

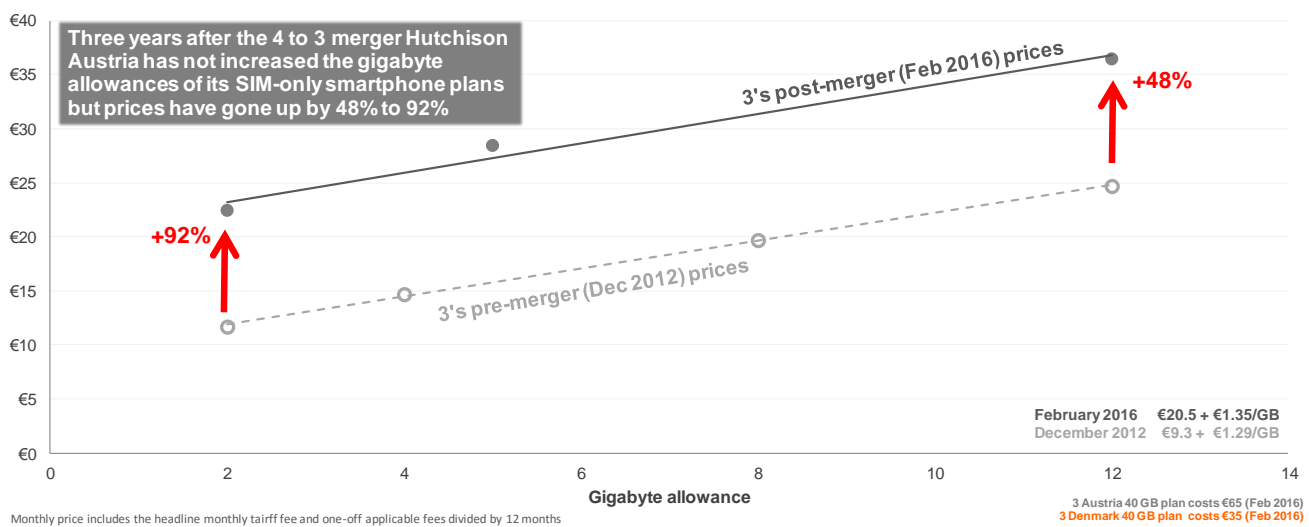
Hutchison has increased prices in Austria by up to 92% after the 4 to 3 merger was approved with Mickey Mouse MVNO remedies

- Three years after the unlawful 4 to 3 merger Hutchison Austria has not increased the gigabyte allowances of its SIM-only smartphone plans but prices have gone up by up to 92%
- GSMA's and HSBC's so called 'unit prices' will keep falling even if consumers pay more to purchase the same amount of gigabyte allowance as long as data traffic growth outpaces revenue growth
- Unit prices (retail price / GB volume allowance) \neq Unit revenues (revenues / actual GB consumption)
- Hutchison's UK pledge not to increase the price of MB the next 5 years is a bad joke like GSMA's Austrian price decline claims

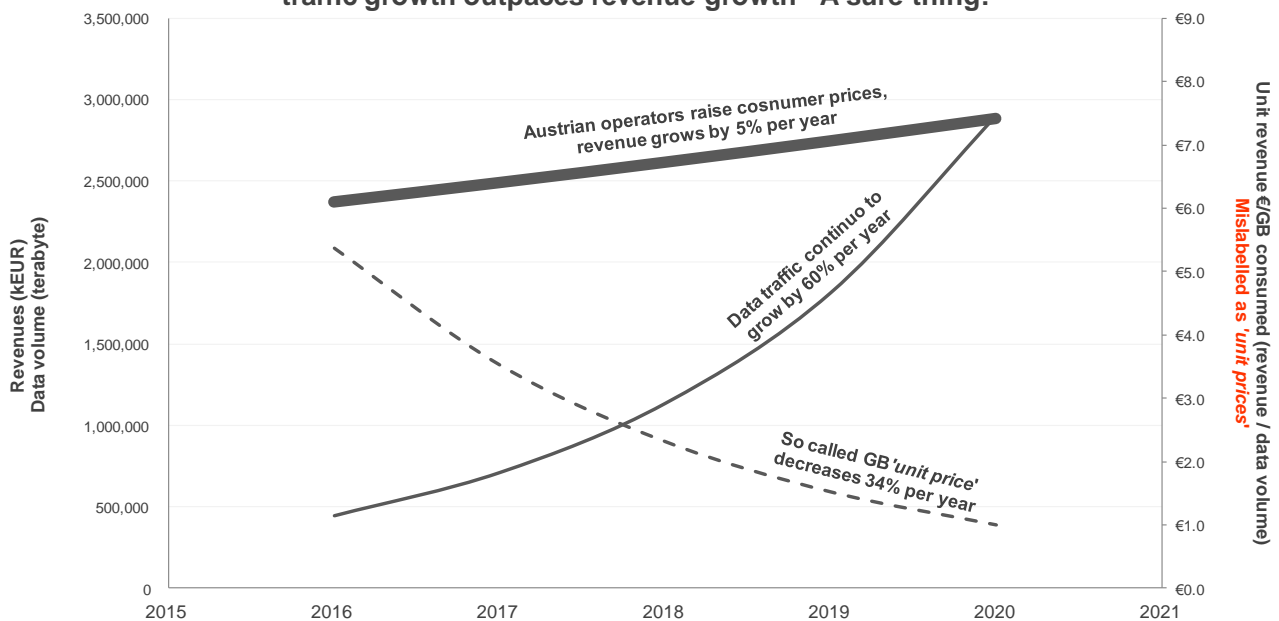
Rewheel / Digital Fuel Monitor public research note, 15th February 2016

Hutchison's Austrian prices have increased by up to 92% after the 4 to 3 merger was approved with Mickey Mouse MVNO remedies

Price and volume allowance of SIM-only smartphone plans with unlimited (>1,000) minutes & SMS



GSMA's and HSBC's so called 'unit prices' will keep falling even if consumers pay more to purchase the same amount of gigabyte allowance as long as data traffic growth outpaces revenue growth - A sure thing!



Hutchison's UK pledge not to increase the price of MB the next 5 years is a bad joke like GSMA's Austrian price decline claims!

Since October 2013, when we reported¹ Hutchison's first post-merger price hikes, we have published² a number of premium research notes documenting the price increases in the Austrian mobile market by Hutchison, T-Mobile and Telecom Austria.

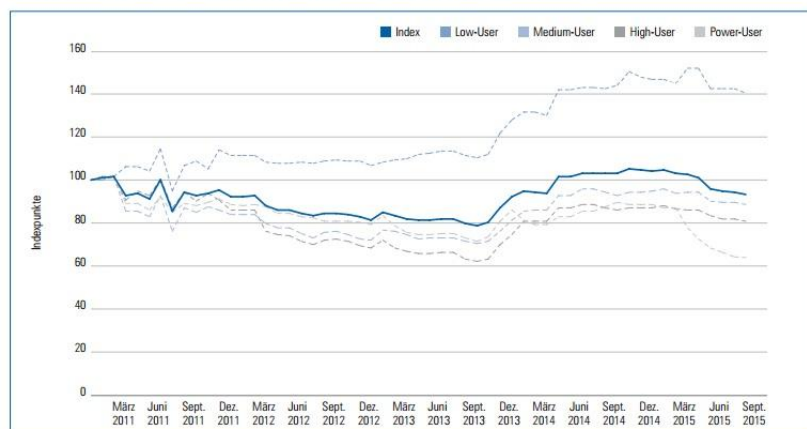
In August 2014 BWB, the Austrian competition authority opened³ an investigation into the significant 2013 price increases that followed the Commission's unlawful⁴ merger approval. BWB cited Vice President Joaquin Almunia's statement where he conceded⁵ that the Commission had made a 'mistake' when it approved the Austrian merger (video 8:22 – 13:27 min). BWB is expected to conclude its investigation in March 2016.

In December 2014, the Vienna Chamber of Labour (Arbeiterkammer Wien or AK) reported⁶ that Austrian mobile prices rose⁷ by 29% to 78% between September 2013 and December 2014. AK confirmed Rewheel's October 2014 findings and reported that mobile internet prices rose on average by 58% "For frequent users including mobile internet, the average price increase was 58%". In October 2014 Rewheel reported⁸ that mobile internet prices rose between 42% and 83% in Austria.

In November 2015, the Austrian Regulatory Authority, RTR-TKK, reported⁹ in its Telecom Monitor 4/2015 review that the price index of mobile communications in Austria was approximately 15% higher (September 2015) than the pre-merger level (December 2012) as seen below.

Preisindex Mobilfunk

➔ WETTBEWERB DURCH MVNOs/RESELLER BEGINNT ZU GREIFEN



¹ http://www.dfmonitor.eu/insights/2013_oct_austria/

² <http://www.dfmonitor.eu/insights/>

³ <http://www.bwb.gv.at/Aktuell/archiv2014/Seiten/Deutlicher-Preisanstieg-BWB-untersucht-Telekombranche.aspx>

⁴ http://dfmonitor.eu/insights/2015_jan_premium_austria/

⁵ <http://ec.europa.eu/avservices/video/player.cfm?sitelang=en&ref=I091062>

⁶ http://www.arbeiterkammer.at/beratung/konsument/HandyundInternet/Handy/preisanalyse_handytarife.html


⁷ http://media.arbeiterkammer.at/PDF/Analyse_Handytarife_2013-2014.pdf

⁸ http://www.dfmonitor.eu/insights/2014_sept_premium_austria/

⁹ http://www.rtr.at/de/inf/TK_Monitor_4_2015

Hard facts about Hutchison Austria's post-merger price increases

Below we present a screenshot taken from Hutchison Three Austria's website in December 2012 (translated to English by Google translate). It depicts the SIM-only smartphone tariff plans that Hutchison used to sell before the 4 to 3 merger was approved by the European Commission.



3 now provides for even more high-speed surfing experience on the smartphone - with the additional package "Double High Speed GB" for all 3Superphone tariffs with registration. For only 3 euros more per month, you double your rate in INCLUDED unthrottled data volume so that they can surf longer without brakes. And all this without bond. ¹⁴

3SuperSIM - With Application ¹³

3SuperSIM	Package fee	Minutes to all networks / then into 3Netz	SMS to all networks	Included with registration data set (*)	Select
Superphone XXL	€ 20	3.000 / 3.000	1000	unlimited	Select
Superphone XL	€ 15	2.000 / 2.000	1000	unlimited	Select
Superphone L	€ 10	1.000 / 1.000	1000	unlimited	Select
Comfort	€ 7	1.000 / 1.000	100	100MB	Select
Light	€ 3	250/250			Select

* The data transfer rate is up to 6 GB of consumption in the XXL, 4 GB, the XL, L on the 2 GB. 64 kbit / sec reduced. Please refer to the tariff details at bottom of page.

On the 13th of February 2016 Hutchison sold the following SIM-only smartphone tariff plans.

HalloSIM L	HalloSIM XL	HalloSIM XXL	HalloSIM Premium
15 € pro Monat	18 € pro Monat	24 € pro Monat	40 € pro Monat
	✓ Gratis Aktivierung	✓ Gratis Aktivierung	✓ Gratis Aktivierung
1.500 Min. 1.500 Minuten österreichweit	2.000 Min. 2.000 Minuten österreichweit	3.000 Min. 3.000 Minuten österreichweit	∞ unlimitierte Minuten österreichweit
1.000 SMS 1.000 SMS österreichweit und nach Europa	1.000 SMS 1.000 SMS österreichweit und nach Europa	1.500 SMS 1.500 SMS österreichweit und nach Europa	∞ unlimitierte SMS österreichweit und nach Europa
100 Min. 100 Minuten in & nach Europa	200 Min. 200 Minuten in & nach Europa	400 Min. 400 Minuten in & nach Europa	600 Min. + 250 MB 600 Min. + 250MB in & nach Europa
2 GB 2 GB Fullspeed Datenvolumen*	3 GB 3 GB Fullspeed Datenvolumen*	4 GB 4 GB Fullspeed Datenvolumen*	6 GB 6 GB Fullspeed Datenvolumen*
DATEN POLSTER Maximal möglicher Datenpolster 4 GB**	DATEN POLSTER Maximal möglicher Datenpolster 6 GB**	DATEN POLSTER Maximal möglicher Datenpolster 8 GB**	DATEN POLSTER Maximal möglicher Datenpolster 12 GB**
			

Hutchison customers could buy two add-on data plans of 3 and 10 gigabytes to increase their monthly volume caps for €6 and €14 respectively as seen below.

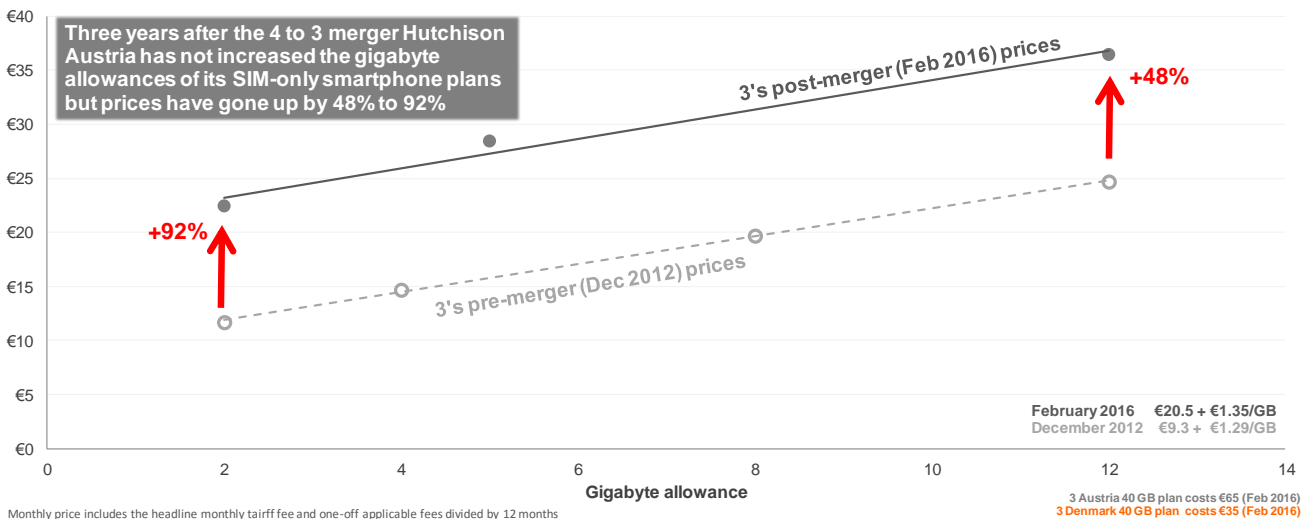
Monatspakete für und von Österreich		
Zusatzpaketname	Preis	
SMS 100 ¹	4 €	<input type="checkbox"/> NEIN
SMS 1000 ¹	9 €	<input type="checkbox"/> NEIN
Europa Plus ¹	6 €	<input type="checkbox"/> NEIN
Weltweit ¹	15 €	<input type="checkbox"/> NEIN
Internet 3GB ¹	6 €	<input type="checkbox"/> NEIN
Internet 10GB ¹	14 €	<input type="checkbox"/> NEIN

In the chart below we compared Hutchison's post-merger prices, as of 13th February 2016, versus the pre-merger prices of December 2012. We used the HalloSIM L €15 tariff which comes with 2 gigabytes of volume allowance and two additional pricing points by adding the 3 and 10 gigabyte data packages for €6 and €14 respectively on the HalloSIM L tariff. The monthly prices shown in the chart below include the headline monthly tariff fee, the one-off annual service fee of €20 and the one-off activation fee of €69 applicable for the HalloSIM L tariff divided by 12 months and the add-on data package fees of €6 and €14 where applicable that increase the monthly gigabyte allowance from 2 gigabytes to 5 and 12 gigabytes respectively.

The December 2012 monthly prices shown in the chart below include the headline monthly tariff fee, the one-off annual service fee of €20 divided by 12 months and the €3 add-on fee that doubles the data volume of the tariff.

Hutchison's Austrian prices have increased by up to 92% after the 4 to 3 merger was approved with Mickey Mouse MVNO remedies

Price and volume allowance of SIM-only smartphone plans with unlimited (>1,000) minutes & SMS



The price of the 2 gigabyte SIM-only smartphone plan with unlimited (>1,000) minute and SMS has gone up by 92% from €11.67 to €22.42 per month.

The price of the 12 gigabyte SIM-only smartphone plan with unlimited (>1,000) minute and SMS has gone up by 48% from €24.67 to €36.42 per month.

GSMA's and HSBC's so called 'unit prices' falling in Austria claim is nonsense

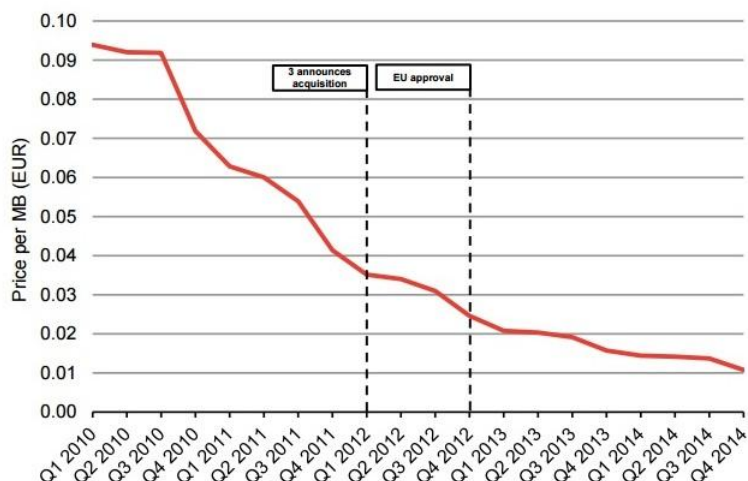
GSMA the mobile industry lobby association and HSBC an investment bank that according to reports¹⁰ is providing a £6 billion loan to Hutchison for its acquisition of o2 in the UK, have been claiming^{11,12} that prices did not increase after the 4 to 3 merger in Austria.

Frontier Economics in a report prepared for GSMA which was published in February 2015¹³ claimed that *"...we set out empirical evidence from Austria and show that there is no evidence that prices increased following the merger"*. A month later we debunked¹⁴ GSMA's claims in a premium research note titled 'The dubious consolidation economics of Frontier economics'. Therein we showed that according to Frontier's dubious methodology their so called 'unit prices' fall even when consumers are asked to pay more Euros every month to purchase the same amount of gigabyte allowance.

We have copied below an extract from Frontier Economics' briefing regarding its Austrian post-merger price claims that was published¹⁵ in May 2015.

- Average Revenue Per Megabyte (MB).** It is possible to convert voice minutes and messages into 'data equivalents' and then add these to the volume of data usage. This allows the Average Revenue Per MB to be calculated by dividing total revenues by the total number of megabytes. This is likely to represent the most appropriate measure of changes in unit prices because it will capture the impact of increasing data usage on unit prices. However, it is still not a perfect measure of consumer welfare, as it does not directly capture other changes, such as improvements in network quality⁷.

Figure 2. Price per Megabyte in Austria



Source: Frontier based on RTR data

HSBC's claim that the so called 'unit prices' fell in Austria is based on an undisclosed detailed report of Compass Lexecon. Compass Lexecon was an advisor of Hutchison Three in Austria and according to a press release¹⁶ submitted several papers to the Commission, assessing, among other things, the Commission's analysis of the "Upward Pricing Pressure" (UPP) generated by the merger. No apparent conflict of interest there!

¹⁰ <http://www.wsj.com/articles/hsbc-to-provide-hutchison-with-9-billion-loan-for-o2-deal-1422268397>

¹¹ <http://www.reuters.com/article/us-mobile-europe-m-a-idUSKBN0OP11Q20150609>

¹² <http://www.ft.com/intl/cms/s/0/c60c18e6-1348-11e5-bd3c-00144feabdc0.html#axzz407Wb0fZ9>

¹³ <http://www.gsma.com/publicpolicy/wp-content/uploads/2015/02/Assessing-the-case-for-in-country-mobile-consolidation-report.pdf>

¹⁴ http://www.dfmonitor.eu/insights/2015_mar_premium_frontier/

¹⁵ <http://www.frontier-economics.com/es/documents/2015/05/mobile-prices-austria.pdf>

¹⁶ <http://www.compasslexecon.com/highlights/hutchison-3g-austria-acquisition-of-orange-austria/?year=2012>

Unit prices (retail price / gigabyte volume allowance) ≠ Unit revenues (revenues / actual gigabyte consumption)

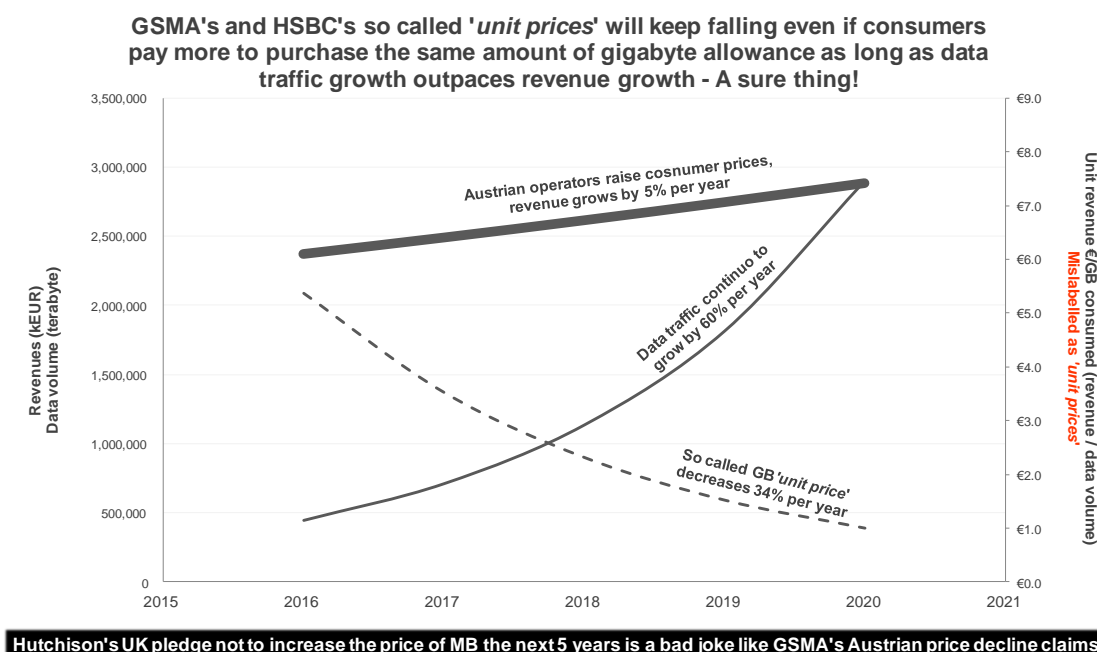
GSMA, HSBC and Frontier Economics have intentionally mislabelled unit revenues for unit prices.

The motive is clear. The industry lobby and their trusted advisors are desperately trying to bury the sharp post-merger price hikes of retail prices in Austria with silly tricks.

Mobile revenues in European markets have been declining or being mostly flat the last 5 years. At best they have grown with small single digit percentages. On the other hand mobile data traffic volume has been growing¹⁷ exponentially in EU's competitive mobile markets.

By dividing the flat revenues with a data volume that grows and will continue to grow with a big double digit rate in most mobile markets one thing is certain: unit revenues per megabyte will fall.

We made a simple chart, shown below, to illustrate how ludicrous and absolutely pointless GSMA's and HSBC's claim is that the so called 'unit prices' have been falling in Austria after the approval of the 4 to 3 merger.



In the DFMonitor report where we debunked¹⁸ these dubious claims we asked Frontier to tell us what would happen to the so called 'unit prices' if the data traffic volume suddenly declined in a market, see Vodafone Netherlands^{19,20} ? Will their so called 'unit prices' increase even though Vodafone customers in the Netherlands are still paying the exact same amount to purchase the exact same gigabyte allowances? Nonsense!

No wonder why Hutchison UK pledged²¹ not to increase the price of megabytes the next 5 years. Hutchison's Mickey Mouse promises – soon to be commitments – are making a mockery of European competition law and merger control procedures. Even Vodafone's CEO Vittorio Colao slammed Hutchison's price-freeze pledge. He said²²: "*On this measure nobody is increasing prices*". Jonathan Ford from the Financial Times nicely wrapped it up. He wrote concerning Hutchison's Three UK merger promises²³: "*Hutchison's mobile pledges contain more holes than Swiss cheese*".

¹⁷ <http://www.compasslexecon.com/highlights/hutchison-3g-austria-acquisition-of-orange-austria/?year=2012>

¹⁸ http://www.dfmonitor.eu/insights/2015_mar_premium_frontier/

¹⁹ <http://www.vodafone.com/content/index/investors.html>

²⁰ <https://twitter.com/DFMonitor/status/695151125230649348>

²¹ http://www.ckh.com.hk/en/media/press_each.php?id=3096

²² <http://www.telegraph.co.uk/finance/newsbysector/mediatechnologyandtelecoms/telecoms/12139689/Vodafone-slams-Hutchinsons-price-freeze-pledge.html>

²³ <http://www.ft.com/intl/cms/s/0/6cef9528-cd90-11e5-831d-09f7778e7377.html>