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Telsyte Analysis on Vodafone and Hutchison 3G Merger in Australia

Sydney, 09th February 2009 – Telsyte Sees This Merger of Mutual Interest Is Good for The Two Companies and the Industry, But Doubts It Will Deliver More Competition to Customers

On 9 February 2009, Australia's third and fourth largest mobile operators announced that they would merge and form a 50:50 joint venture, called VHA. The merger agreement, to be finalised by mid-year subject to shareholder and regulatory approvals, will see VHA market its products and services under the Vodafone brand while retaining the rights to the 3 brand. As part of that agreement, Vodafone will receive a deferred payment of \$500 million from VHA to equalise the value difference between the merging companies. There will be no change for the existing Telstra-Hutchison and Vodafone-Optus network and roaming deals.

Telsyte analysis based on actual market data for June 2008, reveals that the combined entity would serve one in four Australian mobile users, and 30% of all 3G customers. The combined entity would be relatively strong in the consumer segment with an estimated 25% market share, while remaining a small player in the business segment with an estimated share of only 15%.

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. A lack of integration between Vodafone and Hutchison's existing JV networks would also pose a challenge to the companies' operations and, perhaps more importantly, the merger synergy which promises to deliver cost savings and more value to customers.

The Bottom Line:

This merger is a good move for the industry as it creates a sustainable competitor in a highly saturated market, but it remains to be seen whether the synergy will be passed on to Australian mobile users in the form of more competition and better value offerings, as both Vodafone and Hutchison have traditionally been reliant on price differentiation strategies. The combined entity has work cut out for it as it integrates the businesses and gets ready to tackle full-service rivals.

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About Telsyte

[Telsyte](#) is an Australian-based market research consultancy specialised in the competitive intelligence of the converged communications market. Telsyte's expertise is centred on the three core competency areas of Carrier & Broadband, Mobile & Wireless and Enterprise Communications. Telsyte provides industry insights through custom research and consulting as well as ongoing research, which includes market reports and online databases. Telsyte is a business unit of Australia's largest independent telecom consulting company, [Gibson Quai-AAS Pty Ltd.](#)