

COVER STORY

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ATTUALITÀ

ANTEPRIMA TUTTI I SERVIZI DELL'UNITS ITALIA

È l'ora del videofonino

Un po' cellulare, un po' tv. Per parlare guardando l'interlocutore, vedere i colori e inviare messaggi. È la promessa della 2.



FRONTE A FRONTE
 Ecco come sarà un videofonino con i colori dell'interlocutore che è già appeso a telefono. Per abbonarsi sarà necessario utilizzare l'antenna.



3 THE DIFFERENCE

In a global economy battered by recession many 3G players have ducked out, but next-generation mobile services have arrived in the UK and Italy under the 3 brand.

By Mark Caldwell



When Julius Caesar conquered Gaul in 51BC, he made formidable use of carrier pigeons to communicate with his home base in Rome. For Caesar, a man very much on the move, the birds represented a cutting-edge advantage – and mankind has been honing his mobile communications capabilities ever since.

On November 26, 2002, mobile communications took another giant leap forward. Calling from Rome, Italy's Minister of Communications, Maurizio Gasparri, made the first public person-to-person videocall via '3' handsets over the UMTS commercial network of 3. He spoke to Guido Gentili, Editor-in-Chief of business newspaper *Il Sole 24 Ore* in Milan, and to Hutchison Whampoa Group Deputy Chairman Victor Li in London. Not only were they able to talk to each other, they could see each other as well.

The event was another significant milestone in the rollout of Hutchison Whampoa's third-generation (3G) mobile multimedia global network, under the 3 brand.

Combining the convenience of mobile telephony with the power of the PC and the depth and interactivity of the Internet, 3G technology is a quantum leap in mobile interconnectivity. In every respect, speed and mobility are the key. Data transmission is much faster now, allowing us to download video clips in mere seconds. It has taken Hutchison less than three years to build its flagship networks, to bring together a rich brew of content offerings, and to provide the revolutionary new mobile devices that are the window to a bright new world of mobile multimedia communications.

The time span between that first videocall and the commercial rollout of the 3 service is itself indicative of the 21st century pace that applies to the "3G race."

Consumers in the UK and Italy have just begun to experience the world of 3 first hand and the brand is poised to migrate across the globe.

It is today's equivalent of Caesar's carrier pigeon overtaking the foot-messenger.

THEN AND NOW

In the past two decades the mobile phone and the personal computer (PC) have swiftly and simultaneously become essential modern-day tools. The emergence of the Internet, too, has had a

massive impact on the way people interact with each other and the world.

Until now, the PC and the mobile phone were two very different creatures. One carried voice and was mobile, the other carried data and was desk-bound, but both were great communications tools. The inevitable convergence manifested in 3G represents a brand new era.

Not only does a 3G handset combine the functions of a PC and mobile phone, it incorporates many other useful "devices," such as a digital video camera, music player, web browser, e-mailer, games console, global positioning device and more.

"It is part mobile, part TV," said Italian weekly magazine *Panorama* after a sneak preview of the 3 handsets.

It can also "double" as a newspaper, radio, tape recorder, electronic wallet, barcode reader, word processor, spreadsheet, or personal organiser, to mention but a few.

"It's almost what happened for media," says Vincenzo Novari, Joint CEO of the Italian operation. "First, silent films, soundless images, then the burst of the commercial radio – sounds, without images. Finally television – sound and images together – and later even colour TV: a natural evolution that in time has become a true revolution."

The new 3G technology paves the way for what 3 calls "the natural next step" whereby usefulness and entertainment are brought together in a single package. Never before have so many devices offering so many functions been so conveniently merged for modern man on the move.

"There's a shift from voice telecom operators to media information-technology companies," observes Phil Roberts, director of consulting group Mason Communications Ltd. "With 3G, it's a complete fundamental change in mindset."

Hutchison's Group Managing Director Canning Fok concurs: "These are not telephones. They are powerful multimedia handsets that focus on the eye as well as the ear. There's nothing like 3G on the market at the moment. With 3, life will never be the same."

BUCKING THE TREND

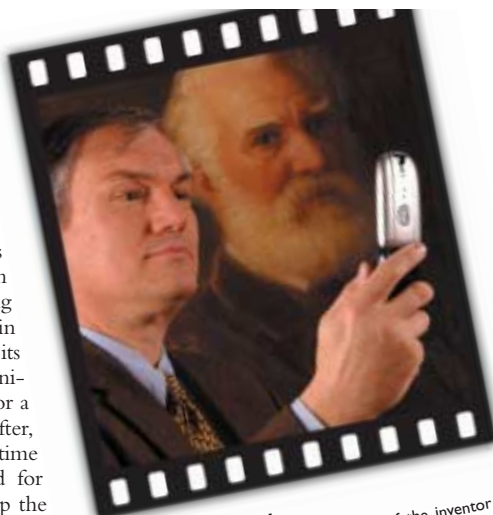
Despite the huge potential, 3 has rolled out against a backdrop of disconsolate industry sentiment.

It has not always been so.

In 1999 the global economy was soaring and the telecoms industry was exuberant. Hutchison itself had helped set off a buying and take-over frenzy when in November 1999 it sold Orange, its European 2G mobile telecommunications business, to Mannesmann for a US\$14.6 billion profit. (Soon after, Orange again changed hands, this time to Vodafone whose aggressive bid for Mannesmann saw investors push up the price of the stock deal to a world record US\$163 billion.)

In April 2000, a bidding war for next generation 3G-licence spectrum began in the UK, sending prices into the stratosphere. Spurred on by a wave of euphoria among analysts, bankers, investors and the media, operators – including Hutchison – collectively spent £22 billion (about US\$33 billion) on five licences in the UK alone, and around €150 billion across Europe.

When the German 3G-licence auction attracted bids worth US\$45 billion in July 2000, Hutchison again set the tone – this time dropping out in the belief that the prices had gone too high.



NEXT GENERATION

Edwin S. Grosvenor, the great-grandson of the inventor of the telephone, Alexander Graham Bell, examines a 3 handset – 156 years after Bell's birth on March 3, 1847.

The subsequent decline of global markets saw share prices tumble, with the telecoms sector among the biggest casualties. Several operators have subsequently been crippled by the high prices they paid for licences. Some have delayed the heavy investment needed to build the 3G infrastructure, preferring to capitalise on their existing 2G networks. Others have had to offload assets to stay afloat, and yet others have written off their 3G licences and withdrawn completely.

In this roller-coaster economic environment the bulls turned bearish, citing high capital investment costs along with technical issues, competing technologies and potentially low take-up rates that could all derail operations.

Hutchison was not immune from the fallout: "All available evidence indicates that Hutchison is trying to do too much, too fast," the *Far Eastern Economic Review* reported in October last year. "Hutchison is presuming it's already mastered technological and business paradigms that other operators expect will take years to develop," the magazine quoted Forrester Research as saying. "If it turns out to be right, it deserves to reap

BANKING ON QUALITY

Apart from the almost US\$10.2 billion invested by Hutchison in nine 3G licences, the Group's 3G operations have also been very successful in attracting additional financing to build the networks and the brand.

UK: Raising the Bar

WHEN THE FINANCE TEAM OF Hutchison 3G UK (H3G UK) set about raising £3.24 billion of non-recourse financing (about US\$4.6 billion) in mid-2000 to develop the technology and infrastructure of its 3G operations, it looked like a tall order.

Stock markets were heading steeply south and positive sentiment towards telecommunications companies had all but dried up.

As *Project Finance International Magazine* reported: "H3G UK had no assets other than the licence – no customers, no cash flow and barely any employees. The technology was untried and the market bears doubted whether anyone would even want to buy into the 3G proposition. It didn't look at first sight like the kind of company that anyone would lend £3,000 to, let alone £3,000 million."

Yet against this less-than-buoyant

backdrop, H3G UK's financing was completed in March 2001 with proceeds of £3.24 billion (US\$4.6 billion) in the form of a three-year (plus one-year) non-recourse facility, including £777 million of vendor financing from Nokia, NEC and Siemens.

Demonstrating its confidence in 3, Hutchison itself joined the syndicate, lending money to its subsidiary at the same rate as the banks but at a subordinate level, meaning the banks would be paid out first in the case of default.

At the time, it was the largest non-recourse syndicated loan ever arranged in the UK.

In spite of the prevailing negative sentiment, H3G UK had attracted investors to support the roll-out of its 3G business proposition.

The key messages to investors were Hutchison's track record in establishing and adding value to telephone networks

and its highly diversified financial strength, which at the time included a balance sheet of cash and marketable securities of more than US\$20 billion above total borrowings.

"Hutchison Whampoa is fortunate in having a strong track record of creating value coupled with a financially diversified background," said Mark Nickell, a banker at HSBC, one of H3G UK's lead underwriters.

"If required, it can support from internal funds the large capital-intensive investments needed to create that value. This provides enormous credibility to both its investment and its commitment."

Richard Woodward, senior manager, finance, at Hutchison said raising the non-recourse debt had not been about selling a vision but successfully communicating the sense and soundness of the business plan.

"It was obvious from early on that we would have to win the minds of bankers over the background noise of the press,

huge profits. But the company is more likely to end up as 3G's biggest early casualty."

3G VISION

Far from being an early casualty, Hutchison has every expectation that it will turn out to be right. While others have had second thoughts, choosing to sit on the sidelines, the Group has been the notable exception, powering ahead into uncharted territory and fuelled by a healthy bank balance. Perversely, the financial barriers to entry for new entrants and the demise of incumbent rivals has served only to strengthen the company's position – to the extent that by the second half of 2002 Hutchison 3G was the last remaining 3G-only player in Europe.

Surveying the carnage, the sceptics have tended to lump financial concerns together with doubts over unproven technology. But Hutchison is fully funded and the company is effectively close to mastering most – if not all – of the nuts and bolts of making it all work.

This is not the first time Hutchison has disregarded the sceptics. When the Group launched Orange in the UK in 1994 into what critics regarded as an already-cornered market, analysts and journalists quipped that the company was a lemon, that it would be squeezed and crushed by its incumbent competitors and that the venture would turn sour and ultimately fail. But Orange sparked imaginations and became a runaway success. By

1999 the brand had seized a 20% market share and Hutchison sold its stake for a handsome profit.

In retrospect, the timing was perfect. Hutchison had simultaneously exited at the top of the 2G market and locked in a dividend that would help fund its move to the next generation.

The prevailing sentiment towards the 3G market opportunity is therefore something of a *déjà vu* scenario for Hutchison, reminiscent of those early days of Orange. Throughout the current downturn, Hutchison has been the one company consistently bucking the trend and "bravely going where others fear to tread."

By any measure, financing and building the 3 network from
(continued on p.23)

which was determined to kill the 3G story," Woodward recalled. "The way to do this was not by competing in the uncontrollable PR space but by communicating the facts, issues and risks properly through the due diligence process. Luckily, credit committees read due diligence reports as well as the front page of the broadsheets. Armed with the facts, the lead arrangers were very resilient under the barrage of negativity."

ITALY: Full Funding for the Future
RIDING ON THE SUCCESS IN THE UK, H3G Italy replicated the fund-raising exercise with the successful conclusion in June 2002 of a €5.2 billion (US\$5.5 billion) bank and vendor finance facility for the Italian operations.

This round of financing encountered a more hostile and cynical funding market as many of Hutchison's 3G competitors had run into financing or operating difficulties.

H3G's approach, therefore, had to be flexible if it was to raise the required €5.2

billion. Lenders to 3G businesses were now demanding greater sponsor support in return for the provision of funding. HWL was willing and able to provide both equity and subordinated debt as well as its credit support to make the financing work. Ultimately, 15 banks from Italy, Europe, the US and China underwrote the transaction and were subsequently supported by banks from Italy and Sweden.

In the process, H3G Italy achieved a number of firsts. It was the world's first fully funded project financing for a 3G telecommunications business and the first new 3G project to fund itself with ten-year term financing. The financing not only included banks and vendors (Ericsson, Siemens and NEC came up with €1 billion between them), but also the Swedish and German export credit agencies – the first time any government agencies had financed 3G project risk.

The complexity and structure of the financing was widely applauded by the financial community and was named the "Telecoms Deal of the Year 2002"

awarded by *Project Finance International Magazine*. In presenting the award, the magazine remarked: "It is testament to the perceived strength of sponsor quality that Hutchison's business plan was even looked at by the banks in the first place, given the turn in market sentiment against telecoms in general and 3G in particular."

"We could not have raised the finance without a sponsor such as Hutchison," said Giorgio Moroni, CFO for H3G in Milan. "What was remarkable for the Italian business community to see was that Hutchison was willing to make such a strong commitment to support this business in Italy, a country it had never invested in before."

Deputy Group Treasurer John Mulcahy concurred: "The Italian team did a great job in convincing banks to support the transaction on its merits. A number of the underwriters had no prior banking relationships with the Hutchison Group. This financing did a lot to expand appreciation of the Hutchison Group's strengths to the European financial community."



2000

Wins 3G licences in the UK, Italy, Austria and Sweden.



NTT DoCoMo and KPN Mobile acquire a 20% and a 15% participation respectively in Hutchison 3G UK via 3G Holdings.

2001

Wins 3G licences in Australia, Denmark and Hong Kong.



US\$4.6 billion facility finalised in March to fund the UK 3G business.

Announces plans to set up a major customer care centre in Glasgow.

Agreement with BT Cellnet and TIM to provide 2G national voice and data roaming in UK and Italy respectively.

In May, forms strategic alliance with Telecom Corp of New Zealand (19.9%) to operate 3G business in Australia.

Various UMTS network infrastructure suppliers selected for Australia, Sweden, the UK, and Italy.

3's an In-Crowd!

IT TOOK ALMOST 250 SURVEYS and 130,000 interviews in eight countries to develop a picture of what customers want and expect from 3G technology.

The result was to create a marketing and retail strategy to put 3's services and products at the heart of the "in-crowd" of early adopters and to create a "road map" for mass roll-out in the near future.

The global consumer study examined topics such as consumer and business segmentation, the potential appeal of products and services, growth potential of the market, pricing strategies, and what the 3 brand would mean to local consumers in different countries.

The study helped 3 define specific target segments, how much these consumers would be prepared to pay, and the sort of devices they would prefer.

It also identified particular products and services that resonate among consumers. Among these, video-calling, messaging, the convenience of an all-in-one-device, and the ability to "cherry-pick" content all emerged as highly desirable features.

Building the Backbone

IN BOTH ITALY AND THE UK, 3 HAS undertaken the fastest network build-out in the history of the global mobile communications industry.

The Group has also made deals with infrastructure suppliers in the other countries where it has licences. These are at various stages of construction, and vendors include Alcatel, Ericsson, Motorola, NEC, Nokia and Siemens.

Apart from hundreds of base stations, complex application architecture platforms have been built to decipher and process the diverse content carried over the 3 networks.

The scale and scope of technical integration taking place behind the scenes is unprecedented in the industry. Hundreds of people working 24 hours a day in shifts have applied their collective expertise to make it work, innovating and adapting on a daily basis.

As the innovators, there has been no roadmap to follow. The process has been one of continued refinement and expansion.

By early March 2003, the network in Italy – built by Ericsson and Siemens-NEC – covered over 40% of the population in 100 cities with 2,400 base stations installed.

"We have taken great care to analyse and minimise the environmental impact," said Georges Perez, CTO of H3G Italy. "Wherever possible we share base station sites with other operators and our acquisition of the Blu network also helped speed up our roll-out. We always look for designs that blend in and we work with local authorities and the public to provide complete open and accurate information."

In the UK, population coverage has reached approximately 50%, and the network – supplied by NEC and Nokia – continues to grow with an on-going phased roll-out. Again, great care has been taken to minimise the impact on local surroundings and to work with communities and local authorities.

All the handsets are dual mode, so they can operate over 2G networks where 3G coverage is not available.

In both the UK and Italy, 3 has roaming agreements in place with 2G networks, including international roaming in approximately 100 countries – so users may occasionally be out of the picture, but they need never be out of touch.



Contracts with **Motorola** in June and **NEC** in November for the delivery of 3G wireless devices.

Acquires exclusive rights to transmit football content of leading teams in Italy and the **F.A. Premier League** in the UK.

Agreement with **Australian Cricket Board** to provide cricket content in Australia.



Wins 3G licences in Israel and Republic of Ireland.



In January, concludes a €5.2 billion facility from banks, vendors and government agencies to fully fund **H3G Italy**.

Acquires Italian cellular sites from **Blu** for €58 million.

Selects **Nokia** to supply a network in Austria.

Agreement with **Vodafone** and **Mobilkom** to provide 2G national voice and data roaming in Sweden and Austria.

Agreement with **Vitaminic** to provide music content in Italy.



Cool Tools

THE HANDSETS – A CHOICE OF three initially – are manufactured for 3 by NEC and Motorola. They are light, stylish, simple to use and, above all, they deliver the goods, combining the functions of a variety of electronic devices.

Your “phone” is also a PDA, MP3 player, a camera and much more, providing communication, information and entertainment in a single package. The sound quality is superb and colour and clarity of video clips is beyond comparison with any other mobile device. If the necessarily small screens prove insufficient, moving images can easily be transferred to a laptop computer or larger screen.

Apart from groundbreaking applications such as mobile videocalls, multimedia messaging and e-mailing, there’s a massive databank of information available at your fingertips.

The range of content is already



considerable in both the UK and Italy.

You can choose from the categories: Voice, Video Calling, Locate, Sport, Games, Messaging, Lifestyle, News & Finance and Extras.

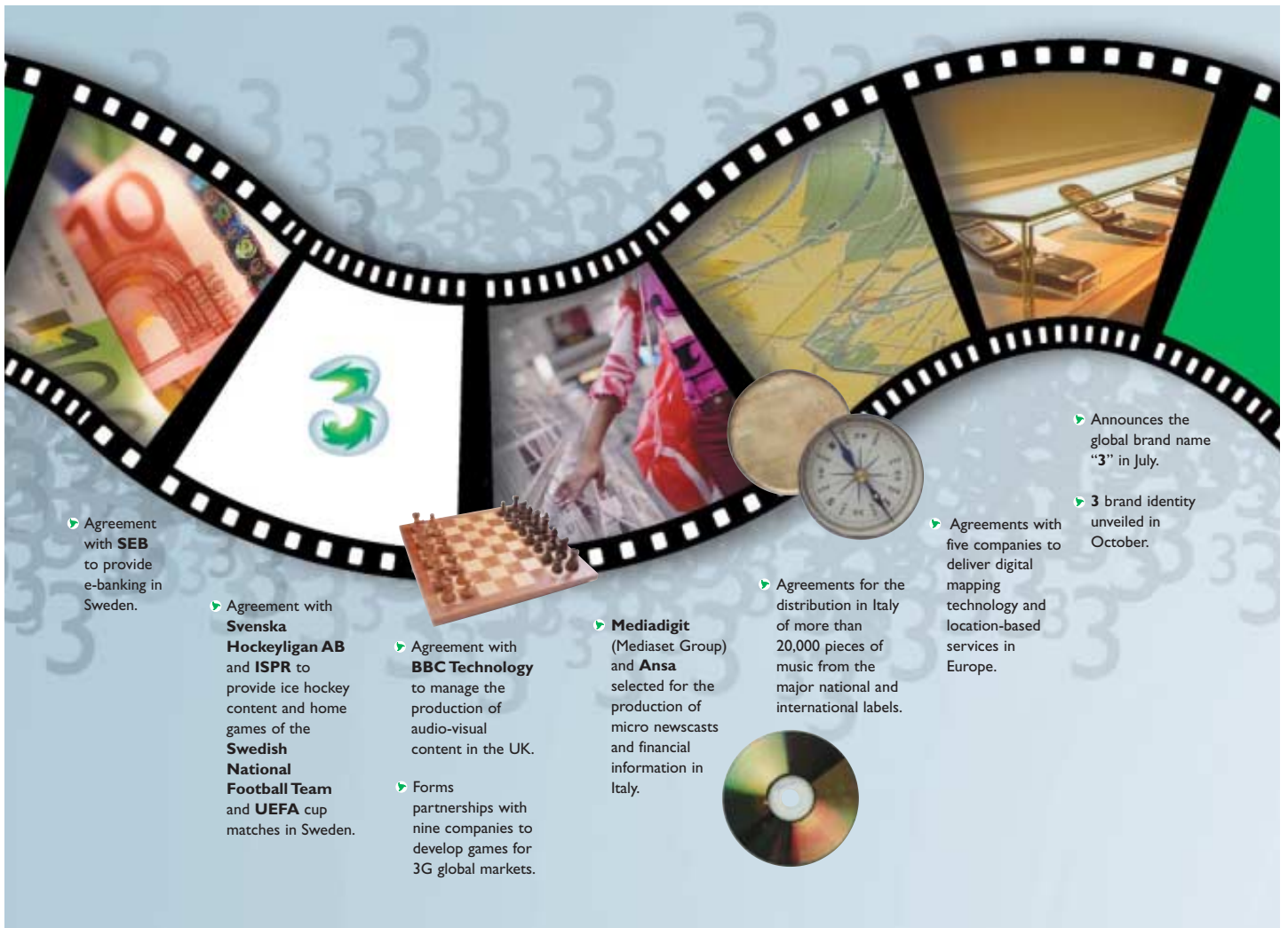
Not only does your handset double as a personal digital assistant (PDA) with a calendar and contacts function but

there’s also a plethora of information available in real time.

You can choose to view up to 30,000 news articles and 55,000 financial updates a week, receive TV, radio and cinema listings, plus access a “fastdial” cinema ticketing service. Comprehensive business listings will help you find what you need and show you how to get there with maps and directions based on your exact position. Sports fans can access news and video highlights of football action or play a selection of arcade-style and interactive games to suit every taste. Of course, you will also be able to make calls at highly competitive rates and enjoy roaming services in around 100 countries.

To ensure smooth delivery of the diverse selection of content, 3 itself has had a close involvement with the development and design of the inaugural handsets but this is expected to decline as the market matures.

“Many of the things we have done are



▶ Agreement with **SEB** to provide e-banking in Sweden.

▶ Agreement with **Svenska Hockeyligan AB** and **ISPR** to provide ice hockey content and home games of the **Swedish National Football Team** and **UEFA** cup matches in Sweden.

▶ Agreement with **BBC Technology** to manage the production of audio-visual content in the UK.

▶ Forms partnerships with nine companies to develop games for 3G global markets.

▶ **Mediadigit** (Mediaset Group) and **Ansa** selected for the production of micro newscasts and financial information in Italy.

▶ Agreements for the distribution in Italy of more than 20,000 pieces of music from the major national and international labels.

▶ Announces the global brand name "3" in July.

▶ 3 brand identity unveiled in October.

▶ Agreements with five companies to deliver digital mapping technology and location-based services in Europe.




world firsts," says Oisín O'Conner, Product Development Manager for 3. "The content we have put together and the way we have edited it specifically for our devices is leading edge stuff!"

Other applications will surely come – the scale of 3's content offerings will be bounded only by the scope of the human imagination.

As a consequence of the anticipated explosion of the new technology and content, the variety of handsets on offer is expected to increase quickly, with new models evolving to meet individual requirements. To help keep pace with developments, 3 has put options in place to enable subscribers to upgrade their handsets as new models come to market.

The prices for handsets and services have been individually tailored to suit the UK and Italian markets. Both have launched introductory "all inclusive" offers which include a "bundle" of services (see sidebars, p.18; 22).

Details of handsets and specifications currently available can be found at 3's websites at www.three.com.

Top 3

IN ITALY, THE LAUNCH OFFER INCLUDES two tariff formulas: **Top3 Executive** and **Top3 Privilege**. Both packages are all-inclusive and revolutionary in their simplicity and transparency.

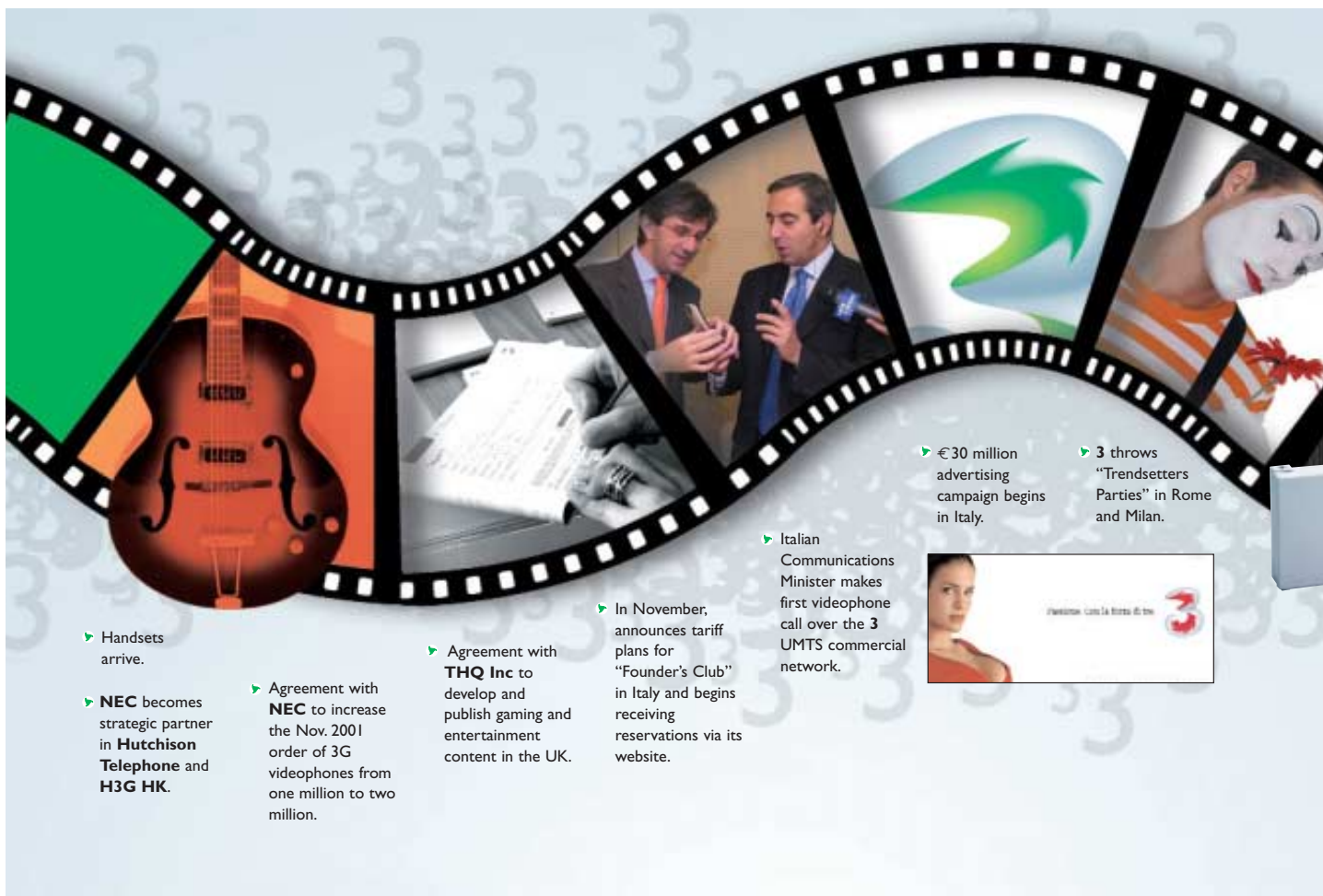
They differ in price depending on whether the customer chooses to lease or buy the handset.

Top3 Executive includes a monthly service fee of €85 once a handset has been purchased. For €140 per month, in addition to the "all-inclusive" formula, **Top3 Privilege** clients can rent the terminal with the option of substituting it once a year.

The bundles include a weekly allocation of: 600 minutes of voice calls; 600 minutes of video calls; 150 SMS and 50 MMS messages; 100 e-mails; and 100 content downloads.

The offer was available from November 2002 until March 2003.

Additional charges apply to international calls, usage while abroad, directory enquiries, and premium rate calls.



▶ Handsets arrive.

▶ NEC becomes strategic partner in Hutchison Telephone and H3G HK.

▶ Agreement with NEC to increase the Nov. 2001 order of 3G videophones from one million to two million.

▶ Agreement with THQ Inc to develop and publish gaming and entertainment content in the UK.

▶ In November, announces tariff plans for "Founder's Club" in Italy and begins receiving reservations via its website.

▶ Italian Communications Minister makes first videophone call over the 3 UMTS commercial network.

▶ €30 million advertising campaign begins in Italy.

▶ 3 throws "Trendsetters Parties" in Rome and Milan.



Aesthetically Teasing

WHEN THE 3 ADVERTISING CAMPAIGN kicked off in Italy in November, it disrupted the usual rules of advertising and made an immediate impact. Italians, who are used to being surrounded by beauty, were immediately drawn to the distinctive imagery. No products or services were actually featured – just strong images of people: a matador, a nun, a beautiful woman – and a particular attention to the 3 values, or emotions, associated with each colour.

Both the poster and video campaigns put the user at the centre, with the 3 services offering the opportunity for individuals to magnify their creative and communicative potential.

The underlying message was simple: 3 is not about the technology but about life itself – fantasy, emotion, drive, passion, simplicity and surprise.

"The first part of our strategy has been to present our brand and its values before anything else," says Vincenzo Novari, Joint CEO of 3 in Italy. "We are out of the ordinary both from a marketing and

advertising point of view." We then moved onto the second phase, which is inversely proportional to the initial one: at first, we decided to eliminate products and services and concentrate on the brand; now, the stories are told through the application of some of our services.

The company also selected 333 VIPs to be the first customers. They were invited to two parties in Rome and Milan and were the first to receive, test, and give their impressions of the videophones.

Additionally, dealers throughout Italy have been visiting the places frequented by high-spenders, who include technofans, trendsetters and professionals on the move (3's early target market), to engage them on the benefits of 3.

"It might seem that our approach is more 'top-class focused' than the one



Grinta. Con la forza di tre.



chosen by our UK colleagues," says Novari. "This is partly true, but we are dealing with two very different markets. We are brothers, but not twins."

Italy is the leading player among the densely populated countries on a continent where mobile communications are part of daily life for millions. (90% of the population uses mobile phones, compared to 51% in the US and 80% in the UK.)

"To us, this means that the 'pinnacle' is a very fertile place to launch the most



▶ In Sweden, 3 teams up with children's hospital to help fund and lay the groundwork for providing health care services through 3G technology.

▶ The first flagship store **Negozió 3** opens in Milan on Dec. 13.

▶ Visitors to the Auto and Motorbike International Exhibition of Bologna try the 3 videophones.

▶ Pre-registration for first 20,000 "Founders" customers begins in the UK via its website.

▶ **Carphone Warehouse and Phones 4U** become retail partners to sell 3 products and services across the UK.

▶ Launches first phase of marketing campaign to build consumer awareness of the 3 brand in UK via viral, online, and ambient marketing.

▶ The 3 logo is beamed onto Big Ben on New Year's Eve.

Home Truths

IN SWEDEN, 3 IS PROVING that, besides all the fun stuff like sports content and multimedia messaging, the 3 service will have an important role to play in areas such as health care.



In co-operation with the Astrid Lindgrens Children's Hospital in Stockholm, 3 has set up an initiative that will help the care of very sick children in their homes.

Starting in Spring 2003, mobile teams that treat the sick children will be equipped with mobile handsets from 3. They will mostly use videocalls which will make it possible for worried parents to communicate with the hospital and, via their 3 handsets, directly show the sick child so that a doctor can judge the child's condition.

Help from specialists at other hospitals will also be possible.

To further assist health care of children, the company donated 200 handsets and pre-paid subscriptions for 3 services. These were auctioned to the public – 100 via the Internet and another 100 at a live auction on March 3 involving business leaders and celebrities. The proceeds – approximately 1.5 million krona (US\$175,000) – will go to SABH (*Sjukhusbaserad Avancerad Barnsjukvård i Hemmet*) the department under the Astrid Lindgrens Children's Hospital responsible for advanced home-care for children. The extra cash will allow SABH to support a second mobile unit and significantly increase its home-care services to patients.


"We believe that this is the health care of the future," said Henrik Almkvist, head of Astrid Lindgrens Children's Hospital. "Treating sick children in their homes raises the quality and efficiency of the care. This is good for the sick children, their families and for the hospital."

important technological advancement since the birth of mobile telephony," Novari adds. "Also, Italians have a particular passion for anything that is related to video. They spend more time in front of the TV than any other Europeans. They also love fashion and enjoy being noticed.

Maybe that's why we already have so many people impatiently waiting for their new 3 videophones. By the middle of February, we already had over 140,000 reservations!"



2003

- ▶ TV advertising campaign begins in the UK in January.
 
- ▶ Retail agreement with **Dixon Stores Group** under which **The Link** and selected Dixons stores will sell **3** brand products and services.
- ▶ Global agreement with **Ericsson** to provide **Video Gateway System**, supporting video telephony between personal computers and 3G mobile videophones.
- ▶ **Li Ka-shing** presents Italian Prime Minister **Silvio Berlusconi** with the first Italian **H3G** SIM card on Jan. 15, the first ever 3G service number in Italy.
- ▶ **Reuters** announced as content partner supplying news and financial data to customers of **3**.
- ▶ By February, pre-registration for **3** services totals 140,000 in Italy while the number of stores, including third-party retailers and distributors, reaches 1,200.
- ▶ Italy starts delivering **3** handsets to VIPs.
- ▶ UK reveals tariff plans on Feb. 6.
- ▶ First UK **3Store** opens in Oxford Street, London.



A Fox Among the Pigeons

A “DOG AND BONE” MEANS “PHONE” IN COCKNEY rhyming slang. But the sight of three attractive models taking TV sets for “walkies” along London’s Oxford Street left many observers speechless.

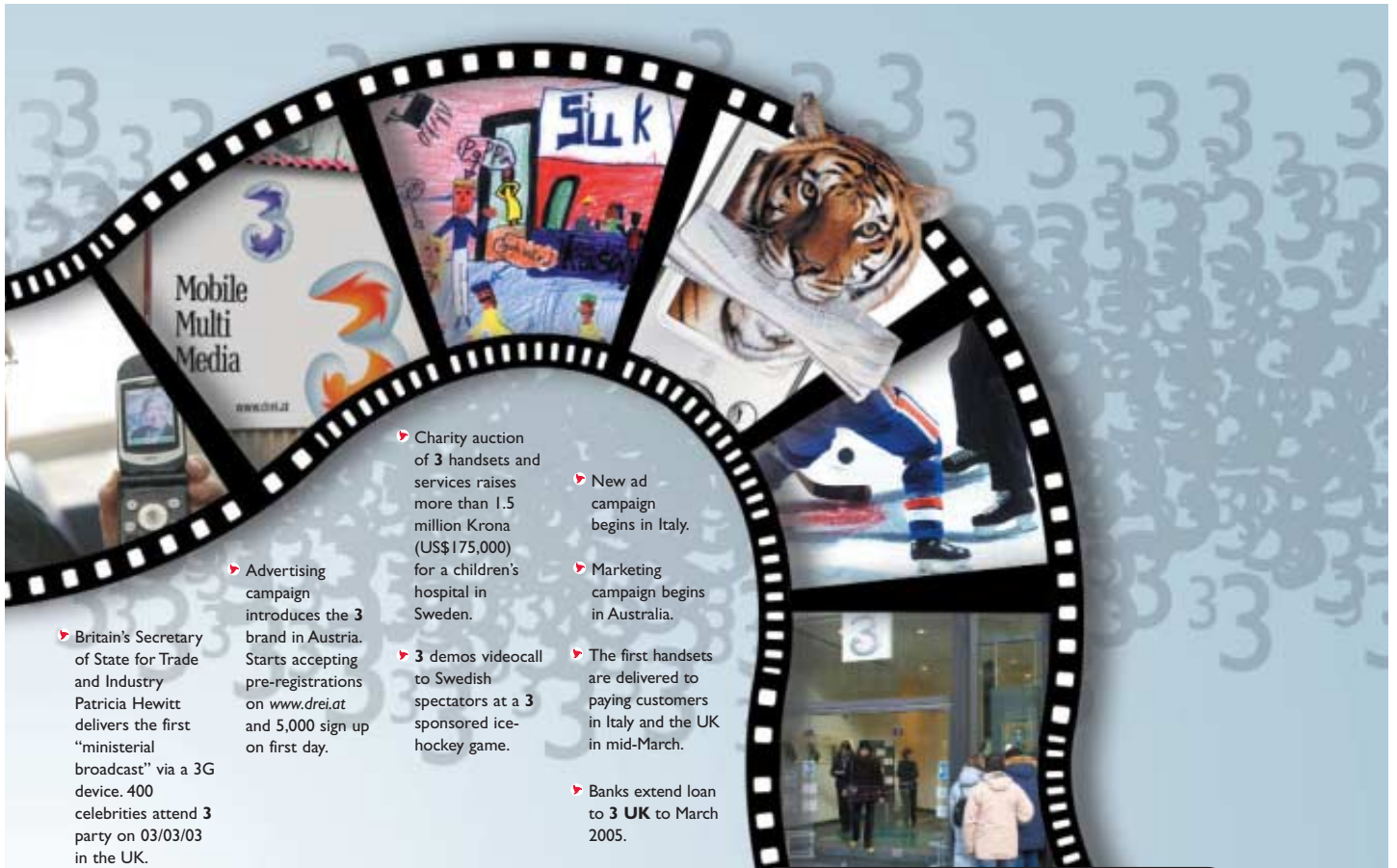
It was all part of 3’s eccentric, tongue-in-cheek promotional campaign.

“We’re taking a non-traditional approach to the market,” says 3 UK Strategy and Marketing Director Lisa Gernon. “So in the first phase we used online advertising, viral marketing techniques – such as short comedy video clips distributed by e-mail – and what’s called ‘ambient’ marketing activity. The latter included projecting the 3 branding onto buildings; hiring actors with tattoos of the 3 logo on their heads; show up at London nightclubs; putting small TVs running video loops in unlikely places – including the ‘dog-walkers’ towing small TVs on a lead up and down Oxford Street.

“At the start of this year we became much more visible, introducing full mass-market ‘above the line’ advertising with a high-profile – and well-received – TV and cinema campaign. But the overarching point of our approach is that 3 is different to the rest – hence the fresh and irreverent approach.”

“From our research we have a very clear idea of who we’re targeting and what they will respond to. Different segments of the market are attracted to different components of the 3G experience, so we have a number of teams developing differing propositions which we will be rolling out over the year. There





▶ Britain's Secretary of State for Trade and Industry Patricia Hewitt delivers the first "ministerial broadcast" via a 3G device. 400 celebrities attend 3 party on 03/03/03 in the UK.

▶ Advertising campaign introduces the 3 brand in Austria. Starts accepting pre-registrations on www.drei.at and 5,000 sign up on first day.

▶ Charity auction of 3 handsets and services raises more than 1.5 million Krona (US\$175,000) for a children's hospital in Sweden.

▶ 3 demos videocall to Swedish spectators at a 3 sponsored ice-hockey game.

▶ New ad campaign begins in Italy.

▶ Marketing campaign begins in Australia.

▶ The first handsets are delivered to paying customers in Italy and the UK in mid-March.

▶ Banks extend loan to 3 UK to March 2005.

are a lot of preconceptions about what type of customer will be interested in 3G – and most of those preconceptions are not based on any kind of research. Well, we've done the research. We've spoken to pretty much every kind of potential customer imaginable, and we have some detailed and robust strategies to reach the key groups in question."

The first TV ad appeared in mid January and depicted the age-old problem of fans trying to describe a great soccer sequence with the aid of ordinary objects that come to hand, such as salt and pepper pots or pieces on a chess board. The segment ends with a video clip of the actual goal shown on a 3 handset. The ad struck the right note and was judged "Pick of the Week" by the advertising industry 'bible' *Campaign Magazine*.

IN THE UK, THE "FOUNDERS" LAUNCH OFFER includes two cost-effective bundles named **Kit on 3** and **Kaboodle on 3** for customers looking to pay a fixed monthly cost.

A third price plan, named **3ToGo**, is for customers whose typical usage is lower and who are looking for more flexible options on a pay-as-you-use basis.

With the **3ToGo** plan, there are no line rental or monthly charges. Customers only pay for what they use at rates ranging from 5p a minute for calls to other 3 subscribers to 25p to £1 for video downloads.

The **Kit on 3** option carries a fixed monthly cost of £59.99 which includes a monthly allocation of 1,000 minutes of voice calls; 100 video call minutes; unlimited e-mail, 250 text messages; 50 video downloads; 60 picture messages and 30 video messages.

Kaboodle on 3 costs £99.99 per month for 12 months and includes a monthly allocation of 2,000 minutes of voice calls; 200 video call minutes; unlimited e-mail; 500 text messages; 100 video downloads, 120 picture messages; and 60 video messages.

Additional charges apply to international calls, usage while abroad, directory enquiries and premium rate calls.

In all cases, customers must first buy the handset and there are a number of attractive introductory discounts for early adopters.

scratch is an enormous undertaking – in some ways comparable to the complexity of space exploration. But the Group has already built and tested the “vehicle” and believes it has the vision, stamina and the financial heft to now make the journey.

“Yes, there have been difficulties,” says Colin Tucker, CEO of Hutchison 3G UK. “This is cutting-edge technology and we’re innovating every single day. The key point is that we overcome those difficulties, we focus on them like a laser beam, one by one, until they’re fixed. Like any good consumer-facing business we will use ongoing research to fine-tune our proposition on a rolling basis.”

Inevitably, the Group’s progress has been under intense scrutiny by partners, investors, competitors and the media.

The big question has been: “Why is Hutchison so bullish about 3G when others are not?”

Apart from the company’s financial security, it’s in large part a matter of experience and perspective. “You have two of the most successful consumer technology revolutions in the history of mankind brought together in one device,” commented Hutchison Chairman Li Ka-shing. “We are not sitting on our 3G licences. We are now going at full speed.”

Revered in Hong Kong for his business prescience, Mr Li has travelled several times to Italy and the UK for detailed reviews on 3’s progress. Group Managing Director Canning Fok is an even-more-frequent flyer.

“They know every detail of the operation,” commented one insider.

With a strategy that stretches at least 20 years into the future, the Group is well prepared to meet the considerable challenges – and seize the opportunities – inherent in such a huge undertaking.

The company has conducted extensive consumer studies globally (see sidebar, p.16) and has a clear picture of the potential marketplace. And while it is impossible to exactly predict the future, it’s nevertheless instructive to cast an eye on the recent past.

It was as recently as 1980 that IBM approached Microsoft to develop its personal computer project, unleashing its first PC in August the following year.

The World Wide Web was born in 1990 and in just its third year in existence was growing at a rate of more than 3000%.

Whereas in the late ’80s, a mobile handset was a bulky symbol of wealth and status, today’s much smaller version is an essential, everyday part of life, almost as common as fixed-line phones.

More than a billion people globally now use mobile phones, with around 400 million handsets sold in 2002 alone.

SMS was once derided as a peripheral feature with limited potential, yet 366 billion messages were sent in 2002. SMS currently generates an estimated £100 million a month in the UK alone.

These changes have all occurred in spite of the ups and downs of economic cycles. With a longer-term perspective, a bright future for 3G is highly feasible.

London-based consultancy Thinking Box believes that in five years 3G penetration will hit 50% in Europe and could be as high as 75% in some countries. That’s a lot of potential revenue.

The UMTS Forum also sees plenty of upside: “Acknowledging the substantial investments in network infrastructure and the high cost of licensing in some countries in Western Europe, the market opportunity for 3G is nevertheless massive.”

Mobile users would double to two billion in ten years with a substantial proportion using 3G technologies, the UMTS Forum predicted. “Thanks to the extended appeal of 3G’s increased speed, capacity and value-added capabilities, service revenues will grow even more spectacularly.”

STEP BY STEP

Hutchison has remained steadfastly upbeat about the business proposition of 3G, and has moved quickly to establish itself as a serious global contender.

It has acquired licences in nine countries, shopping more wisely than competitors and paying far less on average for spectrum. (The company’s attributable licence cost in the UK, for example, is more than 40% lower than that of the other four incumbents.)

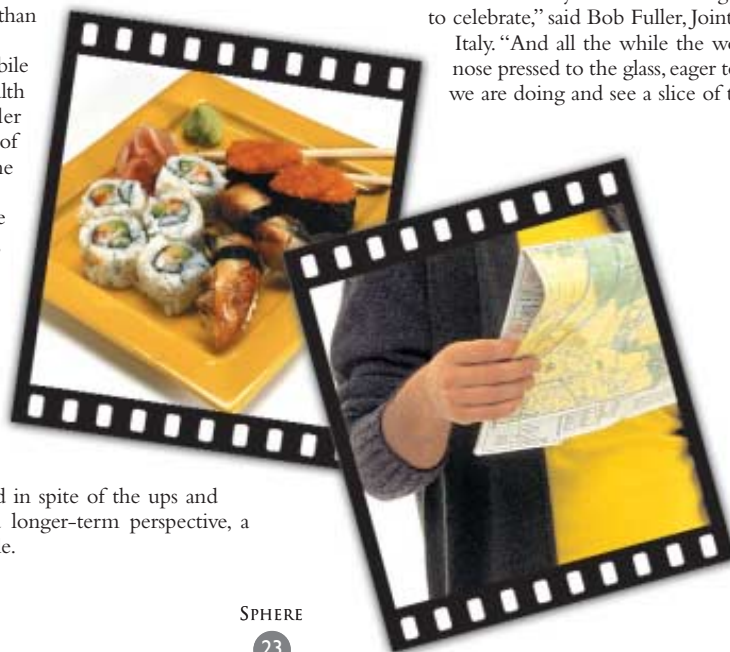
While investment costs have been substantial (approximately US\$17 billion in total), the Group is within its budget, deploying part of the proceeds from sales of 2G assets, forming strategic partnerships with global players like NEC and DoCoMo, and securing adequate bank financing (see sidebar, p.14) in an extremely difficult market.

The Group is far more focused than competitors, who plan to gradually migrate but are currently torn between collecting the 2G dollar and preparing for a 3G future. Unencumbered by the old technology, 3 has forged ahead to master the new.

“In Europe, we have the opportunity to be a ‘pure 3G player’ with no legacy network and therefore can employ cutting edge technology from day one,” says Novari.

Hutchison understands that it is very important to maintain first-mover advantage by doing all it can to deliver on customer expectation. In the long term, the Group is confident that 3 will prevail.

“There have been so many milestones along the way for us to celebrate,” said Bob Fuller, Joint CEO of H3G Italy. “And all the while the world has had its nose pressed to the glass, eager to find out what we are doing and see a slice of the action.”



By New Year 2003, the tide of media scepticism was beginning to turn: "3G is alive and well," *Mobile News* reported. "During a recent visit to the out-of-town offices of 3 we saw live person-to-person video, TV news broadcasts over a mobile link and Premiership goal replays. It was impressive. The handsets are more than watchable and at the same time are 'approachable' pieces of technology. Having seen the devices working ... we are less sceptical."

In February, Bruno Giussani a Zurich-based journalist and the author of *Roam: Making Sense of the Wireless Internet*, reported: "I travelled to Milan, bringing along a lot of scepticism fed by years of wireless hype. I spent an afternoon at Hutchison, spoke with many people, asked questions, made video-calls using their handsets. And got back to my hotel that evening thinking that if someone has a chance to make 3G work in the near future in Europe, it's 3."

Dow Jones also saw significant upside. After testing the system in Milan and London, the newswire service posed the question: "Will 3G sell?" The conclusion: "A resounding maybe."

To ensure 3G *does* sell, Hutchison is committed to delivering an experience that is simple, useful and enjoyable.

It's not the underlying scientific wizardry of 3G that impresses but the seemingly magical delivery of a vastly superior, more

flexible and more varied mobile multimedia experience.

"It is clear that 3 doesn't offer just another telephone," observed the Italian daily *La Stampa*. "It wants to present itself as an innovator that can be attractive also from a cultural point of view."

The proposition is reflected in the uncomplicated 3 branding. As an entirely new product, 3 aims to make life more colourful, more convenient and more fun in a world where usefulness and entertainment are not alternatives. The complex technology is simply what makes it all work.

By March, leading UK consumer magazine *Stuff* featured 3 in its cover story. "We've seen 3G and it is amazing," *Stuff* enthused. "This is the hottest new technology in ten years."

LET THE GAMES BEGIN

There are compelling reasons to believe Hutchison's business plan will confound the sceptics and succeed.

In terms of both infrastructure and content, 3 is already way ahead of the curve.

It has moved very quickly to secure prime licences, build networks, establish the IT enterprise architecture, collaborate with manufacturers to develop handsets, form partnerships with content providers, create the global brand 3 and prepare for

HARDWARE HAVENS

By Justin Quillinan

WHEN 3 OPENED ITS FIRST European flagship store in Milan on December 13, customers entered a world of cacti, trickling water and plasma screens.

Hostesses eased style-conscious Italians into luxurious chairs and put them literally "in the picture" with one-to-one introductions to the videophones that let them see and be seen.

Cities throughout Europe are littered with mobile shops, but when it comes to demonstrating the opportunities ahead nothing compares with the 3Store experience.

The environment is like no other – a tantalising juxtaposition of rock and timber against metal and microchips.

The new stores in Italy and the UK resemble ultra-chic, minimalist art galleries and are designed on the principles of *Feng Shui*, the ancient Chinese philosophy of harmonising and communicating with your environment.

On entering a 3Store there's excitement in the air because this isn't about buying a commodity, it's about buying into a lifestyle.

While the 3Stores radiate boutique-

chic, attention quickly shifts from admiring the decor to seeing what the technology can do.

It's crucial, of course, for prospective customers to understand what 3 can do for them. To this end, the company has acted swiftly to create a small army of experts. By the end of January more than 1,000 retail staff in the UK – both in 3Stores and third-party outlets – had received training to explain and demonstrate these powerful new handsets.

In Italy, more than 1,600 people had received training.

"There is a real sense of discovery for customers," said a staff member at the Milanese store, which is located just a block from the landmark Duomo Cathedral. "They are amazed and engaged and entertained ... I don't have to 'sell' anything, just show and teach. When they see what 3 can do, they want to be part of it."

The 3Stores are structured to create a route – an absorbing experience in which the three families of services – information, communication and entertainment – are emphasised as the customer proceeds.



launch in the UK and Italy.

Few players have similar such global strategies, and those that do have not been in a hurry to act. In effect, 3 will meet consumers' needs locally yet operate on an international scale. This global reach has already served the company well in terms of leveraging technological know-how and aggregating content.

Given that the prevailing sentiment towards 3G has been profoundly bearish over the past two years, investors could be in for a pleasant upside surprise.

La Stampa noted "an important and unexpected signal from the market" in November when shop owners and dealers chose to add 3 to their offer. "They have not only closed a deal with H3G, risking 'diplomatic incidents' with other operators, but they have also *paid* to sell 3's products," the newspaper said.

In the UK meanwhile, research from the VIPer consortium, which tracks Britain's "AB professionals" aged 25-54, found that ownership of WAP-enabled handsets had quadrupled in 18 months, "suggesting a future positive response to 3G." Carphone




Warehouse founder Charles Dunstone concurs: "We are on the cusp of a new handset buying frenzy, fuelled by 3G technology and camera phones," he said.

In future, Hutchison believes, previous technologies will seem quaintly rudimentary.

In the same way as consumers do not upgrade their five-year-old car by buying the same model, it is unlikely that mobile users will want to stay with their 2G phone when they can migrate to a more efficient, more useful and more entertaining 3G device instead.

3G is faster, cleverer, more diverse and more fun than 2G – and as competitively priced. In a couple of years' time, people will perhaps wonder what all the negative sentiment was about. "We will continue to refine and expand our offering for many months to come," says Tucker. "Our first goal is to prove our fundamental thesis – that 3G is a powerful new medium destined to change the way we all live our lives."

If consumers do warm to the new technology as Hutchison expects, then 3 will do nothing less than shape the future of an entire new industry. 



This "inclusive" approach sets 3 apart from the rest of the mobile retail industry.

Typically, a mobile phone shop is a cluttered affair with racks of dummy phones that no one can actually use.

But the 3Stores are roomy and serene and feature a small number of "portals" which customers are encouraged to try out for themselves with the help of expert assistants.

It's not a high-pressure sales approach, or an experience for "nerds" – it's a gentle introduction to a new video world. Even the briefest visit sparks the imagination and leaves you with plenty to think about – and act upon. Marc Allera, UK Director of Retail Sales, stresses the differences between "box shifting" and

initiating the general public into a whole new experience.

"You won't see handsets locked away in cabinets here. As soon as you walk in you can try the services for yourself."

He lists the most popular, so far, as videos of Premiership football goals, person-to-person videocalls, multimedia messaging (MMS) and text-to-speech e-mail.

"The environment in our stores is constantly changing, so it's organic, flexible and fluid. We can change the customer experience overnight so that we always remain fresh."

Mike Ord, Manager of the Oxford Street store, says: "I expect the public to be attracted to the stores because of the

way they look – modern and clean, cool on the outside but warm and welcoming on the inside. It's all about encouraging people to interact with us. We have so many 'wow' products. This is just the starting point for us and we're going to blow people's socks off when they understand what we can do."

With services ranging from stock market prices and news to football clips and interactive games, "there's something for everyone," he says.

Including the "Negozio 3" flagship stores, franchise outlets and multi brand outlets, some 1,200 stores in Italy now offer 3 products and services.

In the UK, three dedicated 3Stores – two in London and another in Birmingham – offer customers the 3 experience, and these are backed up by high-street retailers such as Phones 4U, Carphone Warehouse, The Link and selected Dixons stores where customers can purchase the hardware. There are also plans to open stores-within-stores at branches of Superdrug outlets, which are Hutchison-owned.

Customers can also browse or register at www.three.co.uk or www.tre.it