

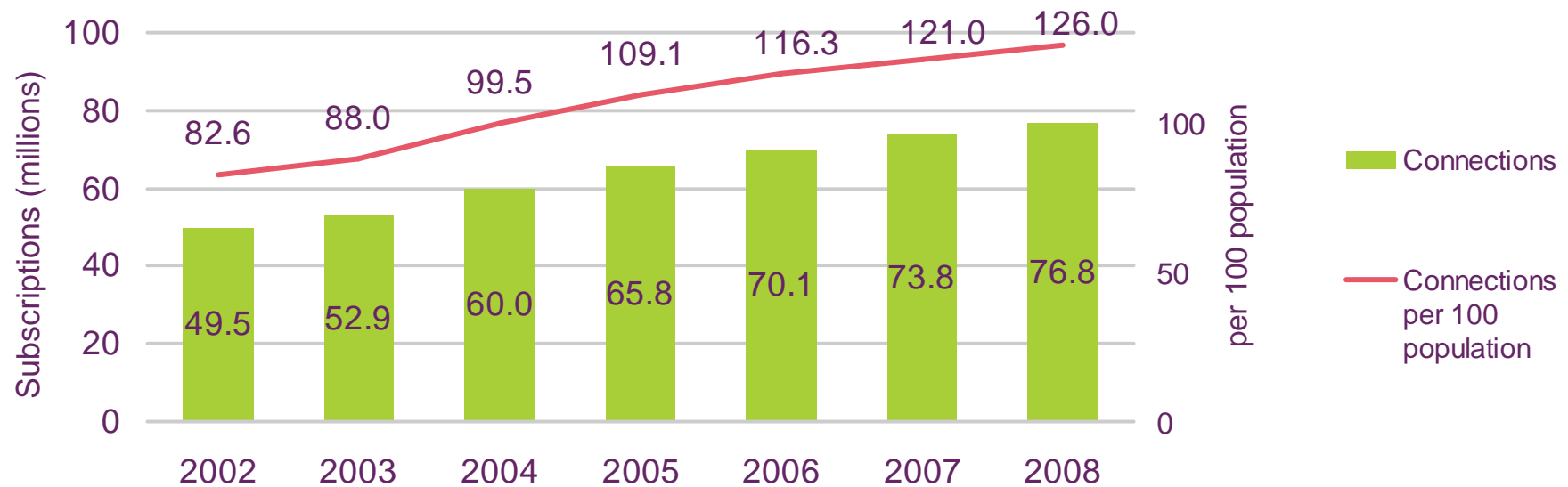
Competition, innovation and investment in the UK mobile sector

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15 October 2009

So far, the UK mobile sector has been a 'good news story' for consumers

- Mobile take-up and availability has grown rapidly
- Competing networks and retail channels driving consumer choice
- New services, devices and smartphones brought to market
- Mobile broadband has taken off

Mobile take-up and availability has grown rapidly

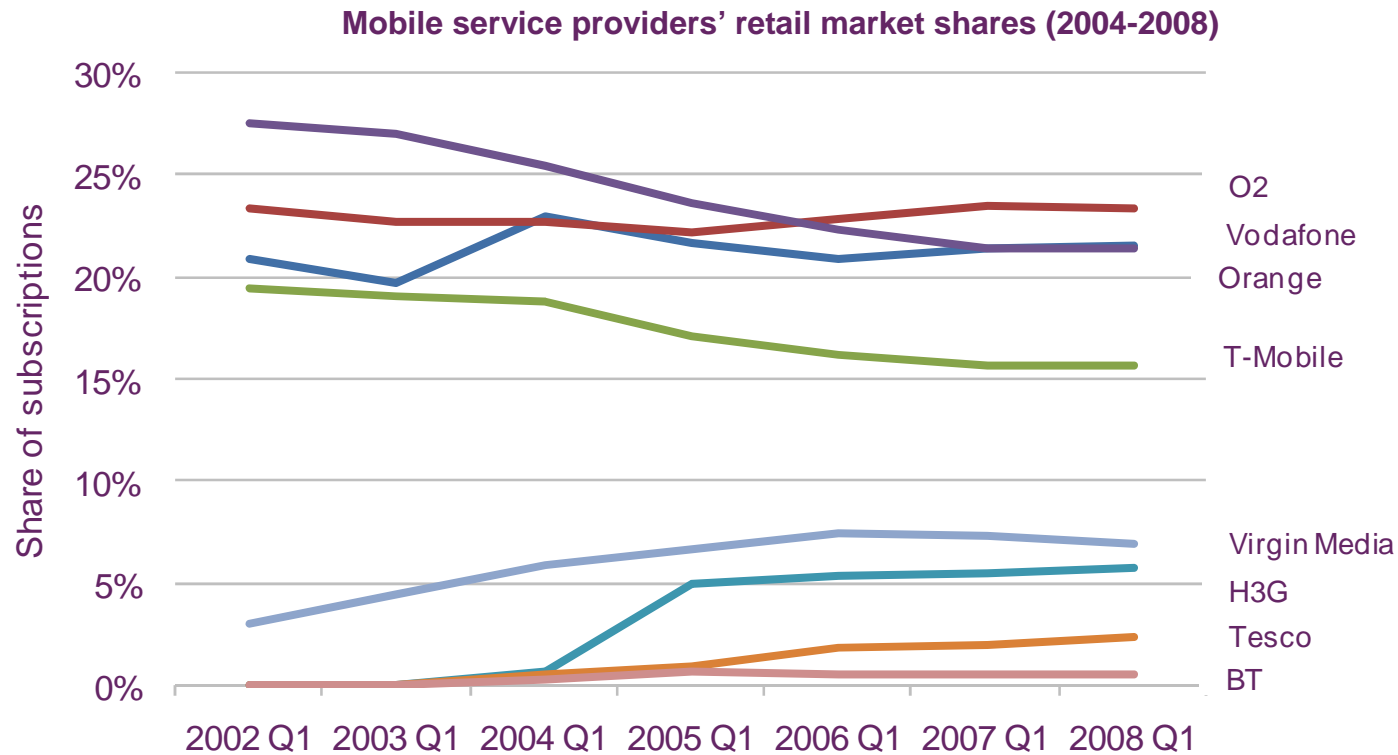


By household (Q4 08)

| | |
|-------------------|-----|
| Mobile: | 92% |
| Fixed: | 87% |
| Internet: | 70% |
| Fixed Broadband: | 65% |
| Mobile Broadband: | 12% |

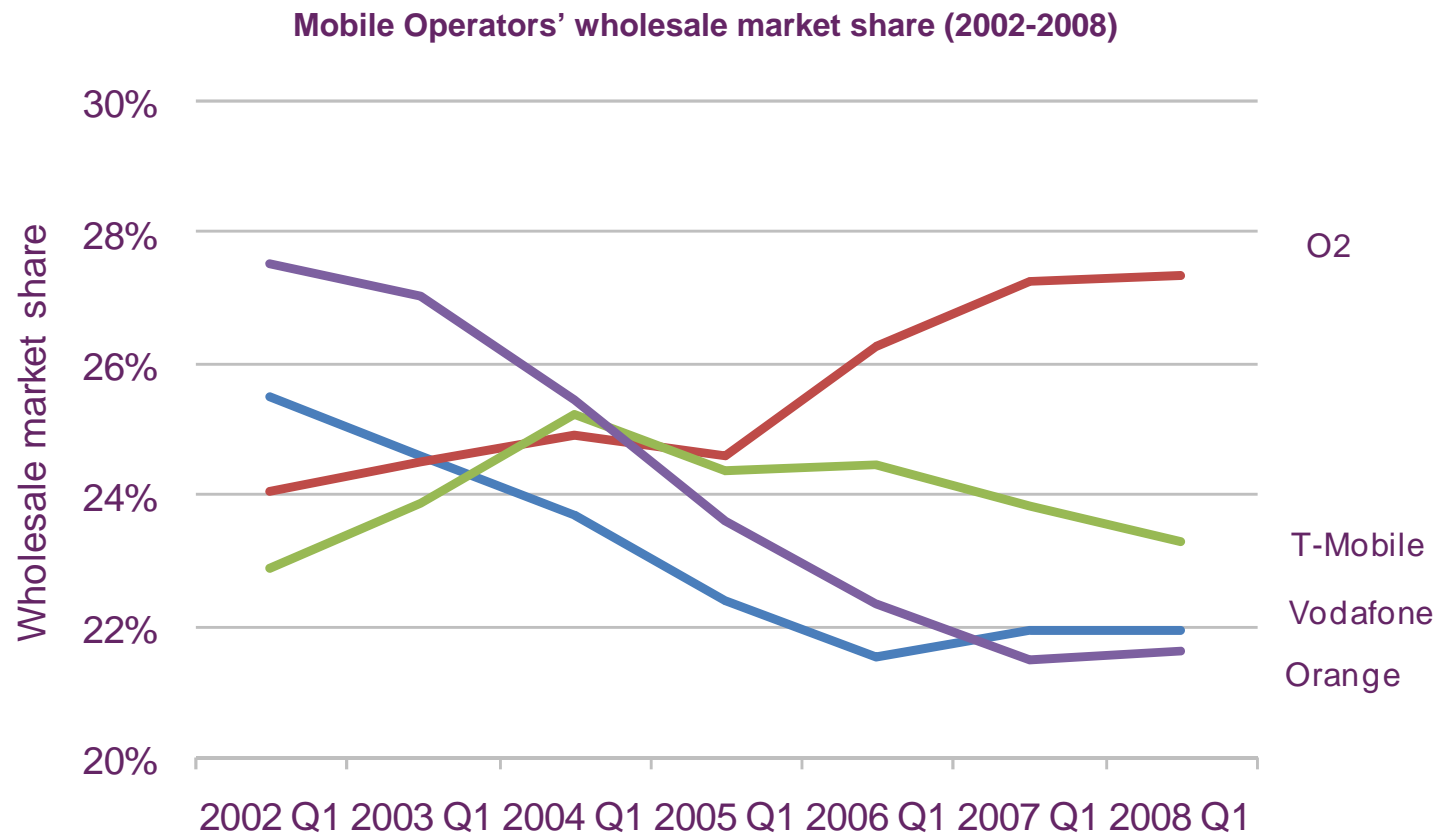
Source: Ofcom / operators
 Note: Includes estimates where
 Ofcom does not receive data from
 operators

We have seen greater competition at the retail level ...



Source: Ofcom/operators

... underpinned, in some measure, by competition at the wholesale level



Source: Ofcom/operators

Note: Includes estimates where Ofcom does not receive data from operators

And the mobile eco-system is growing more complex

Online brands in the mobile space

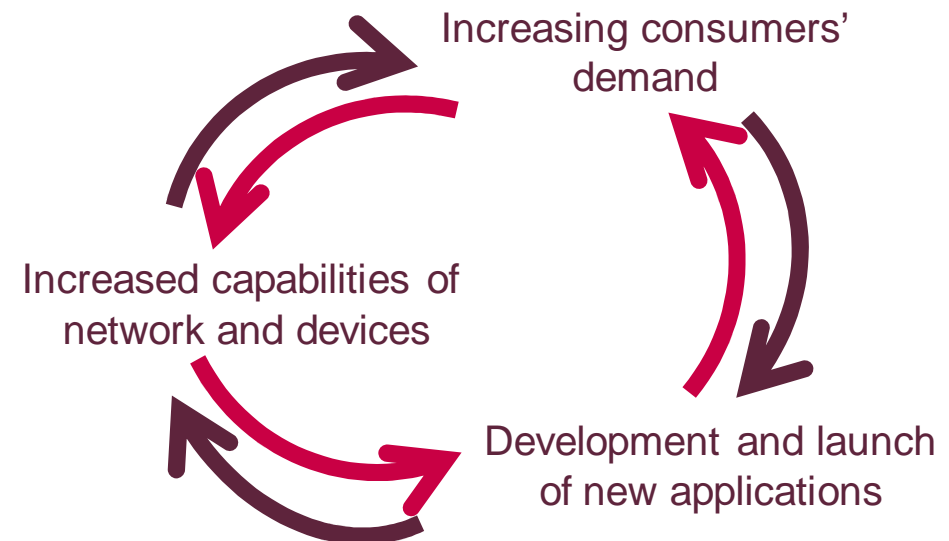


Mobile internet brands



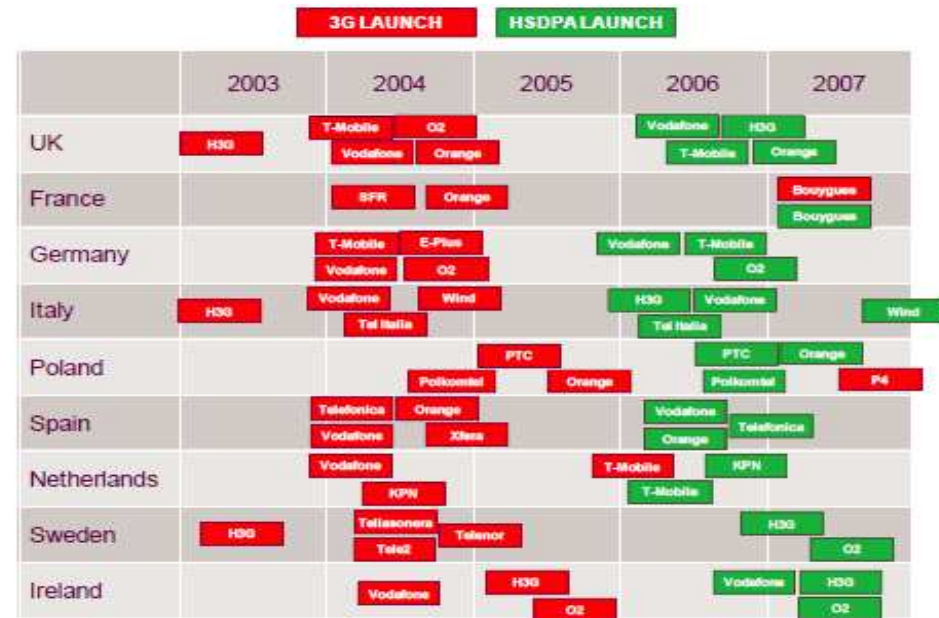
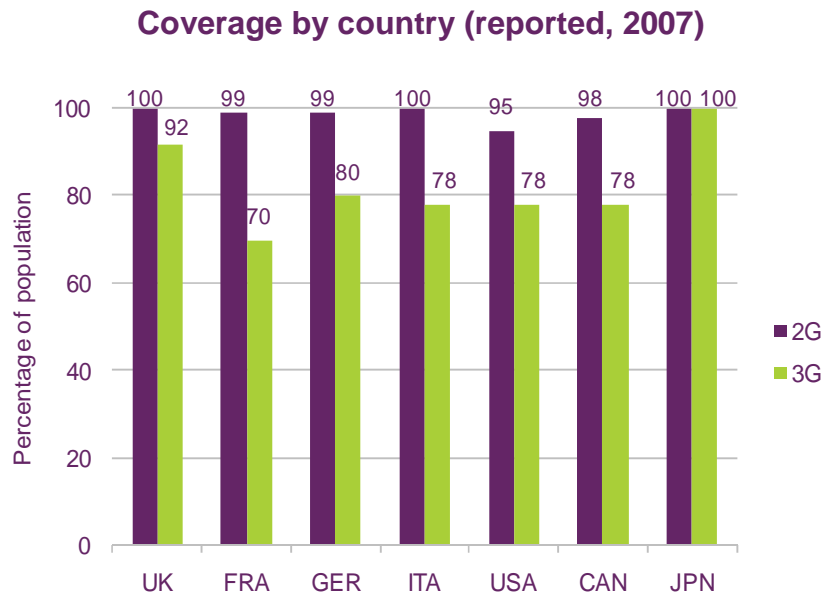
A virtuous circle is emerging connecting demand, applications, devices and networks

- Mobile voice is likely to remain the majority source of revenue for mobile operators in the short to medium term
- Mobile data services are now growing rapidly
- Mobile content and applications are, or becoming, internet-based
- Mobile networks adopting Next Generation Network architecture
- Prospects for fixed-mobile convergence growing



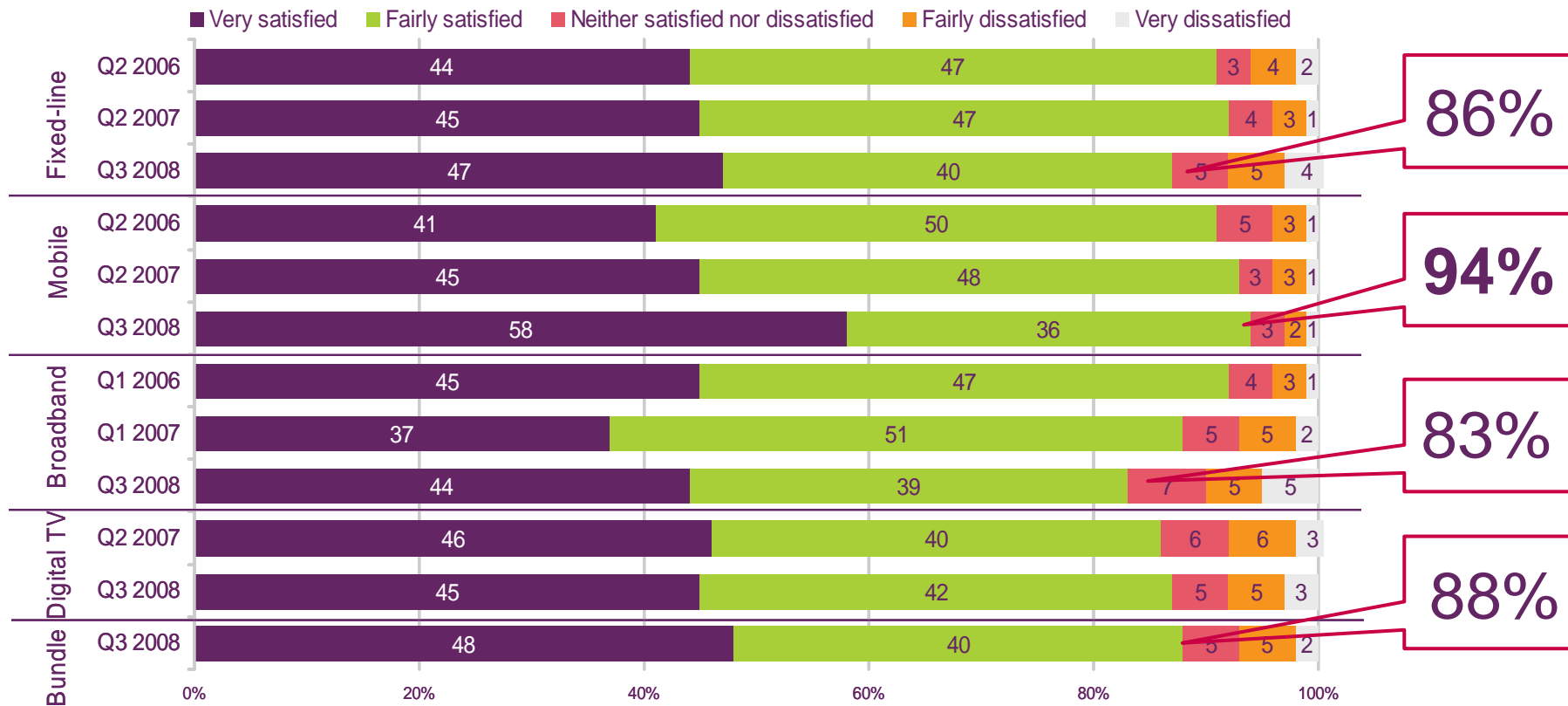
Innovation and investment have kept pace with other markets

3G and HSDPA launched in the UK and other markets at roughly the same time...



... and on basic measures of coverage, the UK does the same or better as comparable countries in Europe

Consumers are happier with mobile than other communications services ...

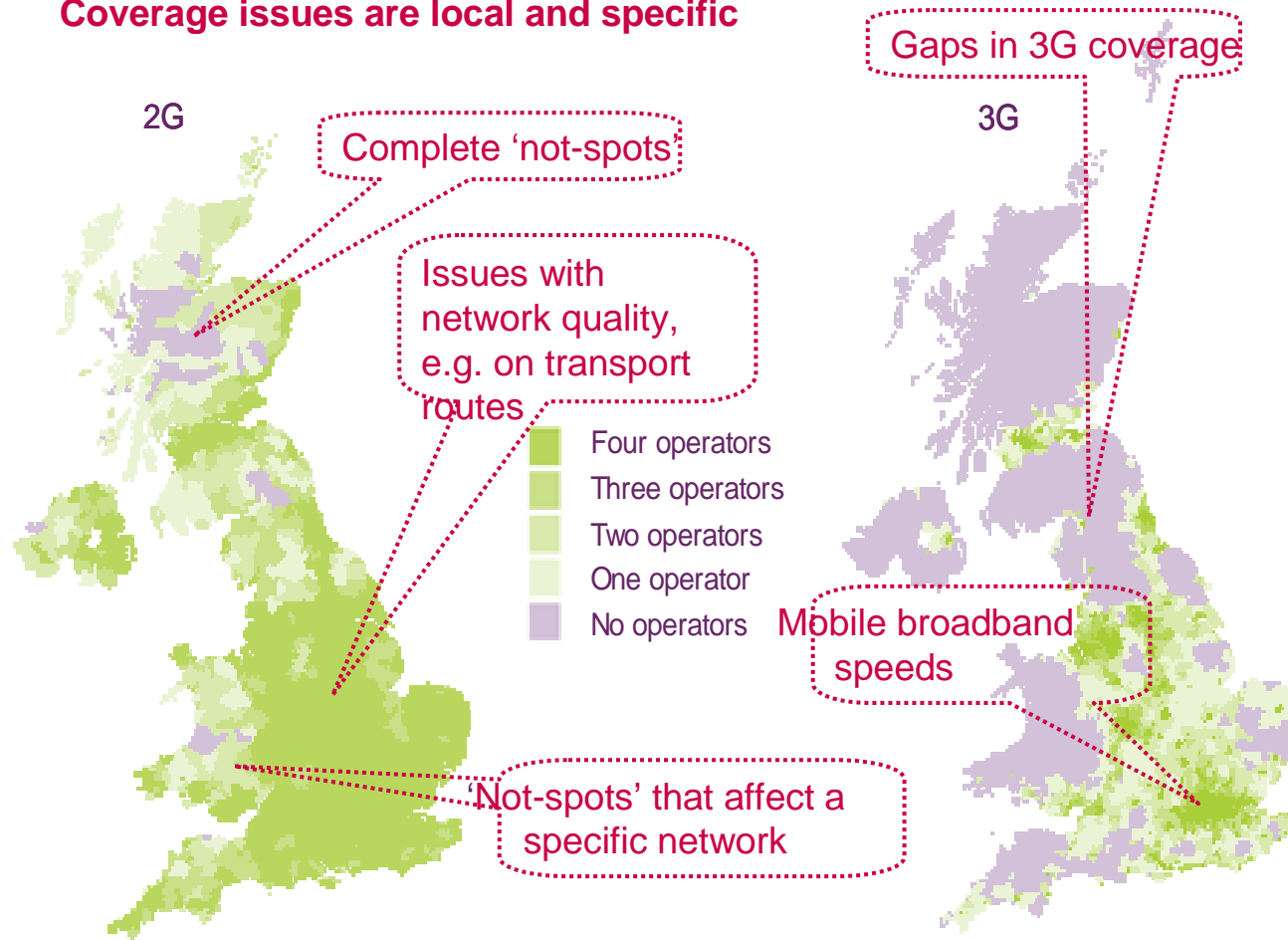


... but it is not all good news

| Market | CCI score | Quality | Price | Choice | Expectations | Consumer Rights | Advertising | Complaints |
|-----------------|-----------|---------|-------|--------|--------------|-----------------|-------------|------------|
| Clothing | High | High | High | High | High | High | High | Low |
| Small domestic | High | High | High | High | High | High | High | Mid |
| Food | High | High | Mid | High | High | High | Mid | High |
| PCs, software | Mid | Mid | Mid | High | High | Mid | Mid | High |
| Used cars | Mid | Mid | High | High | Mid | Low | Low | Mid |
| Mobile network | Low | Low | Low | Mid | Low | Low | Low | High |
| ISPs | Low | Low | Mid | Mid | Low | Low | Low | High |
| Fixed line | Low | Low | Low | Low | Low | Low | Low | High |
| Vehicle repairs | Low | Low | Low | Low | Mid | Low | Low | High |
| Gas & Elec. | Low | Low | Low | Low | Low | Low | Low | High |

... and current concerns over coverage may be growing

Coverage issues are local and specific



"My house is a not spot!"

"I can't get 3G coverage in flat in the middle of Southampton!"

"I have been affected by coverage issues but am on an 18 month contract so not a lot I can do"

"I actually get poor reception in my back garden, and fantastic reception in the front garden! This is a highly populated area - there really should be no excuse for this kind of poor coverage."

Regulation of mobile has concentrated on three main areas

- Spectrum allocation
- Mobile call termination rates
- Consumer protection

Ofcom's **Mobile Sector Assessment** has provided a vehicle for considering how our approach might change

Extending regulation to mobile access?

- The FCS and BT both asked us to take our analysis forward in a market review.
- We said (in our consultation) that we did not intend to do that, and sought views on our proposed approach.
- Our rationale was our hypothesis that, today, the market is competitive.
- That seems to be supported by the evidence we've seen so far:
 - Competition between networks
 - Evidence of MVNOs and customers
 - Switching and shifts in wholesale/retail market share
 - Average prices, bundle volumes, customer take-up
 - Introduction of new services, devices, content
- But we are always open-minded and willing to look at other relevant evidence, whether it supports or contradicts that hypothesis.

The policy agenda is now more complex and the industry is clearly at a critical juncture...

- **Market structure:** potential consolidation and pressure for network sharing
- **Spectrum:** Spectrum Modernisation Plan/ISB
- **Termination rates:** Ofcom review, EC Recommendation
- **Network infrastructure and coverage:** Digital Britain, potential links to USC
- **Mobile broadband and data:** commercial, network and service implications
- **Consumer agenda:** competitive and regulatory pressures

Q&A