TPG Telecom and Vodafone Hutchison Australia in $11 bn merger

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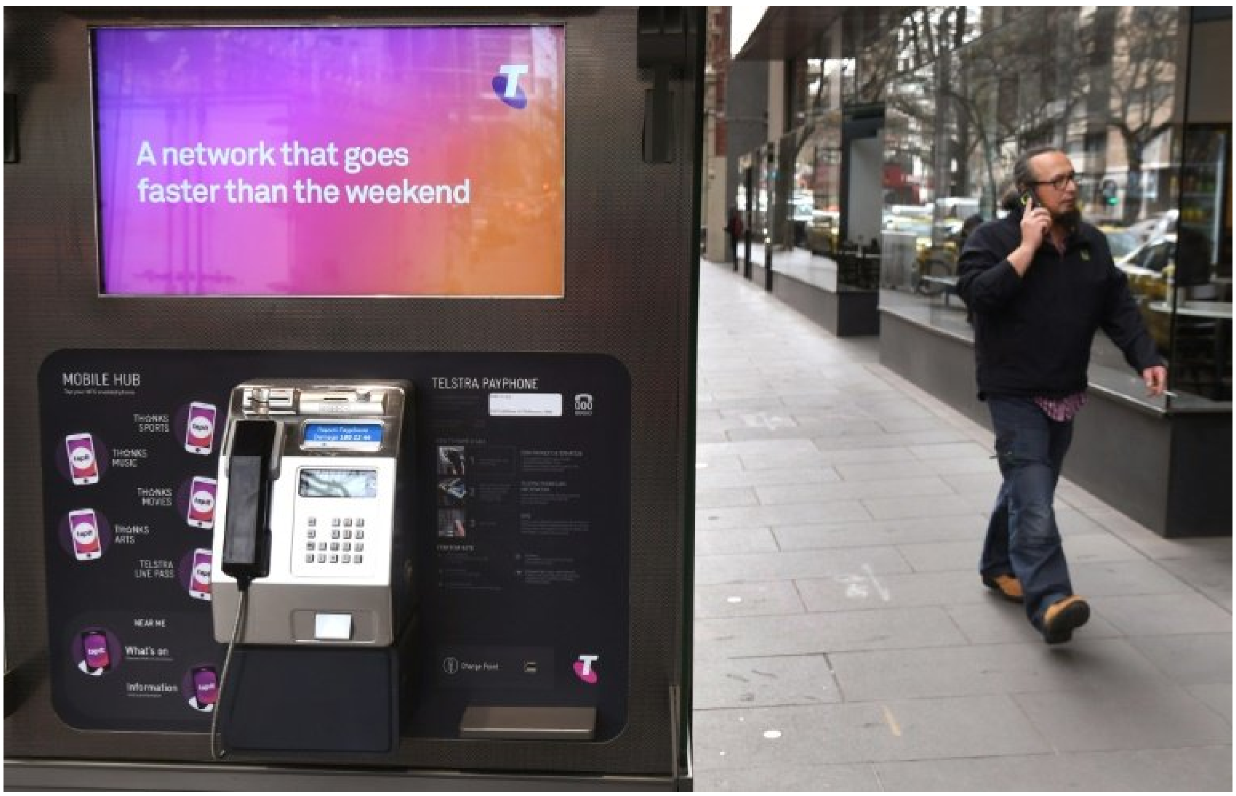

Vodafone Hutchison Australia and TPG Telecom announced plans to merge into a Aus$15 billion (US$11 billion) unit to take on key rivals Telstra and Optus

Vodafone Hutchison Australia and TPG Telecom announced plans Thursday to merge into a Aus$15 billion (US$11 billion) unit to take on key rivals Telstra and Optus as competition heats up in the telecommunications sector.

Under the proposal Vodafone Australia—privately-owned by Hong Kong-based CK Hutchison and Britain's Vodafone Group—will hold the majority stake at 50.1 percent.

TPG shareholders would own 49.9 percent of the entity which will be called TPG Telecom Limited and listed on the Australian Securities Exchange with a combined revenue of more than Aus$6 billion.

"With this merger, we will be a more formidable competitor against Telstra and Optus," said TPG chairman David Teoh.

The so-called "merger of equals" will allow the two companies to better invest and drive innovation and product improvement to give customers more choice, they said.

TPG is an ASX-listed telecommunications provider and is one of the country's largest internet service providers. It has a fixed-line residential subscriber base of over 1.9 million people and significant corporate, government and wholesale business.

Its share price surged more than 11 percent in morning trade to Aus$8.77 on the news.

Vodafone Hutchison Australia (VHA) is the nation's third largest mobile operator with a customer base of around 6.0 million subscribers.

Highly beneficial

Their merger is bad news for market leader Telstra, one of Australia's largest employers which earlier this month warned of "enormous challenges" ahead after posting an 8.9 percent slump in annual profit.

Chief executive Andy Penn warned intense competition for mobile customers and changing market dynamics were having an impact on business.

In a bid to stay a step ahead of its rivals, Telstra plans to axe 8,000 jobs—a quarter of its workforce—to achieve more cost savings and split its mobile and infrastructure divisions into separate businesses.

VHA chief executive Inaki Berroeta said the merged companies would provide scale and financial strength to compete more effectively with the likes of Telstra.

"The combination of our two highly complementary businesses and talented employees will create a more sustainable company, with enhanced capacity to invest in new technology and innovation," he said.

"We are confident that this merger will be highly beneficial to customers, shareholders and other stakeholders."

Berroeta will be chief executive of the merged business, while Teoh will be chairman.

The deal is expected to be completed next year, subject to approval from regulators including the Foreign Investment Review Board and competition watchdog.

Separately, TPG said it planned to spin off to its shareholders its mobile business in Singapore, with further details to be provided at a later date.

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