

**Mobile network
industry investment
challenge:
Strategic
options.**

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DigiWorld Executive Club, 10 Dec 2013



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About Three.



Hutchison
Whampoa
Ltd

Mobile: neither utility nor free market.



x



x

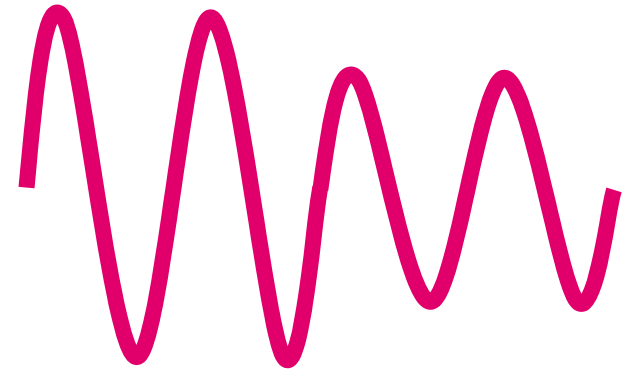
Scarce/ monopolistic upstream inputs.



Backhaul

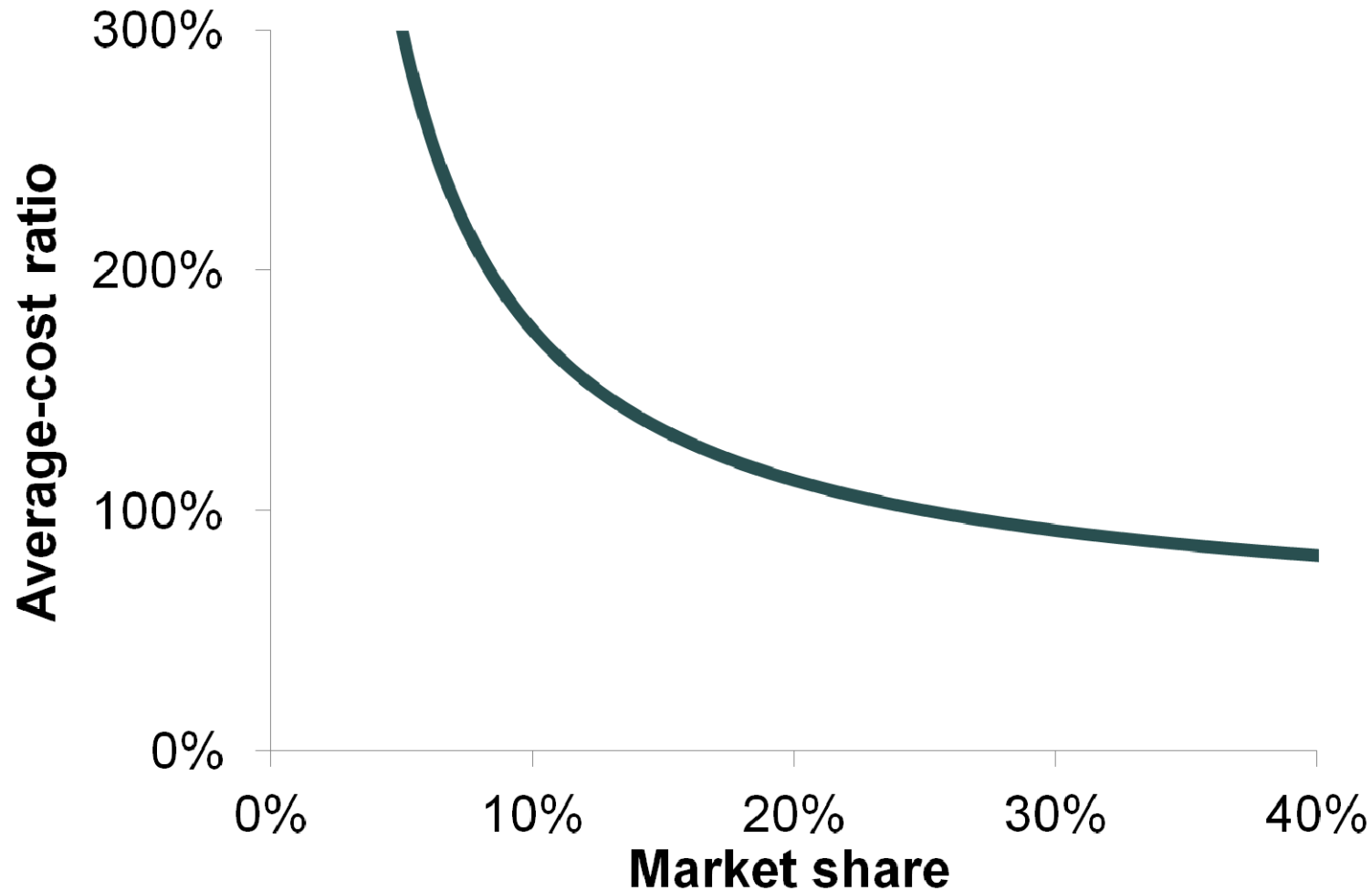


Sites



Spectrum

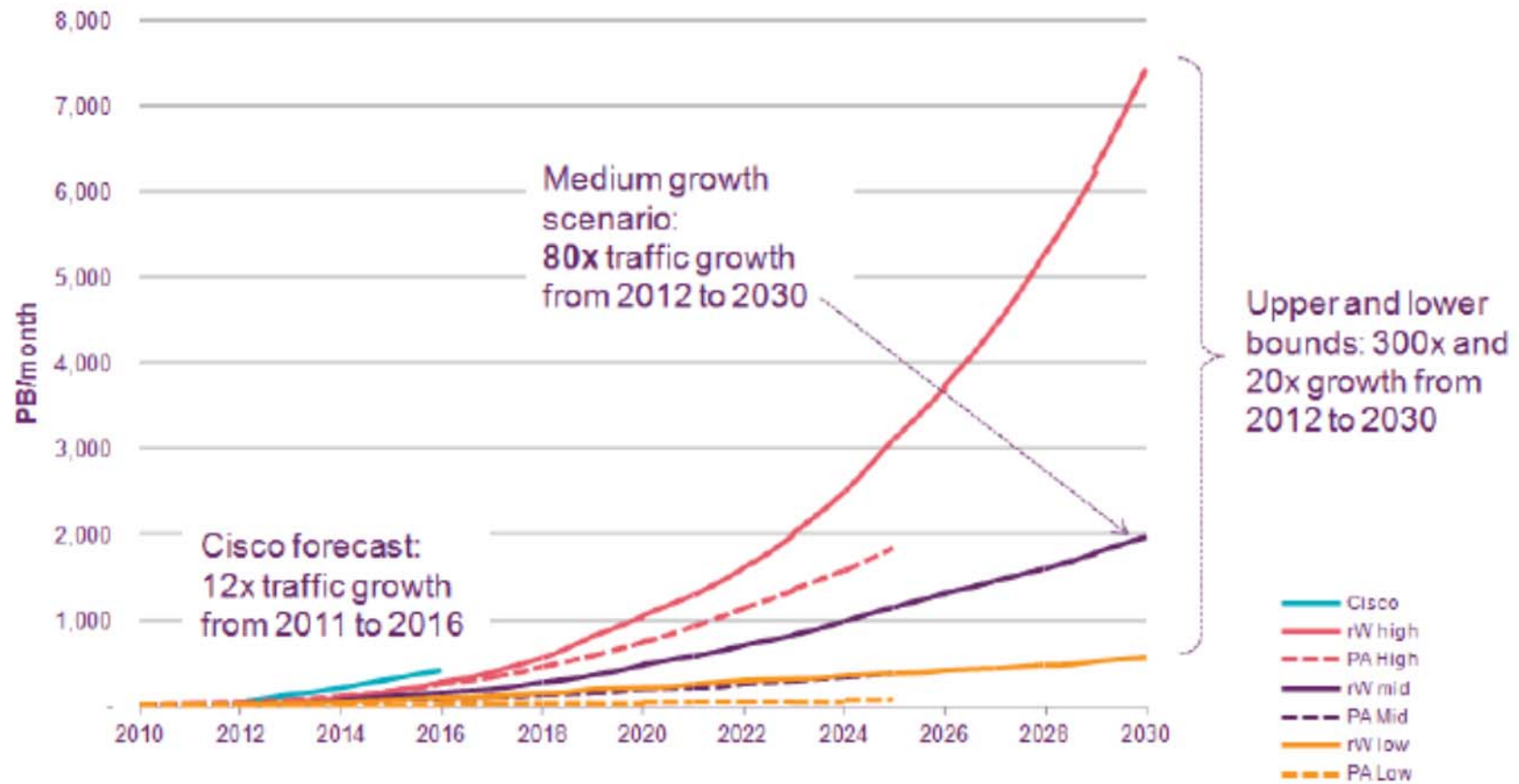
And large network scale economies.



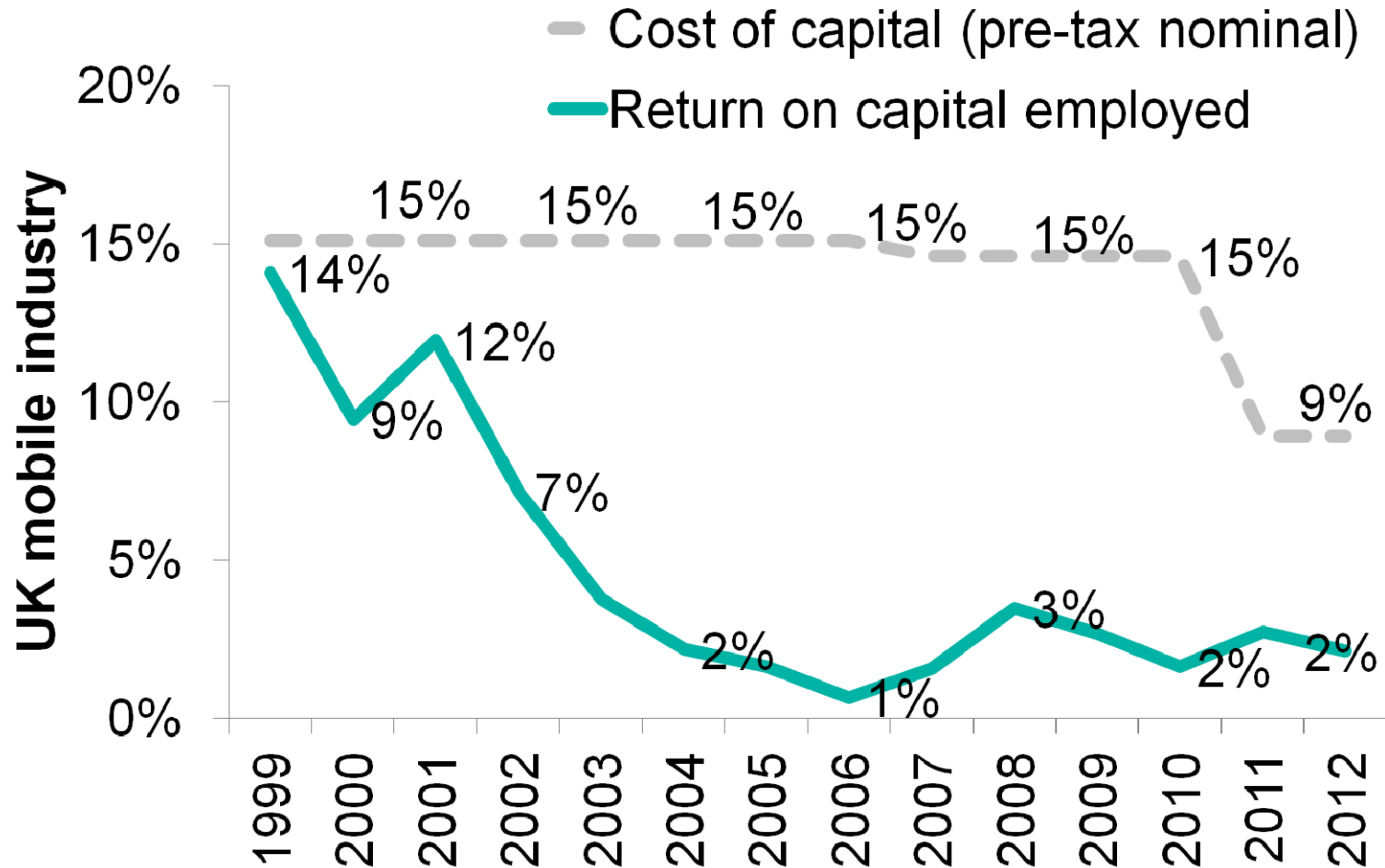
Source: Enders Analysis.

Demand: it's going up.

Projected growth in UK mobile data traffic

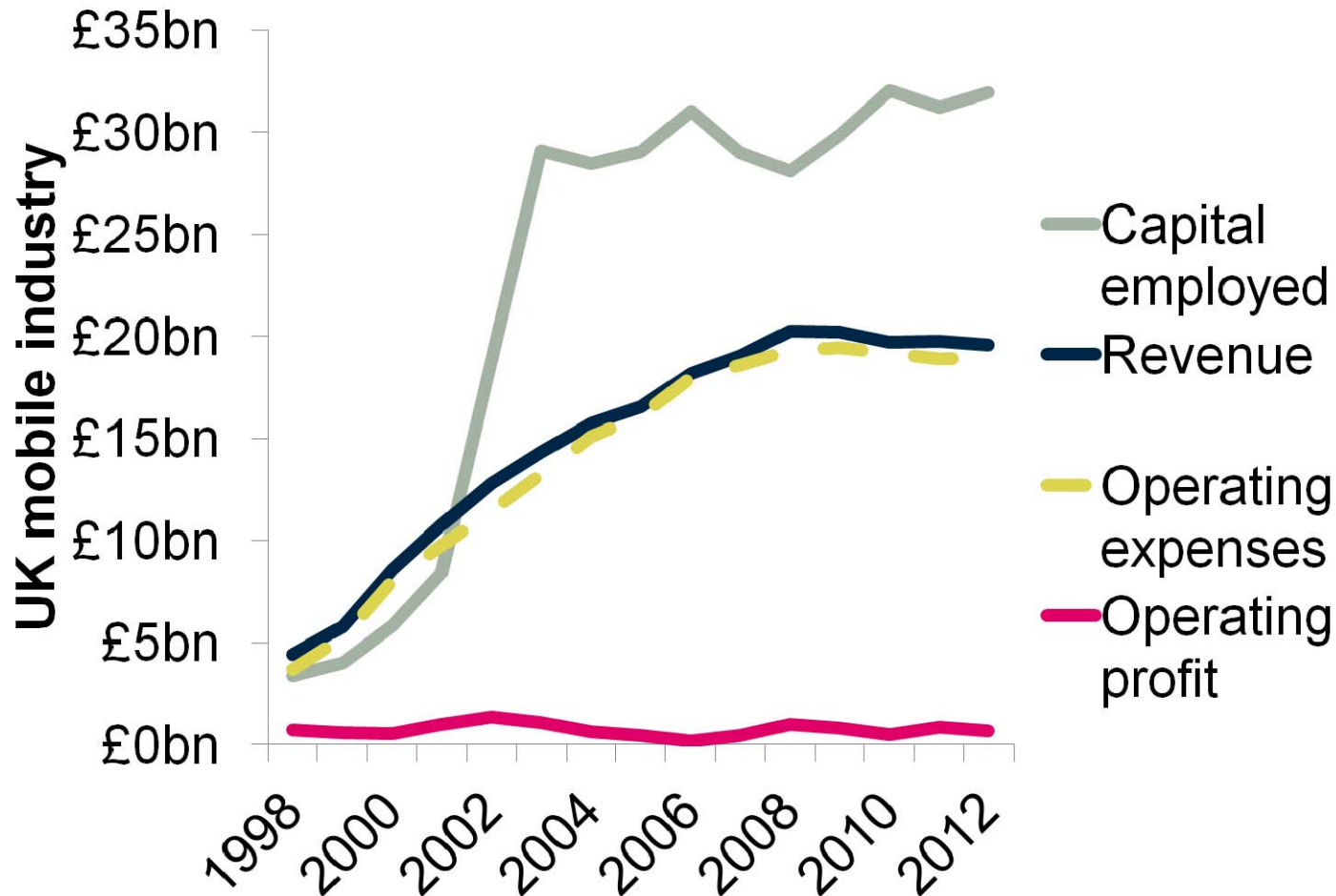


Supply: underwater and still sinking...



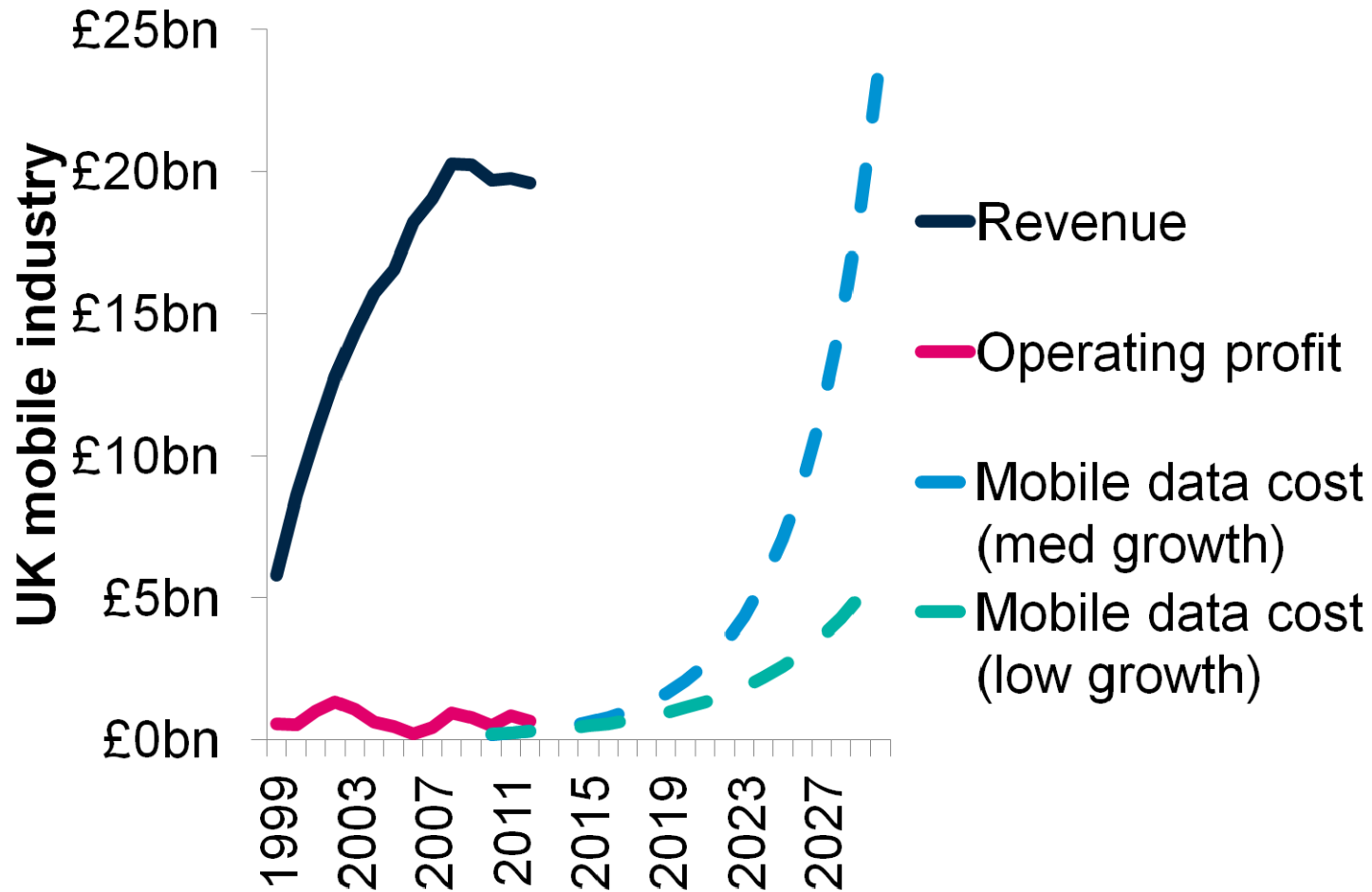
Source: operator statutory financial reports.

...Driven by huge capex and flat margins.



Source: operator statutory financial reports.

Future predicted demand not viable.



Source: operator statutory financial reports, Ofcom, Three.

**Strategic
options.**

#1. Better regulation of upstream inputs.



✓ Regulated
at cost

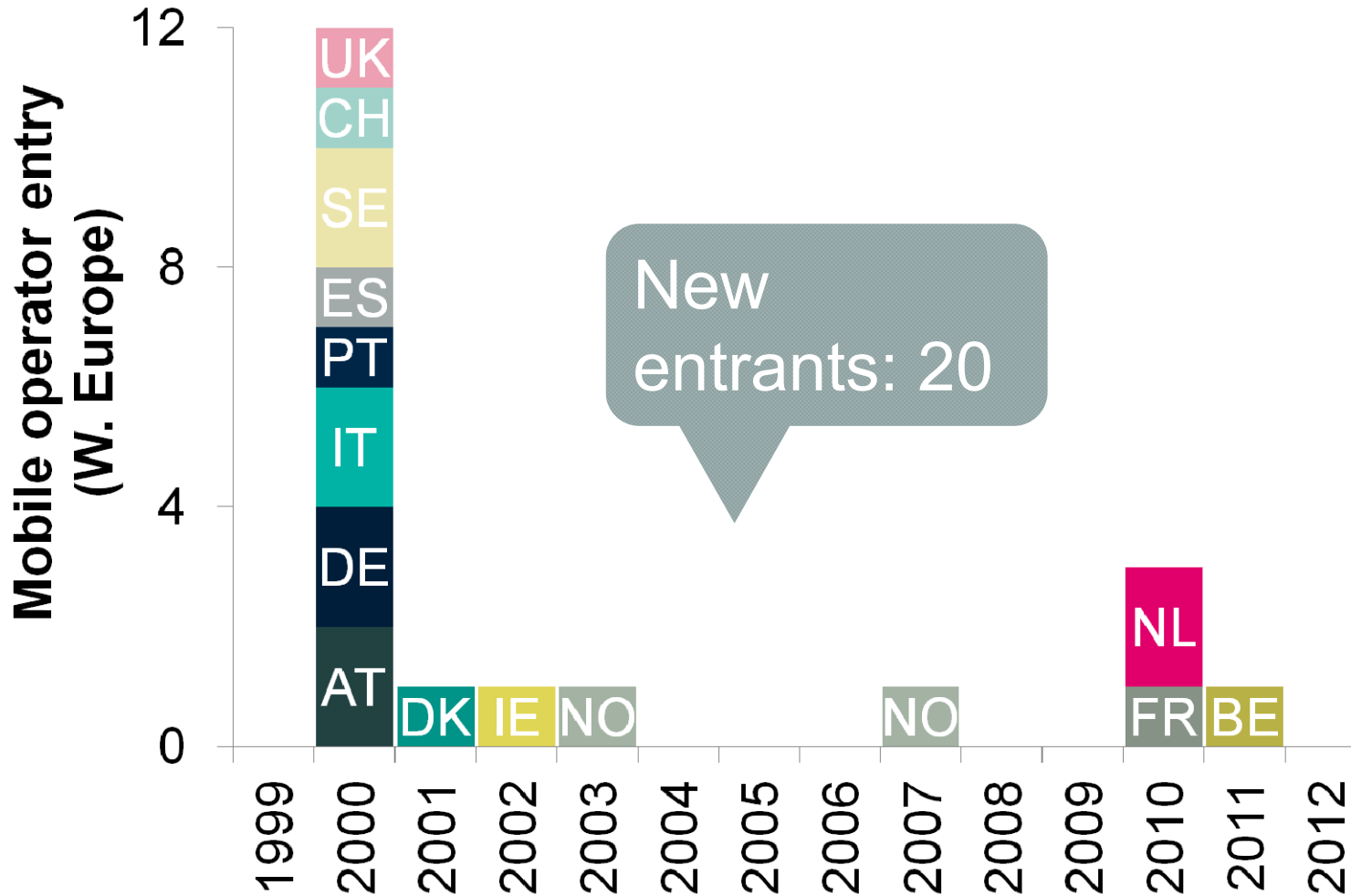


✗ Unregulated:
ransom pricing

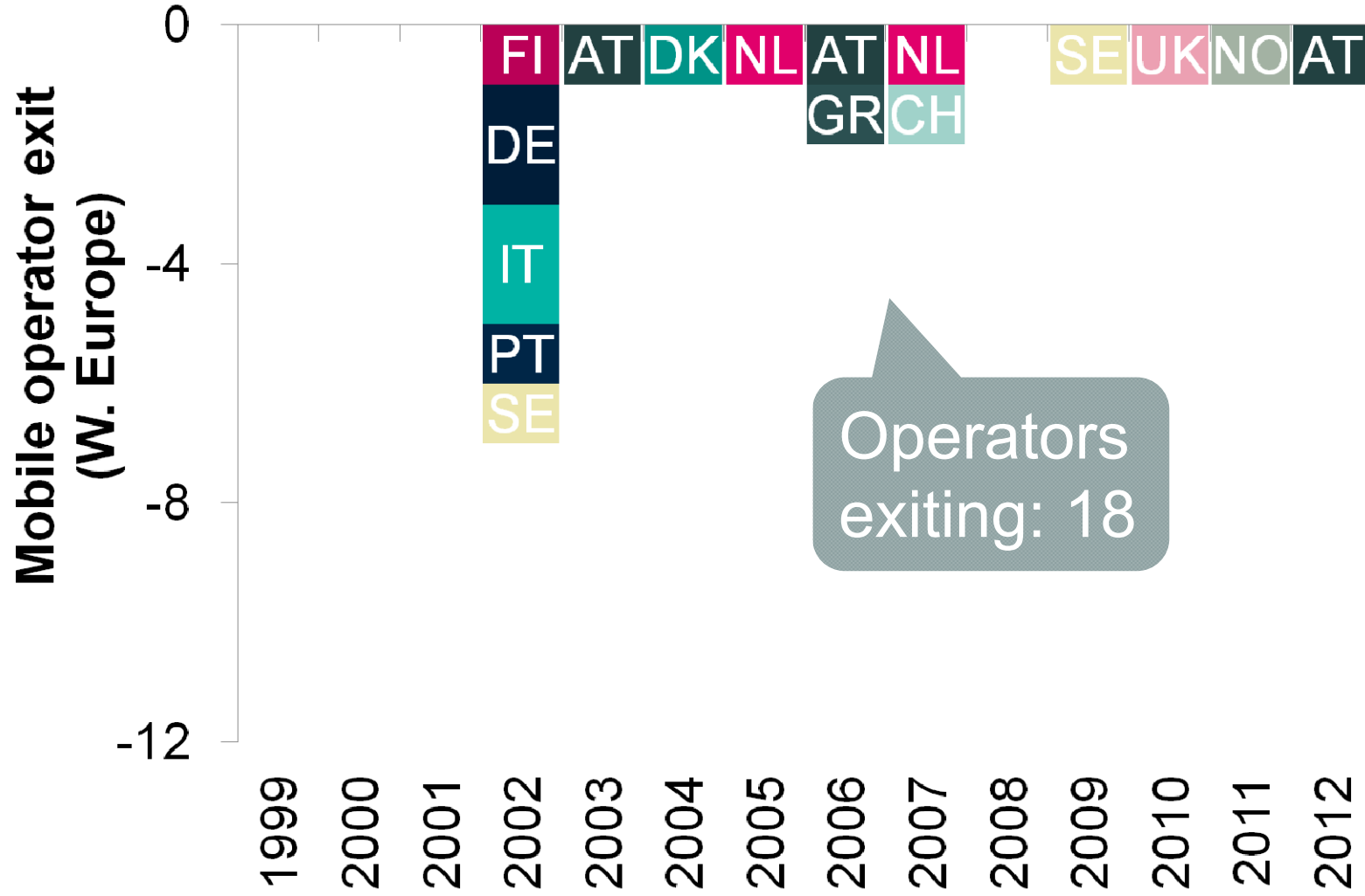


✗ Auctioned:
scarcity/
strategic
pricing

#2. Strategic policy approach to entry...

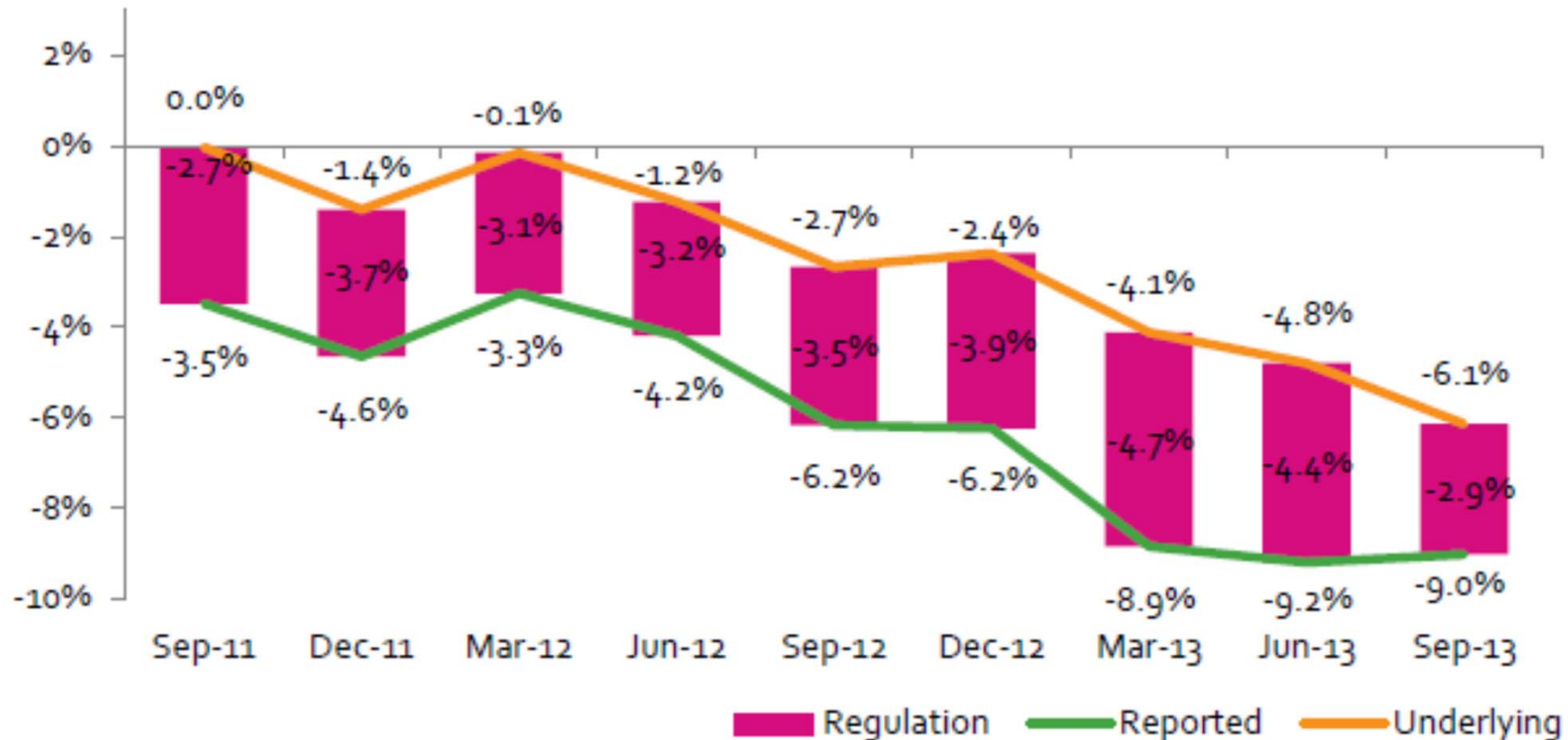


...and market exit.



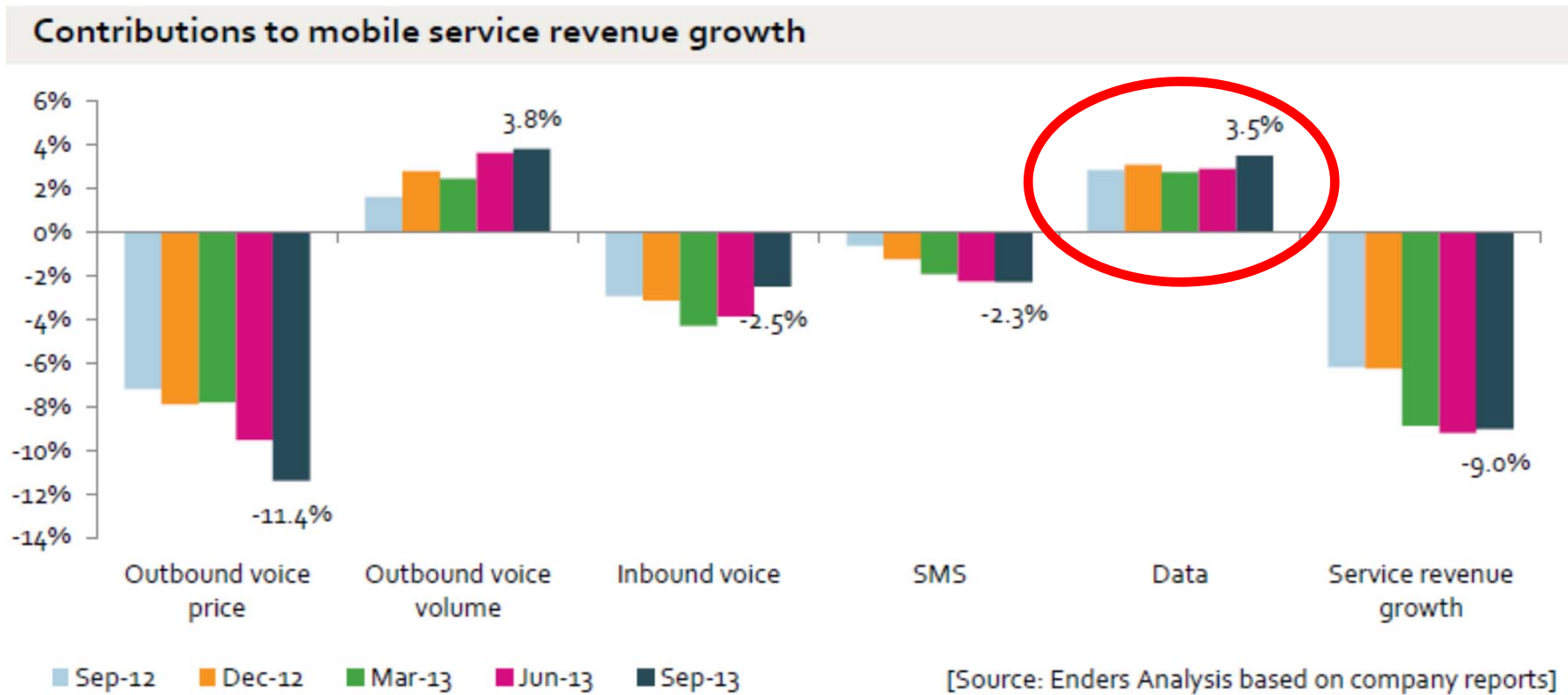
#3. Review regulatory revenue impacts.

Underlying service revenue growth – Top 5 European markets



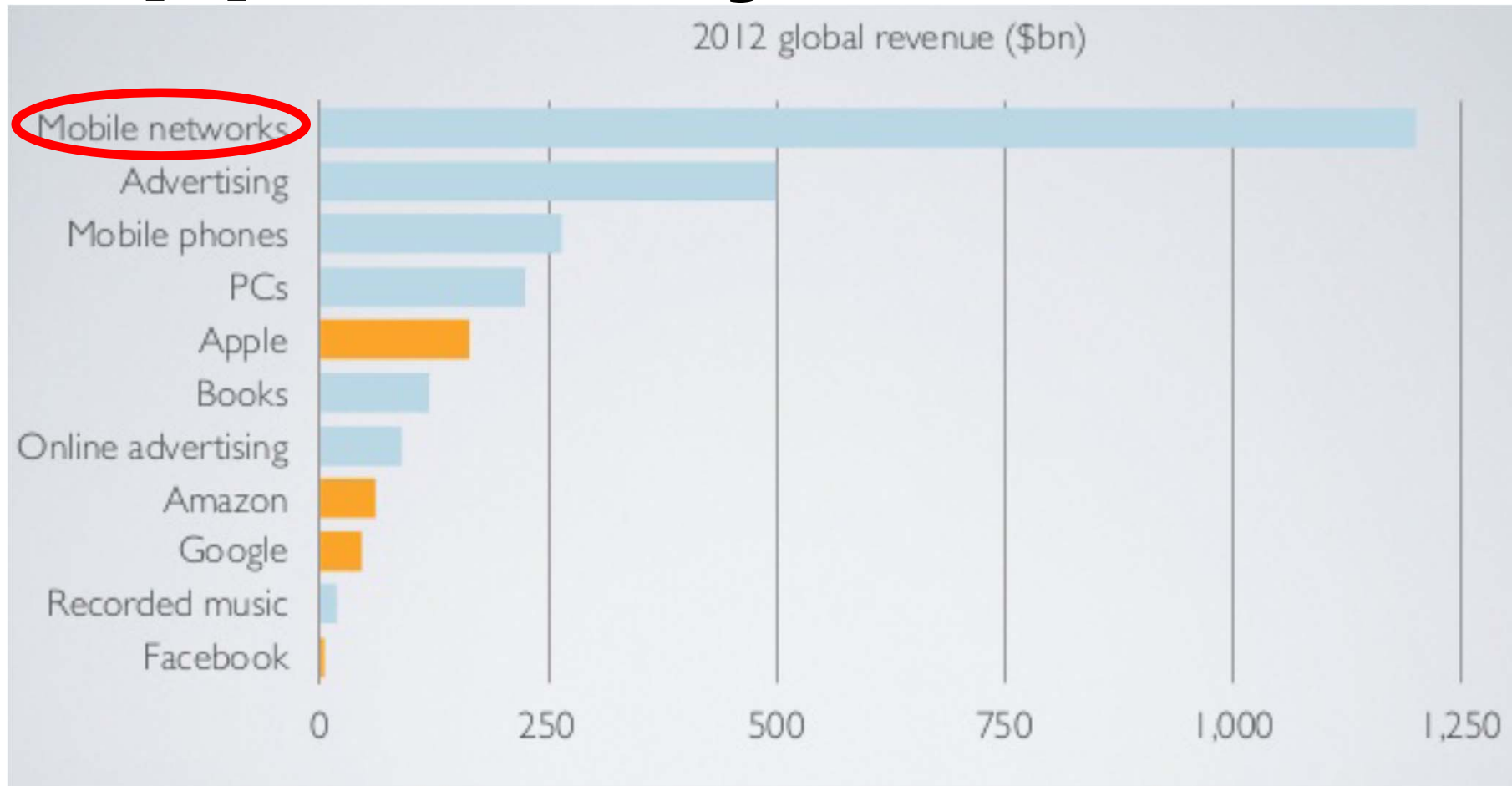
Source: Enders Analysis.

#4. Search for new revenue...



Source: Enders Analysis.

...Although opportunity limited.



Source: Benedict Evans/Enders Analysis.

Thank you.



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