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Aussie mobile giants agree to merge

Vodafone and Hutchison Telecommunications (Australia) Limited (HTAL), a listed subsidiary of Hutchison Whampoa Limited (Hutchison Whampoa), announced today an agreement to merge their telecommunications businesses in Australia — Vodafone Australia Limited (Vodafone Australia) and Hutchison 3G Australia Pty Limited (H3GA), which delivers its mobile services under the 3 brand. Both Vodafone and HTAL will have an equal ownership of 50% in the joint venture, which will be renamed VHA Pty Limited (VHA).

VHA will market its products and services under the Vodafone brand, but will retain exclusive rights to use the 3 brand in Australia during a transition period and thereafter. To equalise the value difference between the respective businesses, Vodafone will receive a deferred payment of AU\$500 million from VHA.

The transaction will provide the following benefits according to the joint venture partners:

1. The transaction creates a stronger mobile operator better positioned to compete in the Australian telecommunications market with approximately 6 million customers and combined total revenues of approximately AU\$4 billion for the 12 months ended 30 June 2008.
2. Utilising existing network arrangements and planned network build, VHA will operate an advanced and comprehensive mobile network with at least 95% population coverage, of which 63% will have access to high-speed 3G services. Upon completion of additional network rollouts, VHA's 3G population coverage is planned to increase to 95%.
3. Drawing from the best offerings of both Vodafone and 3, VHA will have an even broader product offering, and will continue to provide innovative consumer and business services to the Australian market.
4. The in-market nature of the transaction is expected to create significant value. Economies of scale across procurement, product development, IT, network, commercial operations and administrative expenses are expected to deliver significant cost savings. The net present value of operating expense and capital expenditure synergies is currently expected to be in excess of AU\$2 billion, net of integration costs.

The Chairman of VHA will be Nick Read (CEO of Vodafone Asia-Pacific & Middle East Region), the CEO will be Nigel Dews (currently CEO of HTAL and H3GA) and the CFO will be Dave Boorman (currently CFO of Vodafone Australia). Russell Hewitt (currently CEO of Vodafone Australia) will be a non-executive Director of VHA.

The transaction is expected to close by mid-2009, subject to the approval of the Foreign Investment Review Board, clearance from the Australian Competition and Consumer Commission, and HTAL shareholders' approval.

Telsyte, an Australian telco analyst company, commented, with Vodafone and Hutchison finding it difficult to grow market share on their own, Telsyte sees this merger as a "marriage of mutual interest" — a positive move for both companies as it gives them a chance to become a "credible number 3", rather than a trailing number 3 and number 4, as has been the case since their inceptions. The merger will undoubtedly continue to enjoy unsurpassed brand awareness and innovation in the consumer market. Nonetheless, various critical issues remain unaddressed, including how the combined entity plans to attack the more lucrative business market and how it will embrace a future fixed line strategy to compete with full-service rivals Telstra and Optus.

"This merger will clearly redefine Australia's mobile market from a positioning perspective, with Telstra occupying the high end, Optus in the middle and VHA at the bottom serving consumers," said Warren Chaisatien, Telsyte Research Director. "However, it is hard to see how this will lead to more competitive offerings for Australian mobile users," he added.

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