will need to consolidate the Axis entity and currently, the Axis entity is making a loss.

So let's say part of the negative EBITDA and part of the negative bottom line, we hope to address, together with Axis management, by rationalizing and streamlining current operations.

But we do not think that upon closing the transaction that it has been fully addressed already. So that is -- so essentially, [the funds] upon initial consolidation, we will be taking some hit on the EBITDA as well as on bottom line.

However, going forward, once we have obtained full ownership of Axis, we shall be able to accelerate rationalizing the business. So it will -- our current projection is that within two years, I think what I said earlier, within two years, we should see positive impact bottom line and probably a bit sooner even on EBITDA.

In terms of amounts, how much is needed; maybe I should add on that. In order to fully benefit from the CapEx savings, we will need to invest in vertical expansion on existing sites.

That itself will require about \$100 million, but that has essentially been taken into account versus the savings that we have indicated. But that \$100 million will not lead to a [blur]. That is already provided for, I think, in the guidance for this year, in our 2013 guidance.

Riaz Hyder -- Analyst

Okay, thanks. Just one more question. Any implications for either XL's, I guess, further participation and consolidation in the sector if this deal goes through, and/or if you think this may act as a catalyst for other operators to look at consolidating the market? Thanks.

Pak Wim - PT XL Axiata Tbk - COO

That's an interesting question. Probably even a bit of a speculative question. But let's say if you look purely from an analytical perspective at this, I think XL, relative to Indosat and Telkomsel, we were having the least spectrum in the 1800 band. So this transaction will provide us with parity.

So essentially, what I'm saying is that we were the most likely buyer, the most interested buyer. With that addressed, I think the first question that remains; is there would there still be an interested buyer to do a next M&A transaction in this market?

Likewise, I think related to valuation, as soon as we can close this transaction, we have our needs pretty much addressed. And given the fact that we were probably most in need of additional spectrum, this transaction that we are doing here could set a kind of benchmark for future transactions.

Be that logically, given the fact that immediate needs are addressed and no one has real spectrum shortage, that is very possible that future M&A transactions could probably be done below the benchmark that we are setting here.

But again, this is speculative. But let's say if you purely look from an analytical angle, that's, I think, what we are seeing at this point in time.

Riaz Hyder -- Analyst

Okay. Thank you.

Operator

Suresh Mahadevan.

Suresh Mahadevan -- Analyst

Congratulations on announcing this transaction. I have two questions, both probably related. One is hypothetically, if the regulator does not allow the full transfer of, let's say, 2100 spectrum, but allows the 1800. In that case, have you -- will you go back and renegotiate? How does it work? Is it -- have you already worked out a formula with the Axis shareholders? So that is question number one.

The second question is just wanted to -- pardon my ignorance on this, but I wanted to understand what is the current regulation related to acquisition of a company? Does the spectrum go back to the government, or does the spectrum transfer is automatic subject to regulatory approval? What is really the current regulation related to this? Thank you.

Pak Wim - PT XL Axiata Tbk - COO

Thanks for the questions, Suresh. They both are actually interesting questions. What if the regulator would not allow full redemption, what do you do?

Clearly, what we currently have in the CSPA is that spectrum redemption is a condition for this deal to go through. So, in other words, we do not want to be in a position where we would end up paying \$865 million for only part of the spectrum. And that is clearly agreed between STC and XL.

Second, do you then go back and renegotiate? I think that's pretty unlikely for the very simple reason that coming to a conclusion on this trajectory has been extremely lengthy and that was because a lot of work had to be done by STC to essentially get the Axis balance sheet in such a shape that we could come to a transaction.



So what I am essentially saying here is that if we were to go back and try to renegotiate for a lower price, I'm pretty sure that no agreement would be found for the very simple reason that the numbers would no longer work for Saudi Telecom. I think in that case, we'd probably be looking at a more drastic solution and shorter-term future for the Axis entity in Indonesia. So that's not an option.

Having said that, I also mentioned earlier in the call that we are clearly working very closely with the minister and the regulator to basically make this transaction happen.

So I think with all parties having the full understanding that this transaction is the best for the telco industry and especially to build sustainability and potentially a better return for value for the telco industry, I think all parties involved will do their utmost to see this transaction through. That's all I can say at this point in time.

On the second question, which indeed kind of relates to the first question, there is no specific current regulation with regards to acquisitions. So that's one of the things why, in a very early stage, we have started to work with the regulator and the minister because there is no clear path defined in terms of which steps to take here.

Technically speaking, spectrum is issued in combination with a license to an entity. So, let's say, spectrum itself is not transferable and also, acquisition of entity will not automatically guarantee the spectrum can be retained.

Therefore, I think, again, for this reason, that this is not well defined and not regulated, we have, since the beginning, been working very closely with the minister, with the relevant authorities, to assure that we maximize our chances of getting this transaction done in a manner that makes sense to us.

Suresh Mahadevan - - *Analyst*

Yes, thanks. All the best for the next few months because I think this will be quite positive for the industry as well as XL Axiata I think. Thank you.

Operator

Sachin Mittal, DBS Vickers.

Sachin Mittal - *DBS Vickers - Analyst*

My first question is, again, just verifying that, whatever I have heard; that Axis will remain as a legal entity because it has a license.

So how do you integrate it through, given that it remains as a separate entity in terms of operations, license? So could you throw some light there and why would the savings be there if it continued to remain in the same form?

And number two, what changes in the competitive scenario and industry do you anticipate? Because I'm sure you must be involved, a lot of time, into the cost management and integration issues. Or do you think the size will give you a lot of strength? Just could you just throw some light here again?

Pak Wim - *PT XL Axiata Tbk - COO*

Thank you, Sachin. I think we have to look at essentially three stages here. One is that Axis will remain as legal entity; that is, in fact, as per today.

So, in between signing and closing, Axis will retain as legal entity majority owned by Saudi Telecom, so nothing has changed in that perspective; then only the license and the spectrum remain with Axis.



Upon closing, 95% ownership will revert to XL. So, with that, let's say we can take a stronger hand in terms of alignment and integration, although prior to closing, there are definitely things that we can do with regards to cooperation. But even post-closing, Axis will still be a legal entity with separate -- as I say, with the license issued and the spectrum issued to that entity.

Post-closing and upon merger, and we do not know exactly when that is, but it will probably be not too long after closing, upon merger. Axis, as a whole, will be merged into XL. So that's basically where from two companies, we would make the one entity.

And the time line for that, closing is, best case, expected somewhere before the end of this year; worst case, probably Q1. Depending on the specifics of the ultimate approval, we do expect that the merger should happen pretty soon after that. So, let's say worst case, latest, mid of next year; best case, earlier.

So which changes in the competitive dynamics are we expecting? I think overnight, nothing because Axis is still there and we do need to comply with license requirements, with KPPU requirements, et cetera. So overnight, not much will change. But clearly, going forward, upon acquisition and merger, there will essentially be one player less in this market.

Also, I think what you see is that the top three operators will, because of this, take a more solid and even more dominating part of the total market. That itself should essentially improve market discipline.

So short term, I think in terms of competitive impact, we do not expect a lot. Longer term, I think we are reasonably positive that in terms of market discipline, that this would definitely be helpful, right.

Most likely it will not resolve all the challenges, but it is very likely going to be helpful. In particular in the data space and I think, as I have mentioned, Axis is relatively popular amongst data savvy users.

In particular in the data space, I think data pricing, as we all know, is in Indonesia very cheap; amongst the cheapest in the world I believe, which is not boding too well for longer-term returns on investment if price erosion would continue. So, for that, I think market discipline is definitely a very welcome element and a consequence of this transaction.

Sachin Mittal - DBS Vickers - Analyst

And just a follow-up, a small follow-up. Does Axis have any footprint which is in addition to XL's footprint or it's just the same footprint which XL have?

Pak Wim - PT XL Axiata Tbk - COO

No Axis does not have a footprint. Let me put it differently. Axis does not have a presence where we do not have presence, but if you look at the concentration of the Axis business, I think it's concentrated in slightly different -- partly overlapping, we're in slightly different areas as compared to XL.

So there is no -- it is not giving us anything in terms of new areas. But in terms of the penetration within existing profit areas, it's a nice addition to what we currently have from ourselves.

Sachin Mittal - DBS Vickers - Analyst

Okay, I understand. Great, thank you.

Operator

Arthur Pineda, Citigroup.

Arthur Pineda - Citi - Analyst

Two questions. Firstly, can you elaborate on the cost savings that you mentioned? Where exactly will these be coming from outside of labor? Also, what kind of specific restructuring charges would you need to incur, and how big could it be?

Second question is on the financing side. I'm just curious, why are you borrowing money from Axiata when it's done on an arm's length basis anyway? Why not borrow directly from the market and allow Axiata the greater flexibility on their dividends? Thank you.

Pak Wim - PT XL Axiata Tbk - COO

Thanks, Arthur. On the cost savings, let me take that one. I have not mentioned anywhere that we are looking at labor cost savings, because if you look into the P&L of Indonesian telcos, you actually see that labor is a not too dominant cost element there.

The cost savings is mainly coming from a combination of CapEx and OpEx. And by having more spectrum, it will allow us to build less sites. So, by having more spectrum, you can provision more capacity on existing sites so your also site footprint can be less dense.

So that has potential in CapEx savings, but also in particular in OpEx savings, because by needing, by requiring less sites, you actually do not incur tower lease expenses.

If you look into our P&L, the tower lease expense is actually quite a significant component. So the immediate consequence here is a lower requirement for tower lease going forward for -- because the capacity, we can further stretch capacity additions on the existing site footprint. But the bulk of the savings is purely CapEx and OpEx related to capacity deployment, deploying more efficiently.

In terms of financing, I think Pak Adlan will take your question.

Pak Adlan - PT XL Axiata Tbk - Director & CFO

Yes, Arthur. On financing, I think why are we taking the shareholders' loan from Axiata? [So, why are we doing in the market, right]. So, essentially is from our perspective, so long as it's based on market rate, we are pretty neutral.

But essentially is I think Axiata are giving that assurance, for example, obviously, we can go out and get this external debt from the market. But with the shareholders' loan, it just gives assurance to the market as well that whatever market condition happens in future, there is certainty that we are able to raise this funding.

Arthur Pineda - Citi - Analyst

Yes, understood. Thank you.

Operator

Tien Doe, GIC.



Tien Doe - *GIC - Analyst*

Got a few questions. The first one is could you give an indication of what your cash CapEx --

James Maclaurin - *PT XL Axiata Tbk - Group CFO*

I just wanted to say a quick couple of words quickly. This is James Maclaurin. Can everybody hear me? On the last point?

Tien Doe - *GIC - Analyst*

Hi, James. Do you want to go ahead first?

James Maclaurin - *PT XL Axiata Tbk - Group CFO*

Yes, just from an Axiata perspective, what we obviously need to do is make sure that we're extending a loan on arm's length terms, both from a XL minorities' and an Axiata minorities' perspective.

What we seek to do is use some of Axiata's excess cash and, therefore, it's a Group synergy in action in a way, in the sense that we believe that we can see good rates on either side, both from our deposit rates and from XL's cost of debt.

Also, it makes sense for XL to retain a degree of flexibility that they wouldn't necessarily be able to extract from the open market.

Tien Doe - *GIC - Analyst*

Okay. Shall I go ahead with my question now? Just three questions. First of all, could you give an idea of what you think your CapEx cash out would be in 2014 and 2015 for the combined entity?

Second question is just on the 13.7 million sub base. How clean do you think that sub base is? Do they have policies which are in line with your policies on what counts as an active sub?

And the third question is just going back to some of the numbers that Adlan gave. The IDR9 trillion of total assets, presumably that excludes any tax benefits that you might be able to take because that would add another big chunk to total assets? The liabilities you mentioned of IDR9 trillion as well, that includes or that excludes the interest-bearing debt? Are there other liabilities besides that interest-bearing debt that are on the balance sheet?

And the final question is just on the 1,600 towers. You said that the coverage is partly overlapping, partly different, but basically in the same areas. Does that mean that most of those 1,600 towers will be sold off? Or you will actually keep some? Thank you.

Pak Wim - *PT XL Axiata Tbk - COO*

Thanks for the questions, Tien. I will take three out of the four, and I think Adlan will take the third question. I think we are a bit reluctant to give clear guidance on the 2014/2015 CapEx for the very simple reason that we have not been doing so. Typically, we will probably give 2014 guidance towards the end of this year. But I do understand where you're coming from.

With this transaction, we should be looking at a meaningful reduction in terms of the cash out CapEx for the simple reason that, otherwise, we would not be delivering on the savings potential.

So, as said, this year we are guiding for IDR8 trillion to IDR9 trillion cash out, and as it looks, I think we will come out on the lower end, so somewhere around the IDR8 trillion.

Very roughly for next year, but what I think still a lot needs to be done in terms of planning and definitely business plan approvals, etc., etc., so those numbers are subject to continuous further review and discretion. But I would say a reduction of at least IDR2 trillion or so relative to where we are going to end up this year, should be possible.

We may be able to do even better. But that is something that, I think, at this point in time, we definitely would not want to commit to, again, because we still have to look at detailed planning, as well as go through the whole approval process for our business plan going forward. But we are looking at a meaningful reduction relative to where we are going to end up this year.

Second, on the 13.7 million subs, no, I think the base is probably not as clean as ours. We do have in XL the tightest definitions with regards to active subs and inactive subs, and the leasing of inactive numbers. So that 13.7 million on our XL definition would definitely be a lower number.

Clearly, in terms of subs revenue, assets, etc., what can be retained, we definitely will retain, and what makes sense to be retained, we will retain. But again, we are looking very much at this transaction as an asset play to obtain spectrum.

So, with that, I think we are more interested in the more profitable elements of the business. Therefore, I do not think that we will end up retaining the full 13.7 million subs. I think we will end up with retaining a lower number, but definitely, the more interesting part of the subscriber base, and definitely the more profitable part of the subscriber base.

Then, moving on to your last questions. Yes, we will be -- as part of this transaction, we (inaudible) certain also have an additional 1,600 towers now. Some of them are actually interesting towers that we can use, because they are located there where we do not have towers, and where, even now or going forwards, we have requirements.

Some of those towers we will probably not need. So this additional tower portfolio provides us with flexibility to either keep them, or sell them going forward.

I think the way that we are looking at these 1,600 towers is exactly the same as we're looking at our existing 8,000 towers. We do not consider towers to be a strategic asset. So, in that perspective, we can keep them, but we are also willing to sell them. However, we are only willing to sell them in a transaction that is value enhancing for us. So the economics of the transaction would make sense.

So, the same applies here. I think we are not hung up of keeping those 1,600 towers. So, therefore, anyone who would be interested can absolutely come with a proposal. But we would look at that proposal based on its merits. Let's say if the business model makes sense, I think we probably be interested to sell. If it doesn't make sense, we clearly would not be interested to sell.

Pak Adlan - PT XL Axiata Tbk - Director & CFO

Okay, Tien, on your third question, with regard to the tax benefit, the IDR9 trillion total assets does not include the tax benefit, so it's an off-balance sheet item. So the tax credit that's on our balance sheet is approximately \$1 billion.

On the liability, what is it? The total liability the IDR8 trillion to IDR9 trillion was actually relating to -- is excluding the indebtedness.

Tien Doe - GIC - Analyst

Right, okay. That's fine. Thank you.



Operator

Roshan Raj, Merrill Lynch.

Roshan Raj - BofA Merrill Lynch - Analyst

Three questions. First one, as part of the discussions with the regulator that you have had now so far, is the regulator likely to take inputs from some of the larger operators in the market, particularly the views in terms of the transfer of spectrum with this deal?

And a related question is can I just reconfirm that, hypothetically, if you were to return 5 megahertz out of spectrum as part of the deal, then you would seriously reconsider doing the deal in the first place?

The second question is on some of the savings that you have shown on slide 5. Can I just confirm that this is the net value of savings on a discounted basis and it's not the aggregate value that you will realize over the medium term?

And the third question is just to clarify. I believe there's some comment on CapEx in 2014 being IDR2 trillion lower. I just wanted to confirm if that's what you stated.

Pak Wim - PT XL Axiata Tbk - COO

Thanks, Roshan. The first question, I think, is a bit speculative and hypothetical. But I think we have no doubt that the regulator, as well as the minister, in their considerations will definitely make assessments that ultimately will be in the best interests of the whole industry.

If that is as far as taking specific input from specific players, I think we do not know. But at the same time, I think it would also not be realistic to assume that the minister would only consider XL's position. So we expect and we are confident, actually, that this approval process is going to be subject to a very fair and comprehensive evaluation approach.

On the second question on whether or not returning 5 megahertz, I think that is, again, highly speculative. I think I want to reiterate what I mentioned earlier here that the deal is subject to spectrum retention and that we will work in very close cooperation with the Minister of Telecommunication and the regulators on this. And that we will do our best to come to a landing that is, from a regulatory perspective, acceptable and it is for both, in this case, buyer and seller as parties to the CSPA, acceptable as well.

Your third question is regarding, I think, the waterfall chart. I'm not sure if I fully understand the question, but if the question is are these the savings net of the costs to generate those savings, then the answer is yes, so, net value.

Then you (multiple speakers)

Pak Wim - PT XL Axiata Tbk - COO

Sorry. Go ahead.

Roshan Raj - BofA Merrill Lynch - Analyst

Yes, that savings, just want to understand if it's aggregate. For example, in 2014, you have \$50 million of savings and in 2015, you have \$50 million. So, both aggregate it's \$100 million, is that the way you have arrived at the figure? Or it's the discounted figure for 2014 as of now, discounted figure of 2015 as of now?

Pak Wim - *PT XL Axiata Tbk - COO*

Yes, let's say some of the savings will be upfront. So if you look at the \$80 million, that is CapEx reuse, that is one time. So it is the number of, let's say, reusing Axis' equipment net of decommissioning costs and net of redeployment cost.

So no, the other savings go across the years, so there, we are thinking net present value. Does that help?

Roshan Raj - *BofA Merrill Lynch - Analyst*

Yes. And just on that CapEx for 2014, I just missed out your comment on that?

Pak Wim - *PT XL Axiata Tbk - COO*

Yes, I was about to respond to that one. What I said, actually, we are not yet providing clear guidance. But with -- assuming that we can close this transaction and that we do get access to additional spectrum, clearly it would make sense that we should be looking at a lower CapEx profile and lower CapEx intensity going forward.

So that could be something in the magnitude of what I said is maybe about IDR2 trillion below what we are looking at this year. But that's with the clear note that we are still very much in the early stage of our planning process and that we are not yet looking at a final plan and an approved business plan for next year.

But logically, based on this transaction, it should be measurably lower than the cash out for this year.

Roshan Raj - *BofA Merrill Lynch - Analyst*

All right. Thank you, Wim.

Operator

Raymond Kosasih, Deutsche Bank.

Raymond Kosasih - *Deutsche Bank Research - Analyst*

Congratulations on this announcement. A couple of things from me. Can you give us some sense about the long-term tower leasing, certainly the remaining value of the loan from tower leasings that Axis has had with its providers? And how will XL's strategy going forward there will be an advantage for the Company?

Second, with regard to the tax credit on the part of \$1 billion at Axis, from my understanding, if Axis were to remain as a separate entity, obviously, XL at the parent level may not be able to utilize that. But I'm not sure whether upon mergers that the tax credit is actually transferable.

And the second related to the structures post deals, how would the IM2 case, with regard to the spectrum leasing, etc., affect the transaction structures?

And lastly, on the debt, if I catch correctly, you try to issue in US dollars. Why is it in US dollars, why not (technical difficulty). Thank you.

Pak Wim - PT XL Axiata Tbk - COO

Raymond, thanks for the questions. I will take two; Adlan will take two. You're asking specifically about tower leases in Axis. I do not think that, at this point in time, we do want to comment on specific positions or specific creditors in Axis, given the fact that the only thing we have done this morning is sign the transaction. We have not closed anything and we do not own Axis.

So, essentially, that means that we do not own Axis. We will not [front] Axis. It also means that in between now and closing, that Axis will need to continue to be managed in accordance with what we have agreed in the conditional sales purchase agreement.

I think what I mentioned to you in the presentation is that we have agreed with Saudi Telecom that we buy Axis on a cash-free, debt-free basis for a [consideration] of \$865 million. And that, let's say, any consideration that is outside the amount that we are paying is taken care of. So I think that's as far as I want to go without going into specific responses to specific creditors.

A lot of work has done by Saudi Telecom in this case to restructure the balance sheet. I think in the coming two months, three months, I think homework remains and I think we have no doubt that seller and Company and ever possible, I think, supported by XL, will continue to make sure that we can close this transaction in a way as we have envisaged in the CSPA.

Then on your third question, the IM2 case, that's a very unpleasant one and I think everyone is in agreement that it should not have happened in the first place.

I think the agreement is across minister, regulator, ATSI, all operators that this is a non-case. Unfortunately, the case is there.

The only thing I can say about it is that we will do our utmost and we have been doing our utmost already to work closely together with the regulator and minister to make sure that all approvals required will be obtained. And we will act -- we have acted and will continue to act in strict accordance with remaining laws and regulations.

The other two questions, Pak Adlan will handle, Raymond.

Pak Adlan - PT XL Axiata Tbk - Director & CFO

Okay, Raymond, on your questions on the tax credit, you're right I think. In Indonesia there's no Group relief, so whatever tax benefit that is with the Company stays with the Company.

So, essentially, typically how that gets you to life is you need to do a tax planning between Axis and XL in terms of the business model moving forward, so that you are able to turn Axis into a profit, to be able to realize the tax benefit moving forward.

I think based at merger, I think it's the tax credit will not be there, but I think it still is subject to the final confirmation by the Ministry of Finance.

Secondly, why are we taking US dollars? First, why you ask this, I think because our purchase prices are for US dollar. But essentially, what we see is at the point of when we take up the debt, looking at market condition, we will consider hedging either looking at market condition, whether we're going to do a full, partial, hybrid or maybe we will swap at a later date, when market is a lot better.

So we would take all this into account but, essentially, why it's in US dollars because the payment of purchase consideration will be in US. And essentially, I think if you look at this point in time, given the lack of liquidity in the rupiah, for example, the rate for rupiah have actually shot up quite significantly.

Raymond Kosasih - Deutsche Bank Research - Analyst

Are you considering about equity raisings (multiple speakers).

Pak Adlan - *PT XL Axiata Tbk - Director & CFO*

So, I think we are -- as we said, I think in the deck, it's very clear in the deck. We are looking at an Axiata loan and I think external debt to be raised by XL.

Raymond Kosasih - *Deutsche Bank Research - Analyst*

Okay.

Operator

Thank you. We have come to the end and I would like to turn the call over to the speakers for any remarks.

Pak Wim - *PT XL Axiata Tbk - COO*

Maybe let's go the alternative way here, where not IR is closing the call but management. Thanks, everyone, for being in this call. Thanks for being patient with us for the last two years, because it has been a lengthy process with, I'm afraid, quite a bit of uncertainty and overhang on the stock.

We do hope that even though we have just signed and not yet closed the transaction, that today we have provided you with a significant degree of certainty and predictability going forward.

Thanks, everyone, for being in the call. Thanks for your support and surely we shall be speaking again, I think, in the earnings calls about one month from now. Good afternoon.

Operator

Thank you. That concludes today's conference call. All lines may disconnect now.

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