

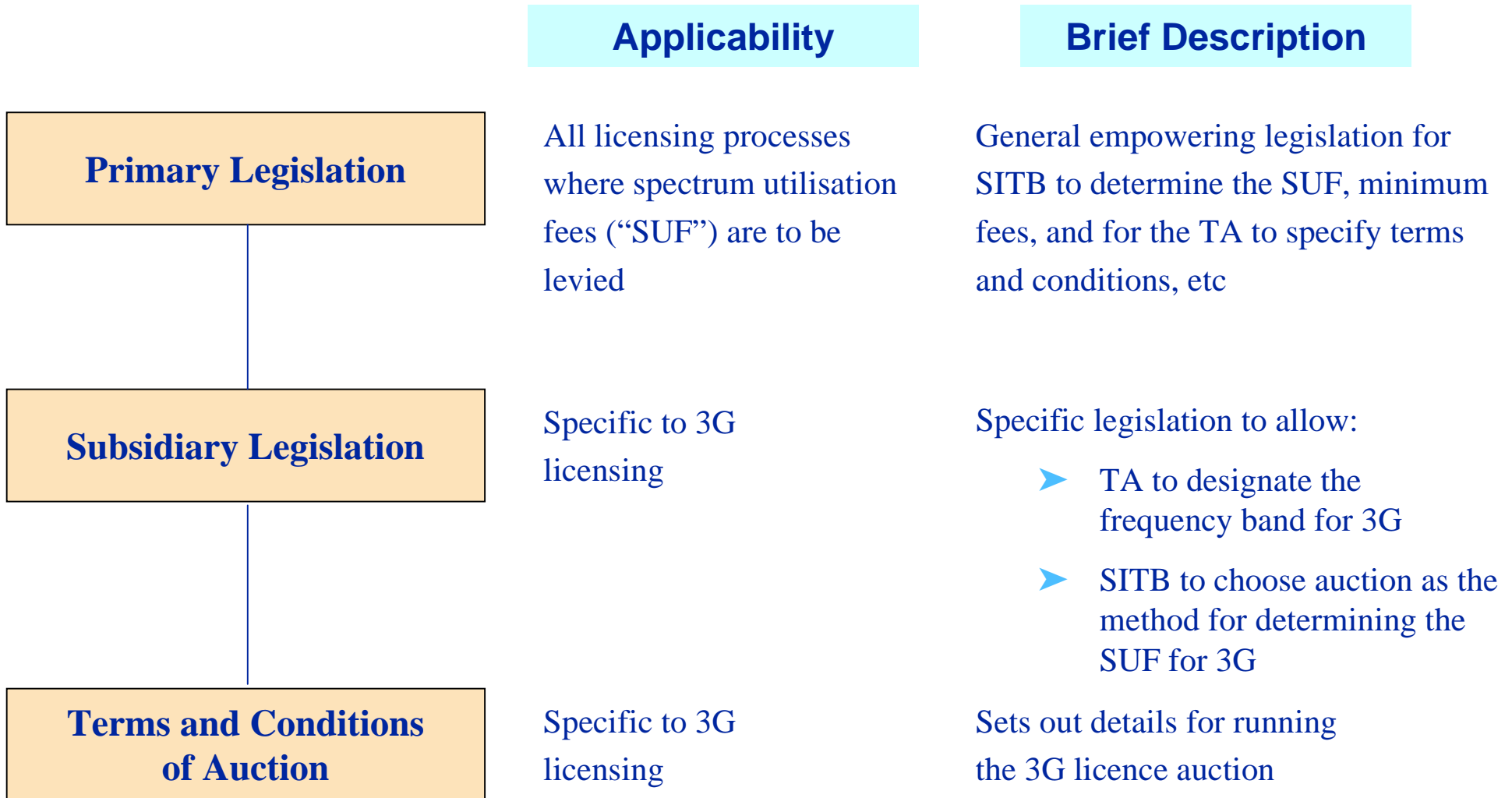
1. Introduction

This presentation provides a briefing on:

- Auction Process and Design
- Connected Bidders and bidding by 2G Operators

1. Introduction (Cont'd)

Work underway may be summarised as:



2. Auction Design – Overall Objectives

Overall Objectives

Promote entry

Enhance / preserve market competition

Prevent collusion

Minimise market distortion

Efficient allocation of frequency bands

Features of the Auction Design

- Royalty bid
- Preserve confidentiality of bidders' identities
- Light prequalification

- Same features for promoting entry
- Rules on Connected Bidders

- Rapid Prequalification process
- Rules on Connected Bidders

- Ascending bid in determining common royalty to be paid by all winners

- Bid cash sums in determining priority to different frequency bands

3. Auction Design – Experiences from Other Auctions

Strong pro-entry measures are required

- In a bear market, it is vital to minimise the financial burden on licensees
 - In Belgium even with excellent pro-new entrant measures, only 3 applications were received for 4 licences

Open Auctions can be vulnerable to manipulation

- The Austrian Auction allowed bidders to construct smaller or larger spectrum packages. The stronger Bidders “signalled” that they would be prepared to settle for a smaller package, so the auction ended very early

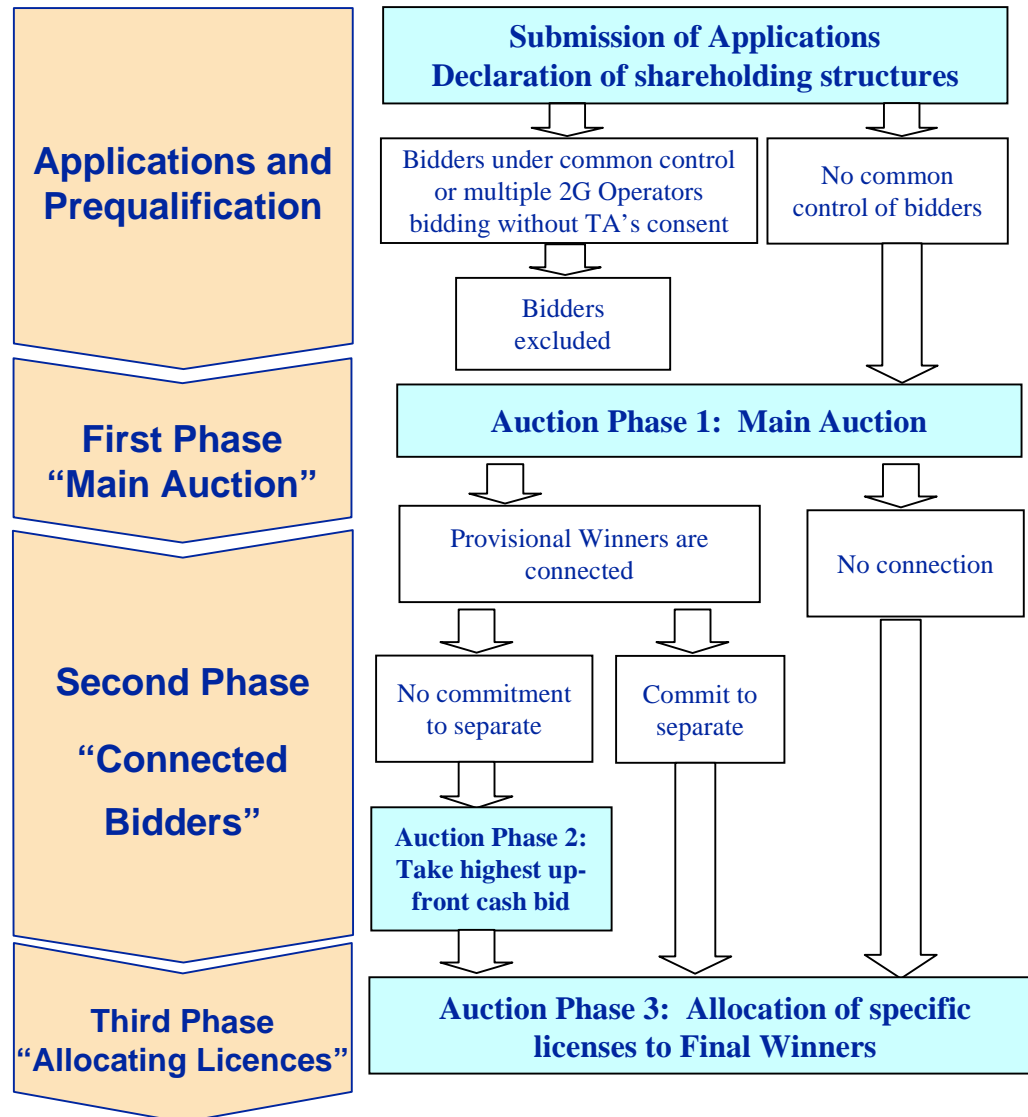
Bidders should not be allowed to consolidate

- The Swiss Auction received 10 applications, but allowed consolidation before bidding began. Only four bids were actually received

Marginal entrants need to see a chance of winning

- The Netherlands Auction offered five licences to a market with five incumbent operators. Only one new entrant applied, and the Auction ended early

4. Auction Design – Overall Process



1. Select Bidders entitled to enter Auction

- Rapid process
- Light Prequalification and depends largely on self-certification

2. Select Provisional Winners

- Ascending Auction to determine common royalty to be paid by winners
- Announce Provisional Winners after Main Auction

3. Select which of closely related Provisional Winners may actually obtain a licence

- Connected Bidders must either:
 - Commit to separate; or
 - Bid cash sums for the right to a licence

4. Allocate specific licences to Final Winners

- Final Winners required to bid cash sums in determining priority to different frequency bands

5. Auction Design – Specific Issues

1

Determination of “optimum” price for 3G licences

- Aim to obtain the highest price willing to be paid by the fourth winner
- “last price” offered by the fourth winner = fourth winner’s last bid before he leaves the Auction
- Auction ends when the fourth winner decides to leave, thereby getting the “last price”
- Applicable royalty for all four winners = “last price”



**This design promotes entry and determines the “optimum”
price for the 3G licences**

5. Auction Design – Specific Issues (Cont'd)

2

Mechanisms for resolving tie bid situations

- Risk minimised by using small bidding increments
- Options for dealing with tie bids:
 - Drawing lots
 - Time of receipt of bid (earliest wins) or withdrawal (latest wins)
 - Allowing the tied Bidders to bid up to the next increment, then draw by lots
 - All Bidders restarting at the level of the tie bid

6. Ownership Rules – Overall Objectives

The Overall Objectives of the Ownership Rules are to:

- ▶ Prevent collusion
 - Protect public interest
 - Preserve integrity of the Auction
- ▶ Preserve market competition
 - Ensure that the market structure produced by the 3G licensing exercise would not adversely affect competition in mobile services



Concepts of “common control” and “Connected Bidders” being adopted with the aim in achieving the stated objectives

7. Ownership Rules – Overview

Policy Objectives of Ownership Rules

- 1** Bidders should not be under common control
 - 2** 2G Operators should only be allowed to cooperate in a bid if they have received TA's express permission
 - 3** The Auction should not produce a result where eventual licensees share a substantial element of common ownership, including substantial ownership links between a number of 3G Licensees and a 2G Operator
- ▶ Tested at Prequalification
 - ▶ Resolved after the Main Auction. Connected Bidders must either:
 - Disconnect; or
 - Bid against each other
 - ▶ Process designed to allow at least one to gain a licence, rather than eliminating both

8. Ownership Rules – Precedents

Austria, Belgium and UK

- Bidders under common control or receiving common support eliminated at Prequalification
- If Bidders have common ownership > 15%, or where linked through a 2G Operator, only one would be allowed to win a licence

Australia

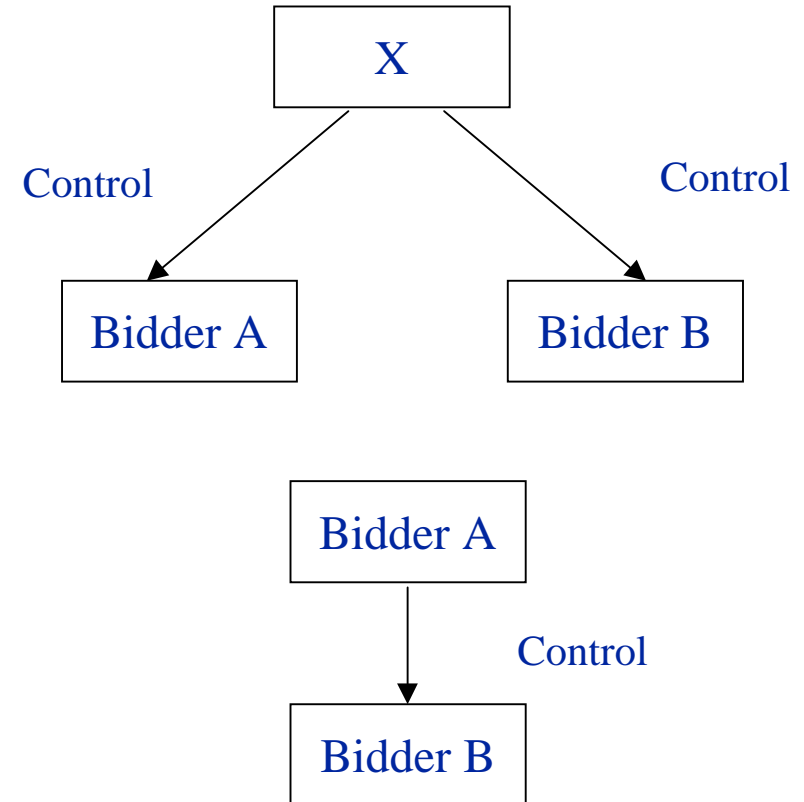
- Combinatorial Auction: spectrum divided into geographic lots from which Bidders compile their own licenses, subject to a limit on the amount of spectrum per Bidder
- If Bidders have a substantial element of common ownership, then their combined allocation of spectrum cannot exceed a single Bidder's limit

9. Ownership Rules – Working Hypotheses

Tested at Prequalification

No Bidders under common control

- If allowed, could increase possibility of collusion. Further, two 3G Licensees under common control would give rise to anti-competitive concerns
- Restriction designed to prevent collusion and preserve market competition

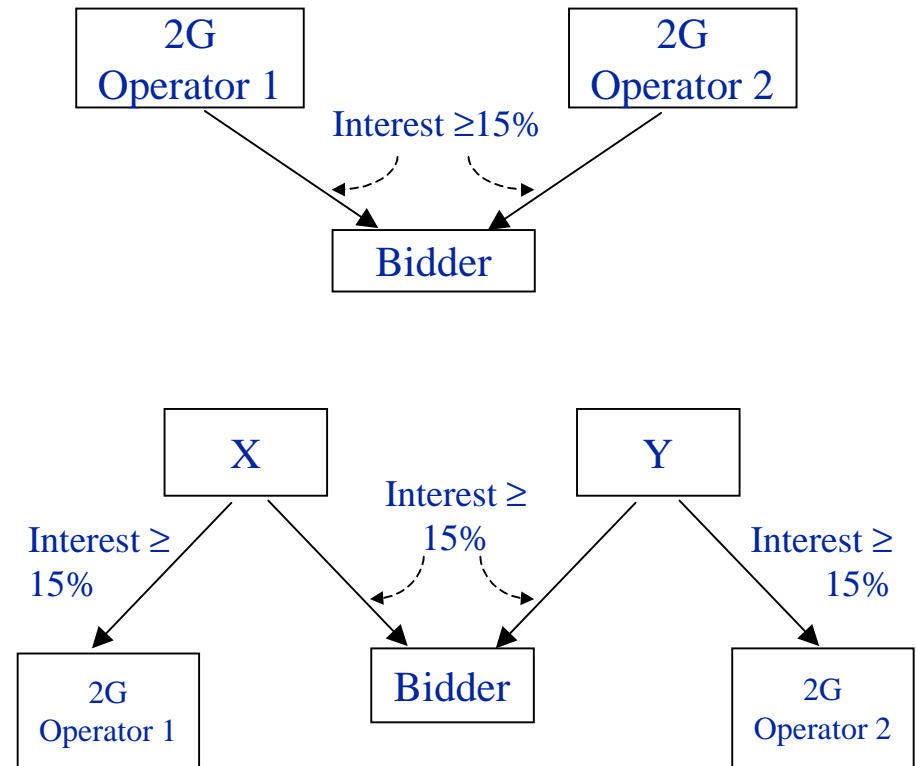


9. Ownership Rules – Working Hypotheses (Cont'd)

Tested at Prequalification

Approval by TA required for joint bids by 2G Operators

- More than one 2G Operator taking a 15% or more interest in the same Bidder
- Substantial investors ($\geq 15\%$) in 2G Operators taking a 15% or more interest in the same Bidder
- If allowed, could place two 2G Operators and a 3G Licensee within the same commercial group. Prior approval by the TA from competition angle
- Requirement aimed at preserving market competition

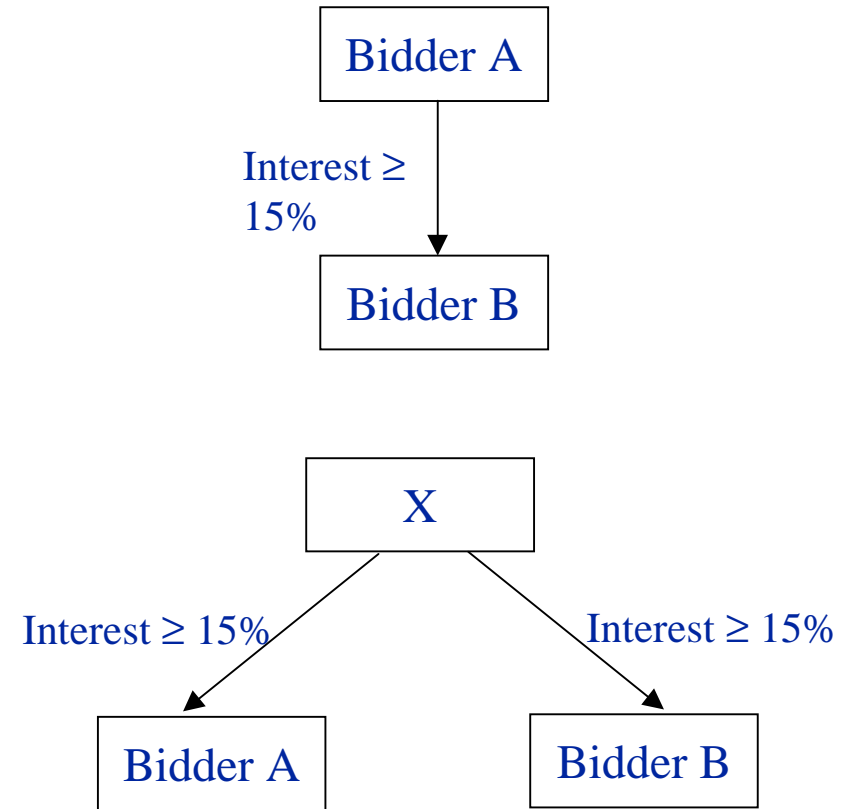


9. Ownership Rules – Working Hypotheses (Cont'd)

Resolved through the Connected Bidders Phase

Bidders linked through substantial ownership

- One Bidder has an interest $\geq 15\%$ in another Bidder
- A common shareholder has an interest of 15% or more in two Bidders
- If allowed, could increase possibility of collusion and place two 3G Licensees in the same commercial group which would give rise to anti-competitive concerns
- Restriction designed to prevent collusion and preserve market competition

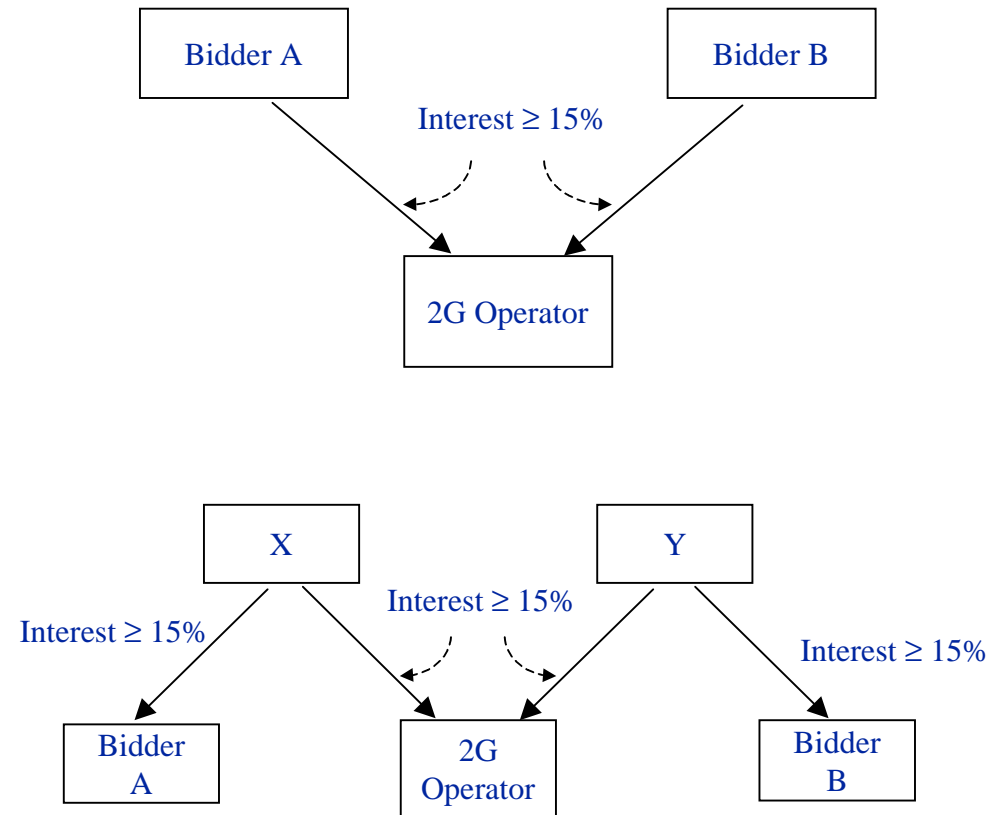


9. Ownership Rules – Working Hypotheses (Cont'd)

Resolved through the Connected Bidders Phase

Bidders linked through substantial interests in a 2G Operator

- ▶ Two Bidders have an interest $\geq 15\%$ in the same 2G Operator
- ▶ Substantial investors in two Bidders ($\geq 15\%$), both have $\geq 15\%$ interest in a 2G Operator
- ▶ If allowed, could increase possibility of collusion and would give rise to anti-competitive concerns
- ▶ Restriction is designed to prevent collusion and preserve market competition



9. Ownership Rules – Working Hypotheses (Cont'd)

Control defined as:

- 50% or more of equity or voting power
- Any other means of de-facto control (majority of directors, management agreement, etc)
- Acting through any number of intervening companies

Interest defined as:

- Direct holding of shares or votes
- Indirect holding of shares or votes
- Beneficial interest in shares or votes
- Conditional interests where created after 20th March 2000