

Regulation and Corporate Governance

Dr. Jürg Rötheli

Head of Group Operations and Related Businesses

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Regulation

Current Status

- Legal framework Switzerland
- Legislation procedure Switzerland
- Sector specific regulation
- Relevant authorities

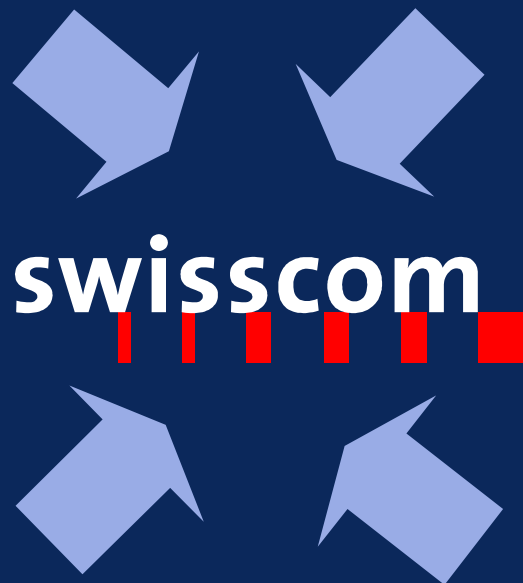
Manage Transition

The Future

Swisscom has to comply with a variety of laws and ordinances

General legislation for example:

- Environmental legislation
- Finance legislation
- Contract legislation
- Employment and social insurance legislation
- Intellectual property legislation
- Privacy and data protection



Specific legislation

- Telecommunications legislation
- Radio and TV legislation
- Competition legislation and price surveillance law

Process to change laws is lengthy and complex



The initiative for legislation can come from

- Popular initiative
- Cantonal initiative
- Administrative activity
- Parliamentary motion

First draft
↓
Consultation
↓
Administration
↓
Federal Council (Government)

First Chamber
↓
Second Chamber
↓
Conciliation
↓
Conciliation conference
↓
Final vote in both chambers

The new law adopted by parliament enters into force if

- there is no optional referendum within 100 days
- there is no public vote

The law enters into force and is published in the register of federal laws

Entire process from initiative to implemented law can take up to 5 years

Most (but not all) rules are in line with EU practice

Universal service provision

2003-2008 licence

- ✓ Access
- ✓ Voice
- ✓ Directories
- ✓ Payphones

Interconnection

Reference interconnection offer

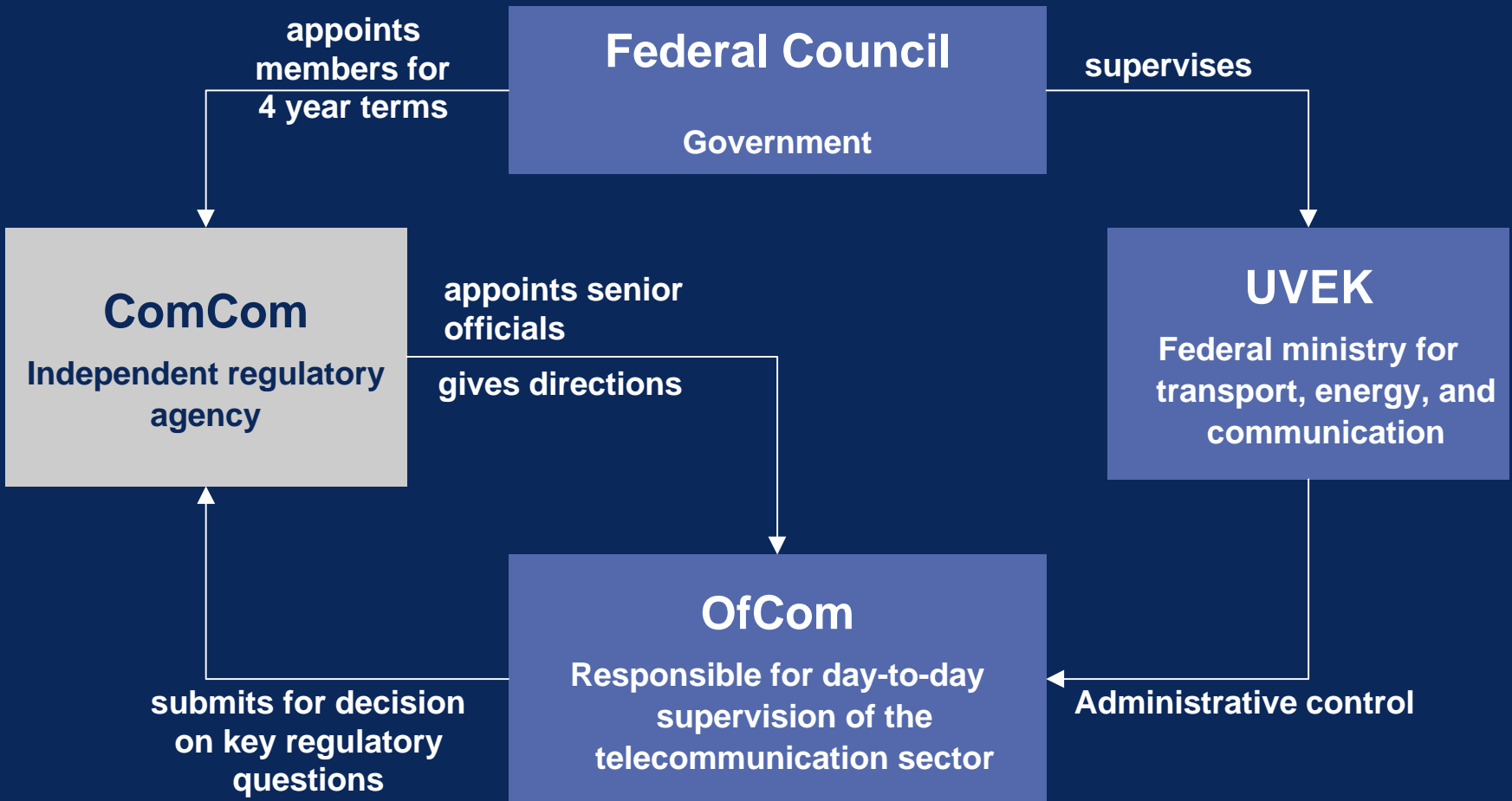
Non-discrimination

Cost orientation

Transparency

- ✓ Carrier selection
- ✓ Number portability
- × No ULL
- × Ex-post IC Regulation
- ✓ in line with EU practice
- × different from EU practice

Swisscom interacts with several authorities



Regulation

Current Status

Manage Transition

- Review of the telecommunication law currently undertaken: what is new and what is Swisscom's position
- Regulatory goals largely achieved without extensive access regulation
- Manage ongoing procedures/complaints

The Future

Access regulation to be extended

New:
Resale

New:
ULL

New:
Access to fixed
and mobile networks

New:
Leased lines

Current law:
Interconnection

New:
Access to software
systems

New:
Access to physical infrastructure

Main changes	Explanation	Swisscom's position
Consumer protection	<ul style="list-style-type: none"> - New anti-fraud regulations on 090x numbers - Establishment of an ombudsman - New regulations aimed at combating SPAM 	Supportive
Access	<ul style="list-style-type: none"> - requiring operators with SMP (significant market power) to grant cost-oriented access - Extension of interconnection legislation 	Against as: <ul style="list-style-type: none"> • competition works • competition law sufficient • reduces incentives to invest
Inter-operability	<ul style="list-style-type: none"> - Extension of the requirement for all operators to offer interconnection to all telecommunications services "that are publicly accessible and meet a broad public need" 	Against as: <ul style="list-style-type: none"> • constitutes obligation to contract • extends interoperability
Ex-ante	<ul style="list-style-type: none"> - Replacement of the ex-post regulation (regulation for the prevention of abuse and disputes) by an ex-ante regulation 	 Against: <ul style="list-style-type: none"> • proposal no longer on the table

The proposed access regulation will affect ...

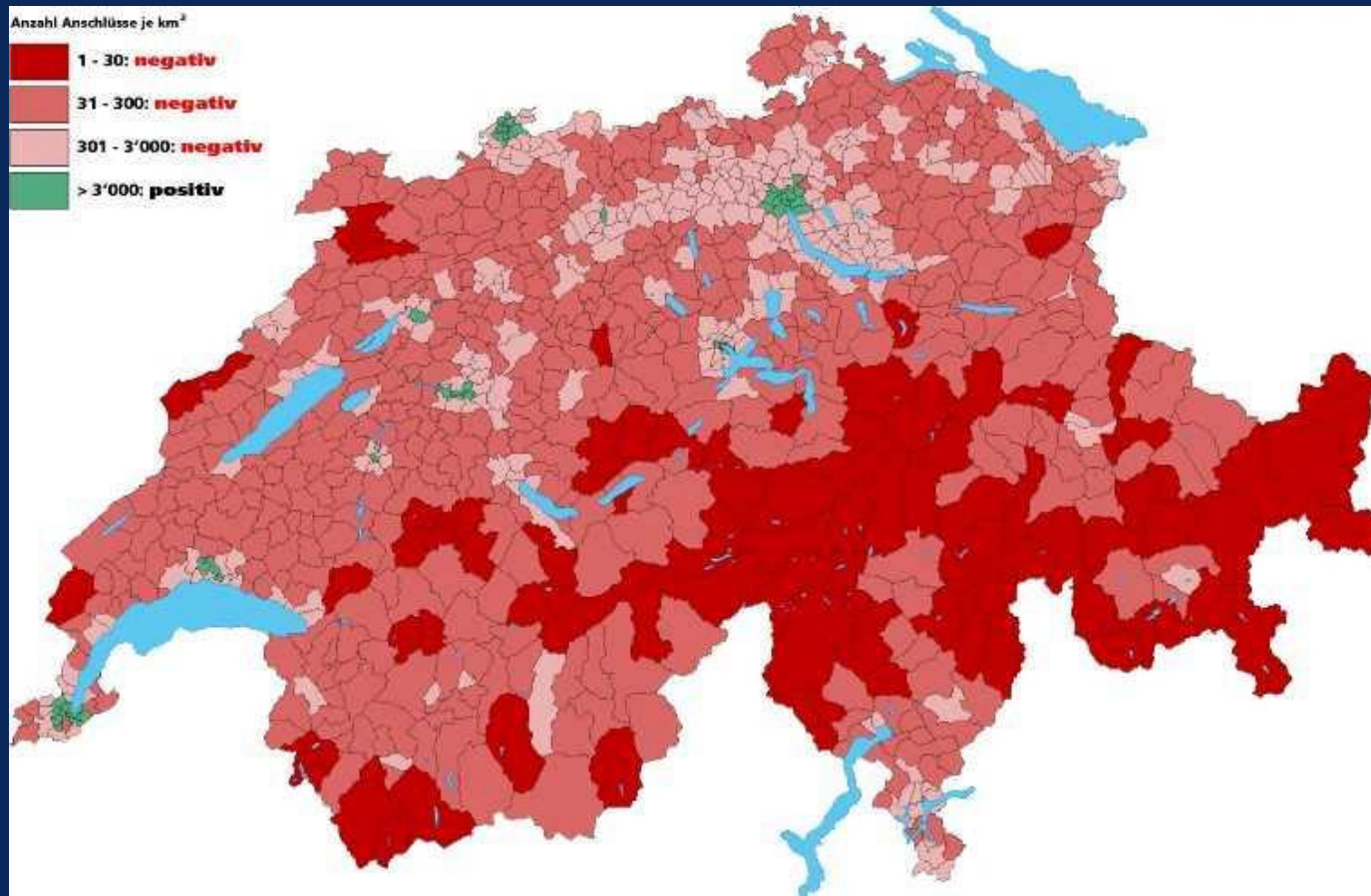
... infrastructure providers

- **Restricts the scope of action for infrastructure providers**
- **Reduces the incentive to invest**
- **Generates uncertainty among enterprises**

... the Swiss economy

- **Reduces the incentive to invest**
 - Delays the construction of broadband infrastructures
 - Has a negative impact on development in outlying regions
- **Does not offer customers any advantages**

... and ULL would adversely affect the development of outlying regions



Without new access regulation, but through competition ...

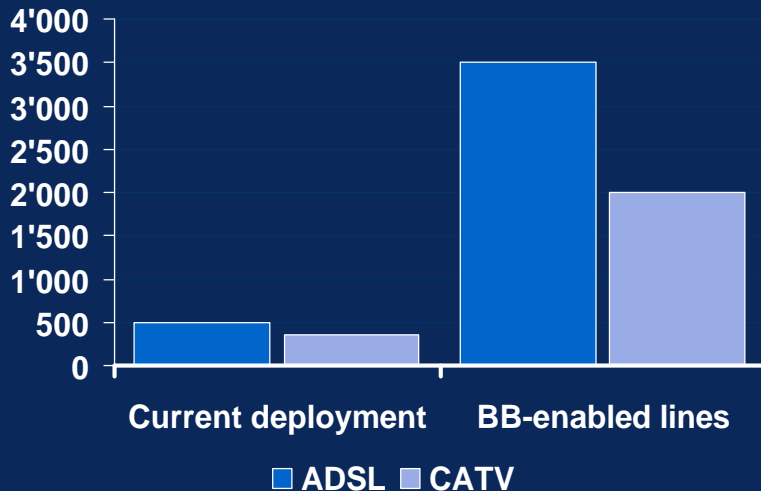
... a high proportion of households has access to BB

... at affordable prices

ADSL and CATV penetration

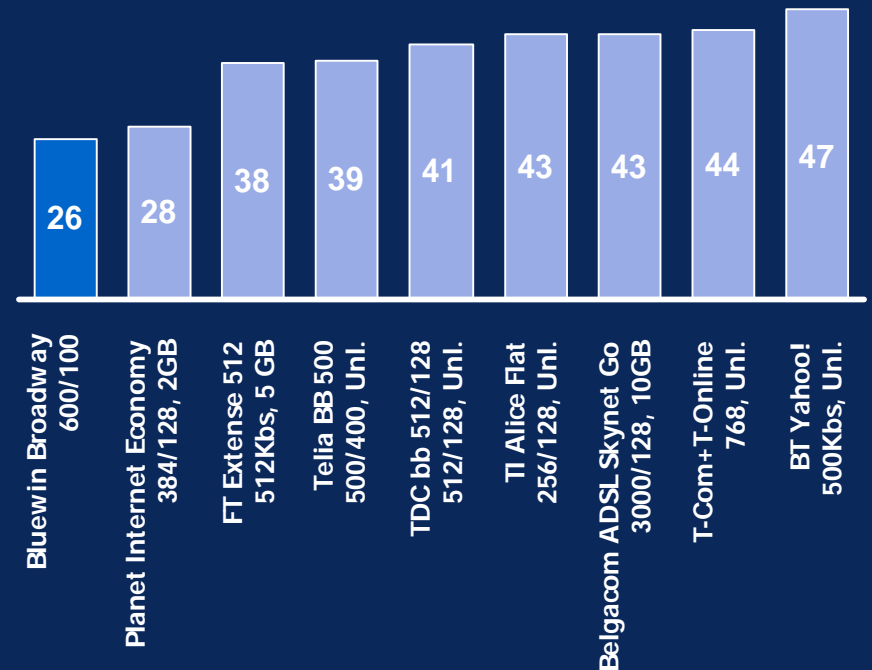
(households x 1,000)

Total number of households in CH: 3.1 m



PPP-adjusted prices for 600 kbit/s

(Euro per month)



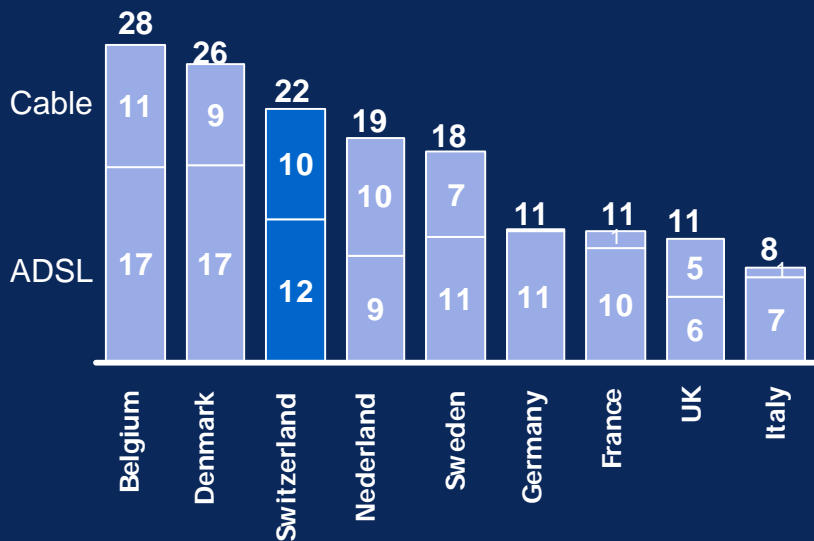
1) Introduced February 2004

Source: Incumbent's Web Sites, 17.02.2004; OECD PPP, Feb 2004

And through infrastructure competition ...

... penetration is already high

BB penetration Q3 2003 (% HH)



... and growing fast

ADSL penetration increase Q2 to Q3
(in pp of HH penetration)



Source:
Point Topic, World Broadband Statistics, Q3 2003, 2 January 2004

Various legal proceedings reflect significant regulatory pressure under the existing telco-law

For example:

- Interconnection requests for access (ULL) and leased lines
Various forms of unbundling are at stake
- LRIC proceedings on interconnection pricing
Current dispute focuses on procedural matters
- Investigation on fix to mobile termination
Parallel behaviour or misuse by mobile network operators?
- Investigation on product bundle „Talk & Surf“
Competition commission suspects unlawful behaviour based on refusal of access reselling

Regulation

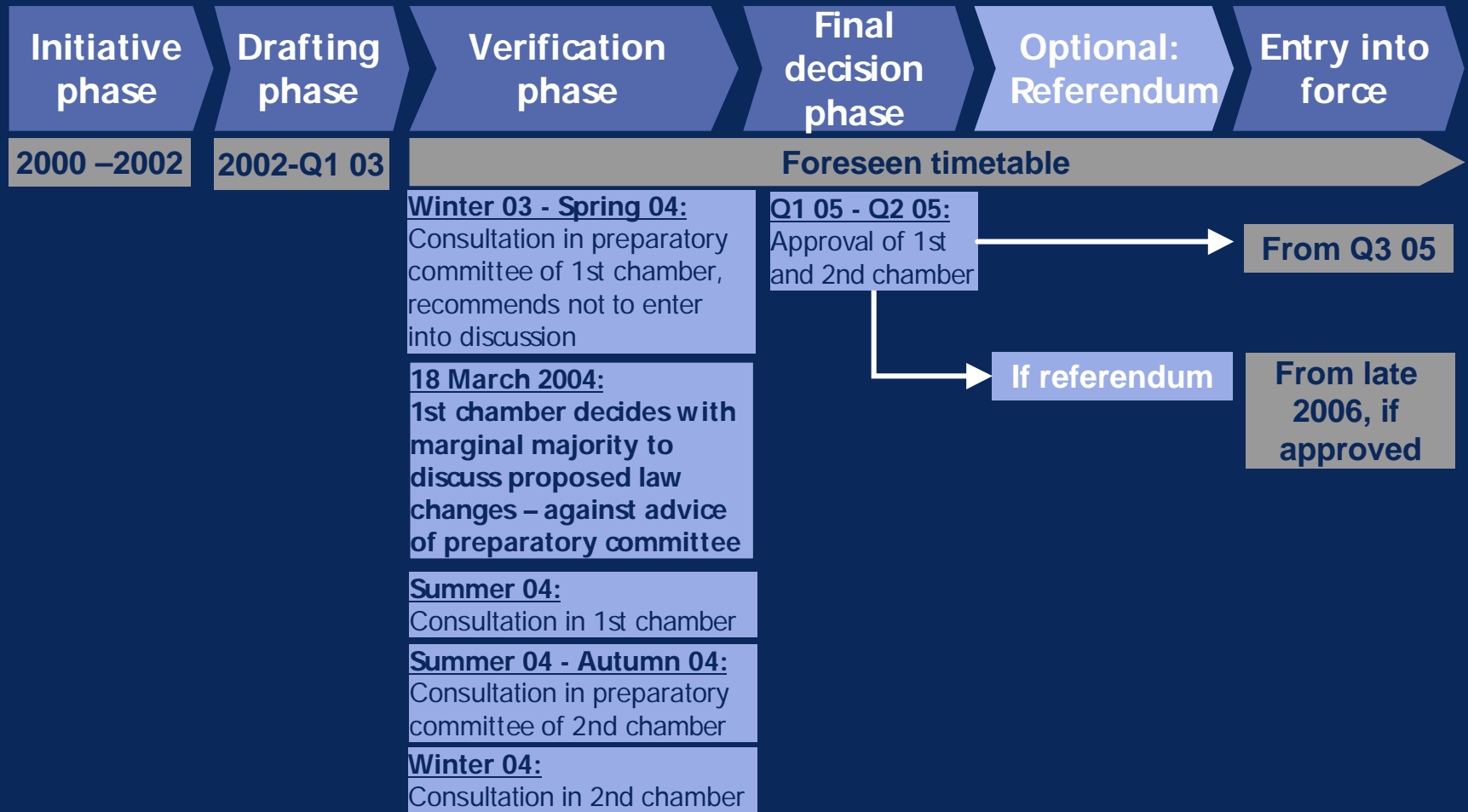
Current Status

Manage Transition

The Future

- New time frame for telecommunications law amendment
- Summary

Outcome and timing remain uncertain



Swisscom is lobbying throughout entire timeframe

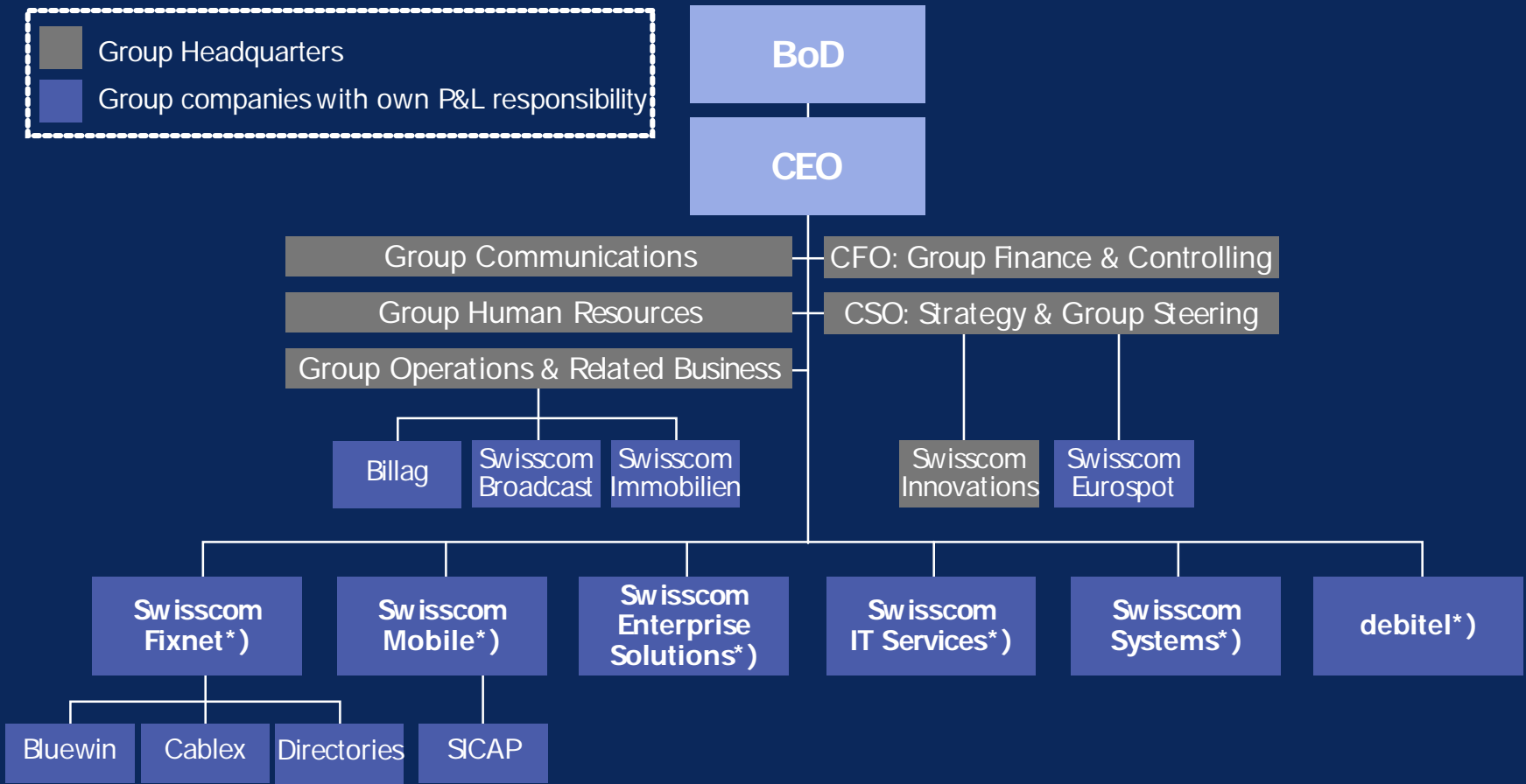
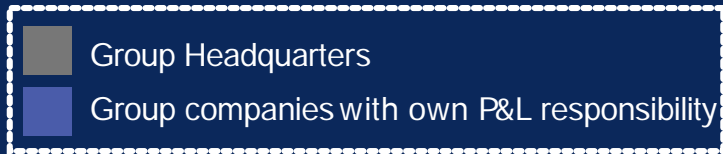
The key takeaways

- Legislation procedures Switzerland are complex and lengthy
- Broadband penetration, growth, services and prices are already among the best – without new access regulation
- Swisscom takes influence through lobbying, and through legal proceedings where appropriate

Corporate Governance

- Organisation
- Guiding principles
- Role of non-executive management
- Risk management

The Swisscom Group structure: Group-wide thinking, company-specific actions



*) Each of the large group companies has a separate BoD in which the Group's CEO, CFO and CSO take part

Corporate governance in practise

Governance through ...

- adherence to all relevant laws and codes (of best practice)
- internal set of directives and policies that are applied by all group companies
- internal code of ethics

Good corporate citizenship through ...

- “Swisscommons”: a framework of how we deal with others and among ourselves
- corporate social responsibility program
- extensive program for redundant workforce
- societal closeness through sponsoring (e.g. “Schools on the internet”)

Board of Directors

Independent Board with clear principles

- Principle: “ nose in, hands out ”: at least 10 full-day meetings p.a.
- Chairman spends half of his time on the company
- 9 independent members, 3 of which foreign, appointed for 2 years with maximum of 4 terms in office (i.e. max. of 8 years)
- Balanced mix of competences
- Split in 4 committees: finance, audit, personal & organisation, compensation & nomination (latter on ad-hoc basis)
- Assisted by internal audit and risk management department



“Swisscom scored well above the industry average with a clear outperformance in corporate governance”

An essential tool to protect value

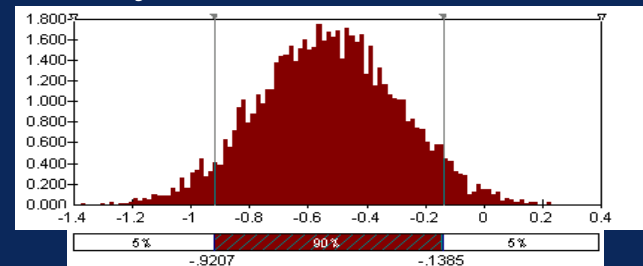
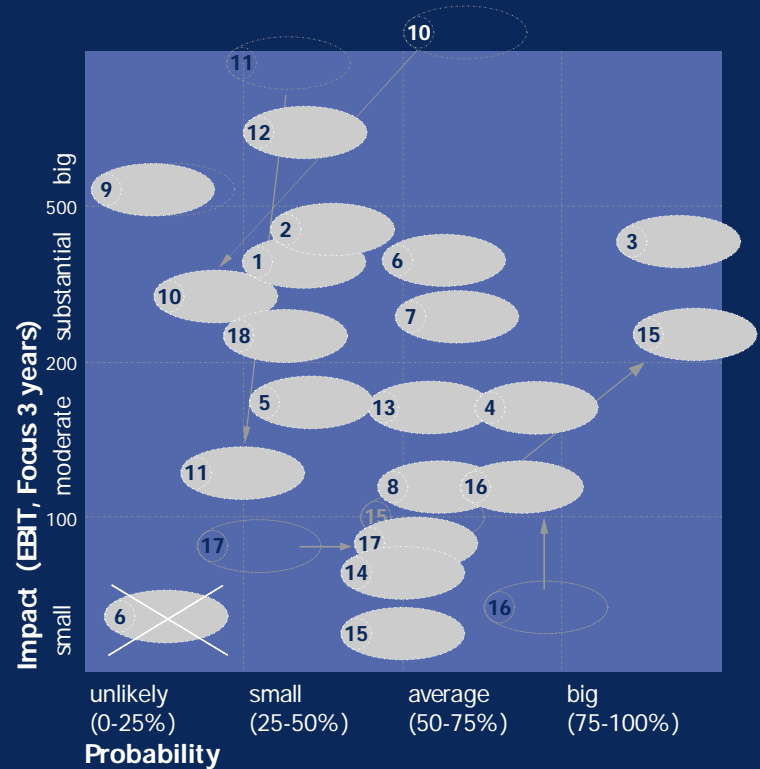
... starts with identification and monitoring of key risks:

- potential EBIT impact
- probability
- development/dynamics

... based on appropriate risk assessment and cause analysis:

- appoint risk owners
- set up action plan
- embed in organisation and processes

Top Risks	
Governance	1
	2
	3
	4
	5
	6
Core business ch	7
	8
	9
	10
	11
	12
	13
	14
related bus.	15
	16
	17
	18
	19



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