

Domestic Wireless Business

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The dilemma of the telecommunication industry

- 80% of the **revenue creation** is still driven by narrowband services
- But the **market differentiation** is more and more driven by broadband services in the upper end of the market
- Therefore narrowband services become a commodity and **cannibalisation** will happen: at the end of the day everything will be an IT application



- Find the right balance between **defending** today's value creation and being proactive on the **transformation** of technology and value chain:
Ready for the **Future**:

Defending the Core

Managing Transition

Ready for the Future

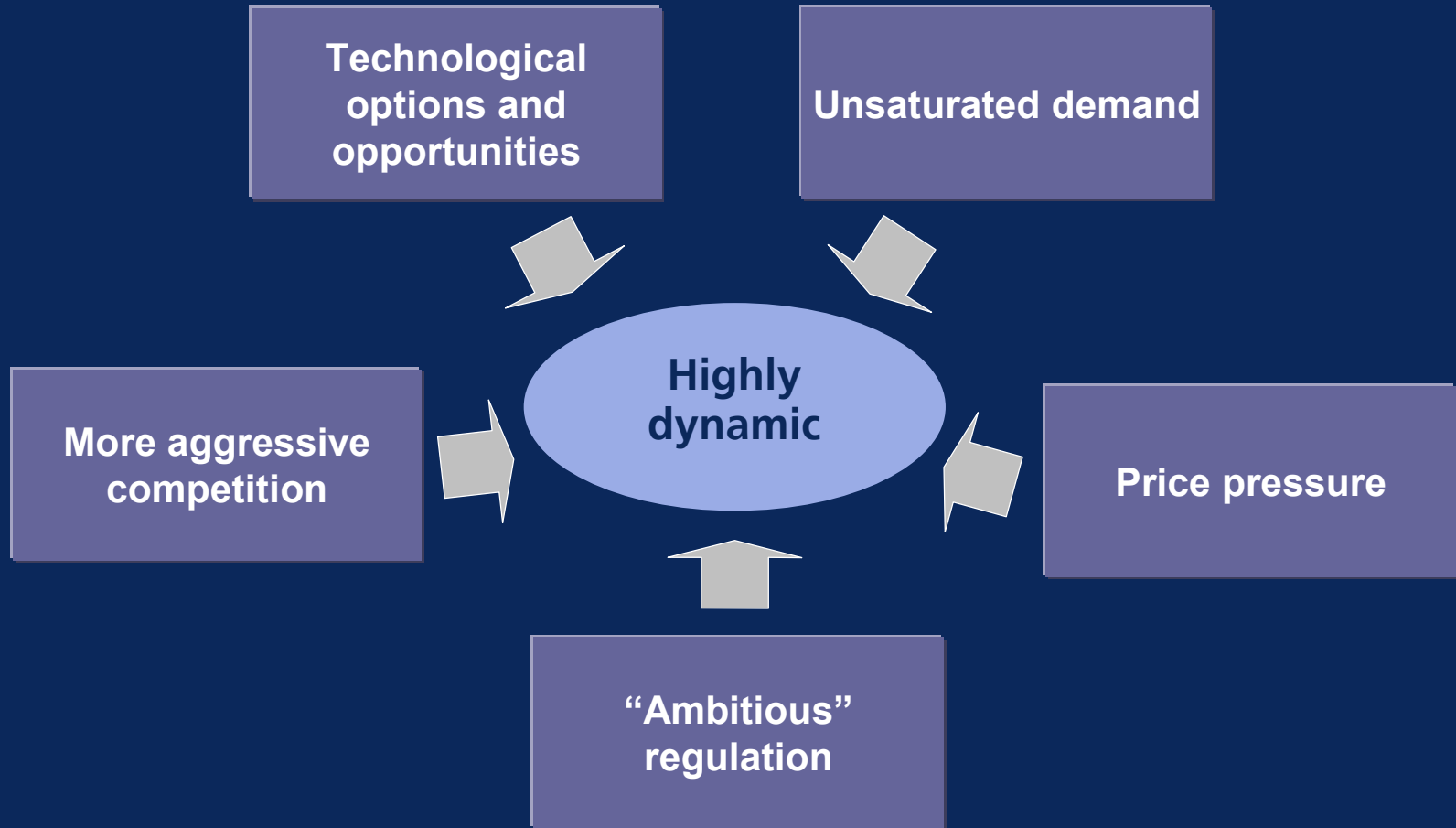
Defending the Core

- Current operations
- Customer perception

Managing Transition

Ready for the future

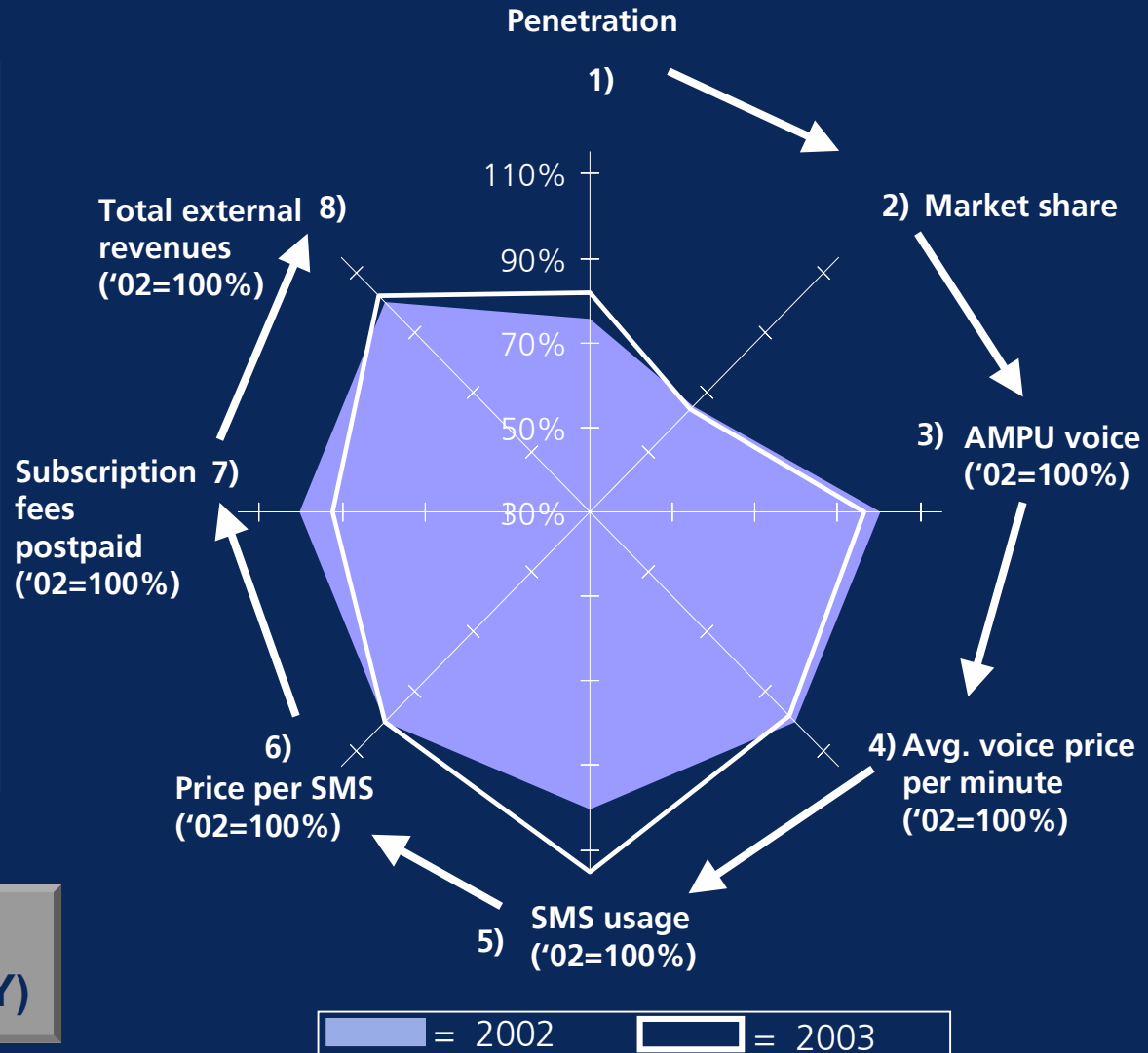
Dynamic market environment



Dynamic market, stable results 2003^{*)}

- 1) Swiss penetration up to 82% from 76% year earlier
- 2) Market share at 64%
- 3) AMPU voice down from 124 to 119 minutes
- 4) Avg. price per minute voice almost flat YOY
- 5) SMS traffic up 15% YOY
- 6) Avg. price per SMS flat
- 7) Avg. subscription fee (postpaid) slightly down YOY due to right-grading

Total external revenues:
CHF 3,434 mm (+1.8% YOY)



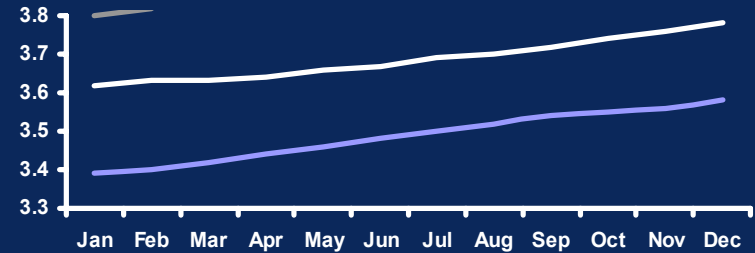
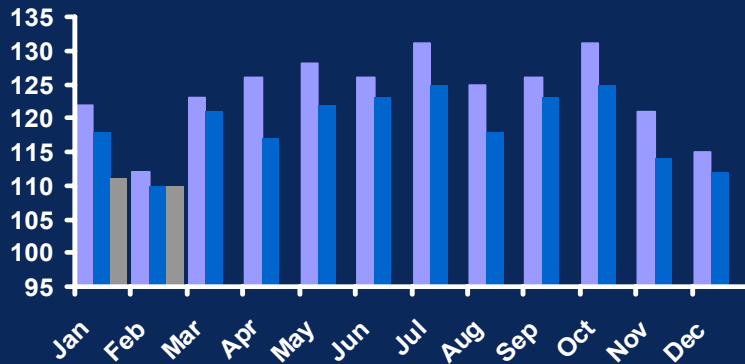
^{*)} data partially based on market research and estimates

Voice revenues stable - underlying KPI's dynamic

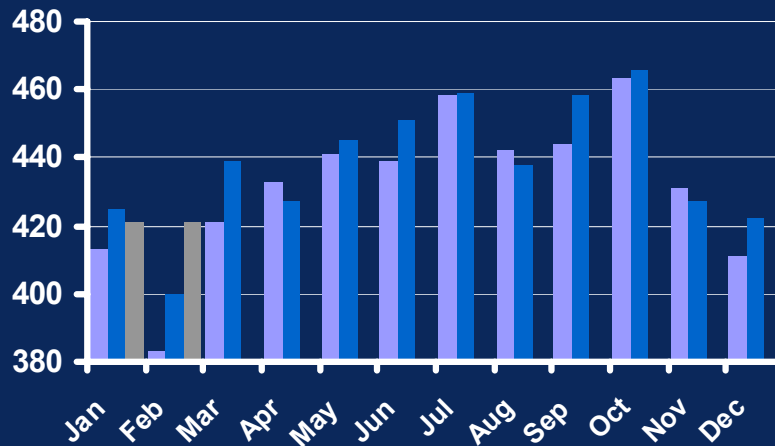
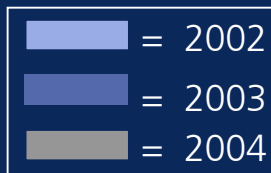
Voice AMPU in minutes per subscriber

X

Voice subscribers in millions



= Voice Traffic mio minutes

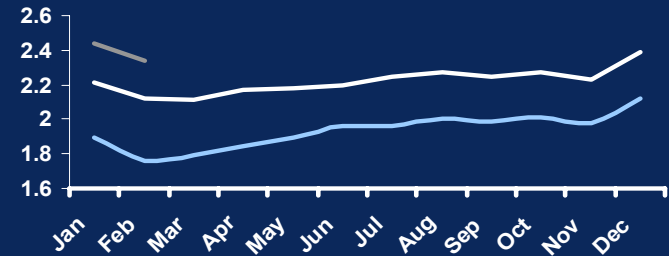
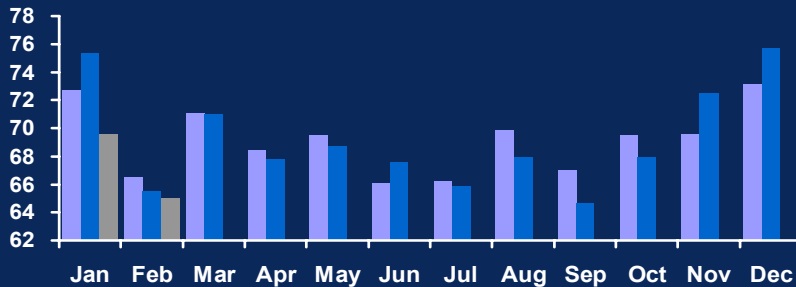


SMS up on all metrics

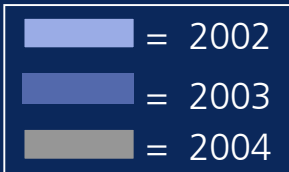
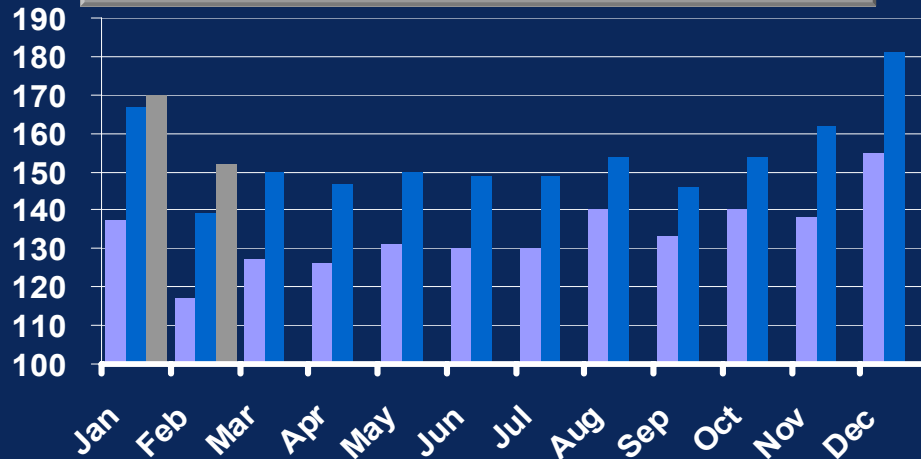
SMS traffic per active user

X

SMS active users in millions



= SMS Traffic in millions of messages

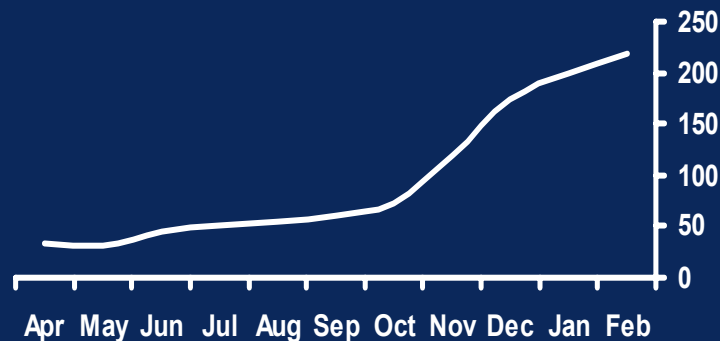
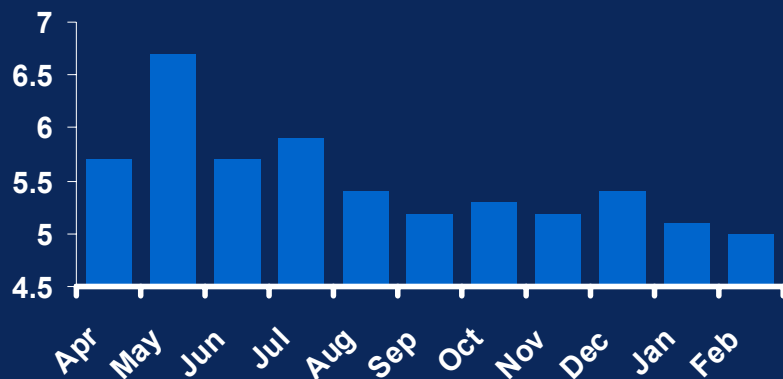


MMS growth just kicking in now

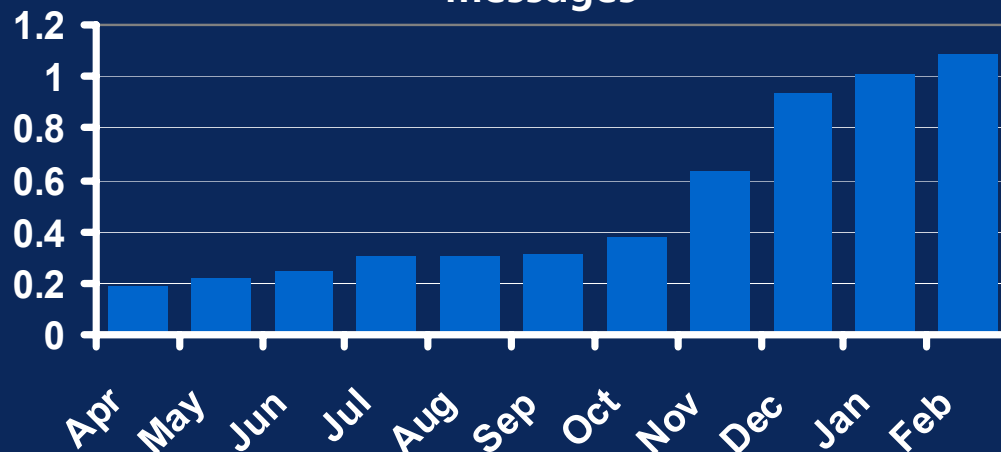
MMS traffic per active user

X

MMS active users in thousands



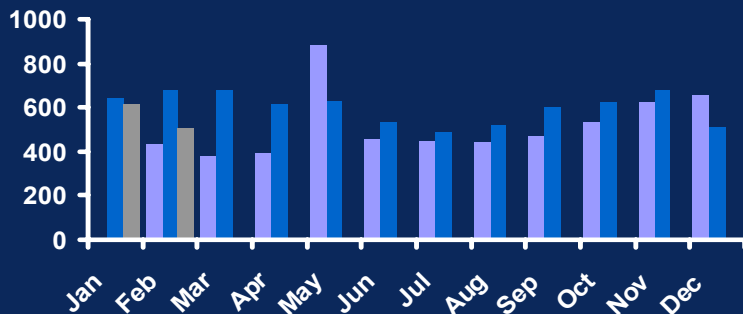
= MMS Traffic in millions of messages



Apr 03–Feb 04

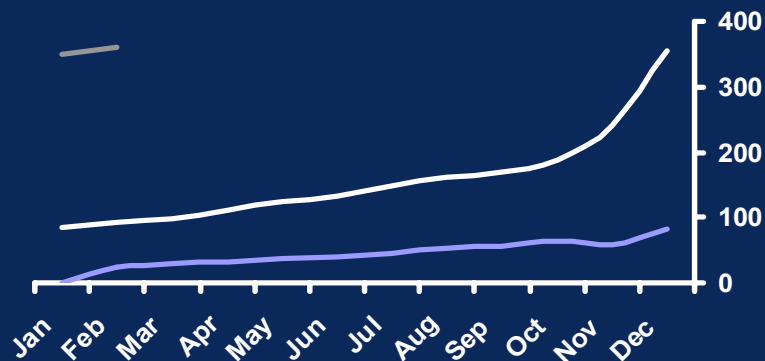
GPRS usage accelerating

GPRS traffic per active user

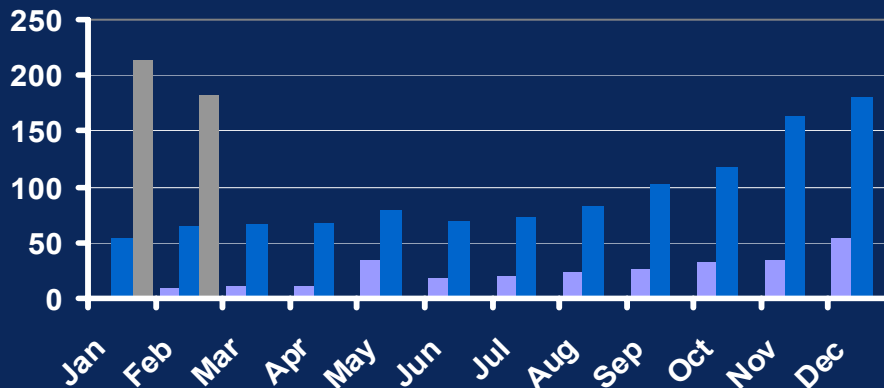
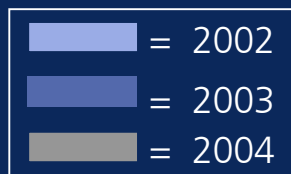


X

GPRS active users in thousands

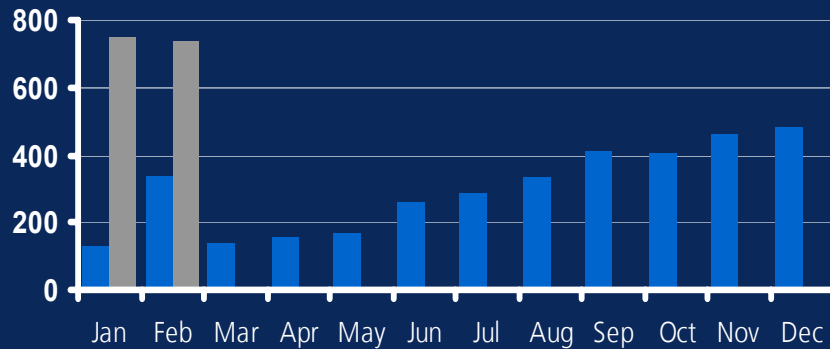
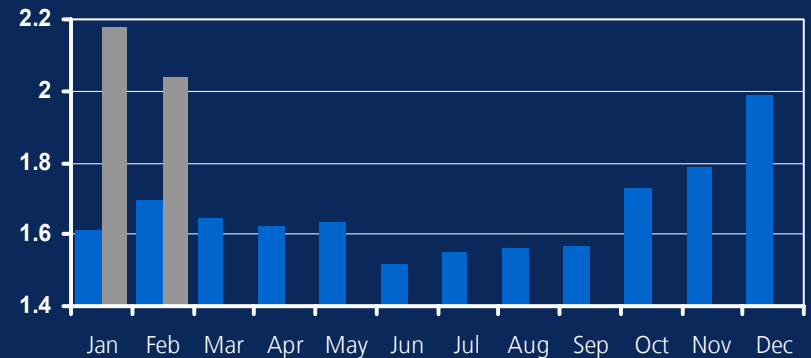


= GPRS Traffic in GB



- Total traffic GPRS including not billable usage from SCM staff and usage generated by technical equipment for quality measurement
- Contains also free traffic from Vodafone live! promotion

Other non-voice items still in infancy – but growing

WLAN traffic^{*)} in minutes x 1,000**Content^{**)} revenues in million CHF**

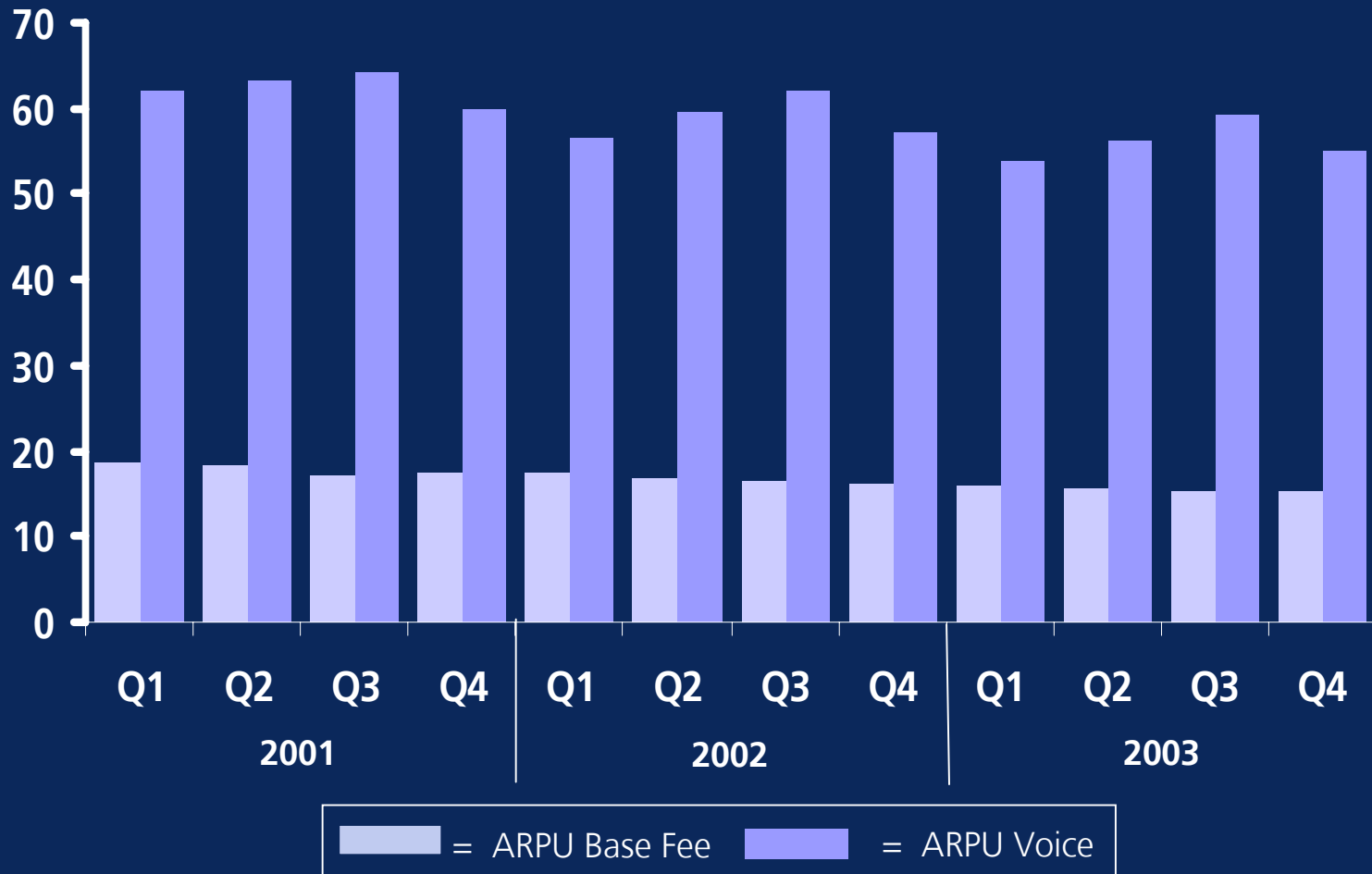
■ = 2003 ■ = 2004

^{*)} Including not billable usage from Swisscom staff

^{**)} Swisscom Mobile Portal Revenue only (including Vodafone Live)

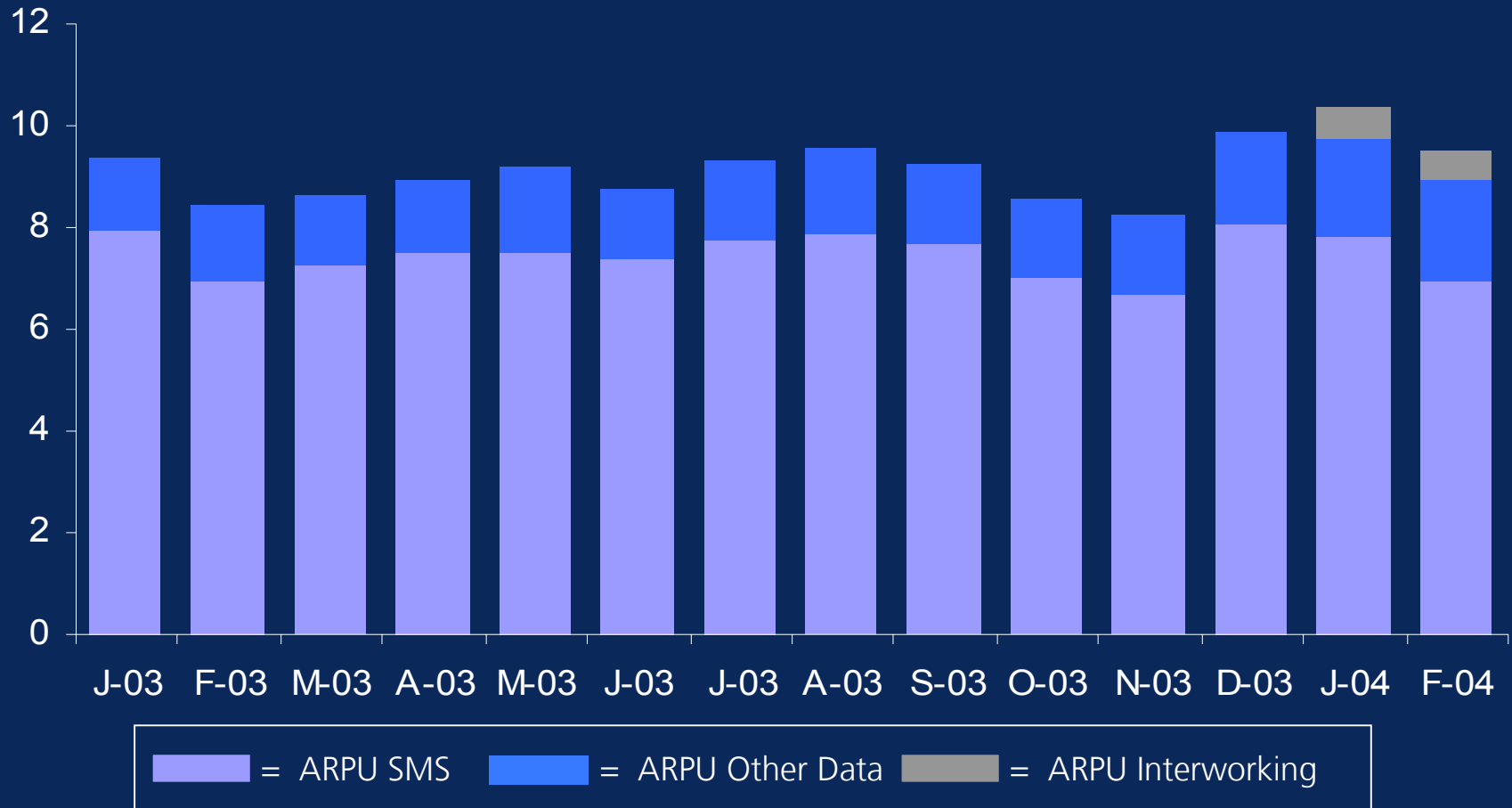
Resulting ARPU development - Base Fee / Voice

ARPU Base Fee and Voice Development in CHF per month



Resulting ARPU development - non-voice

ARPU Non-Voice Development in CHF per month



Defending the core

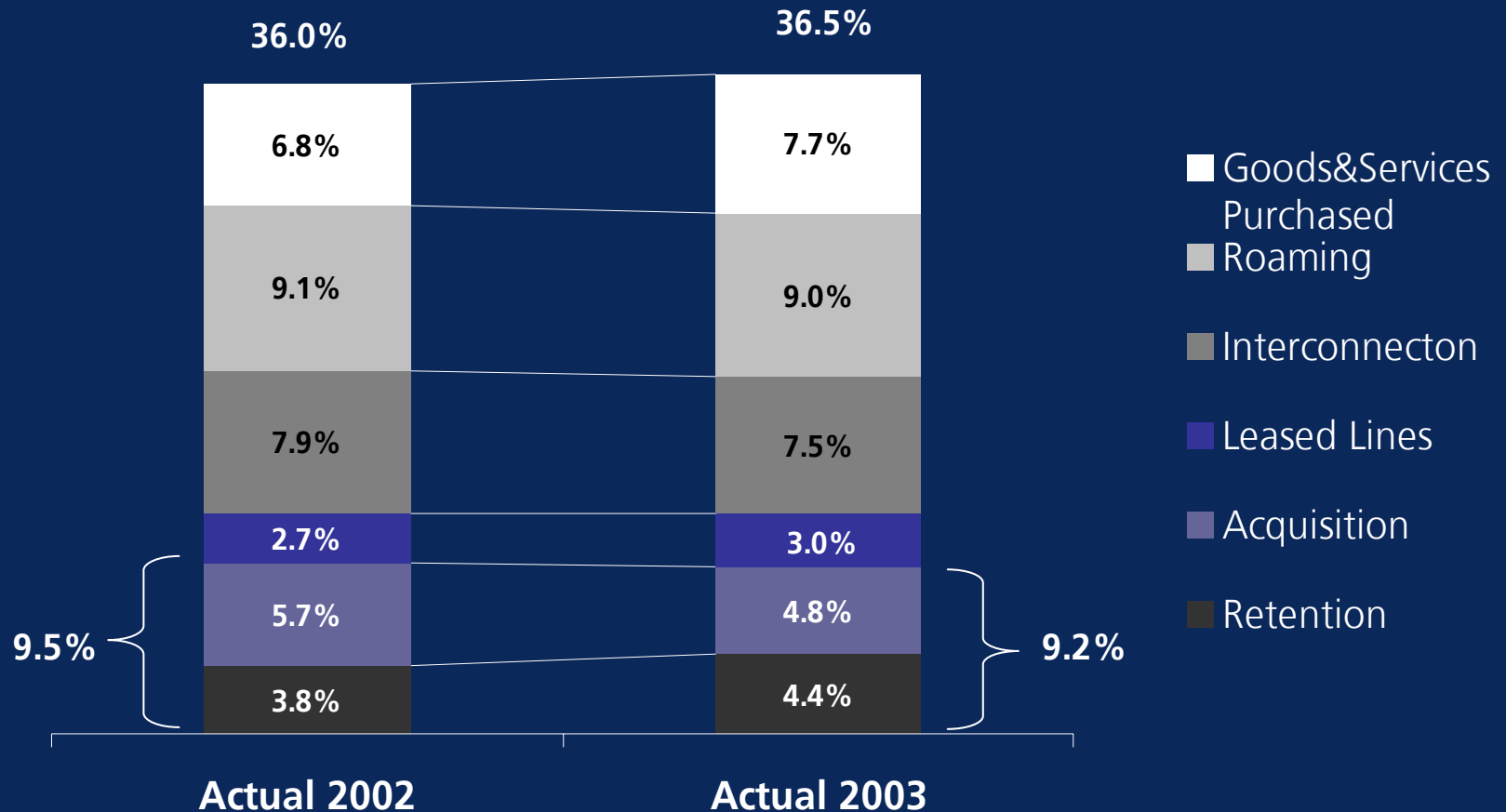
Managing Transition

- Managing costs and CAPEX
- Exploiting the Vodafone partnership
- Managing regulatory pressure

Ready for the Future

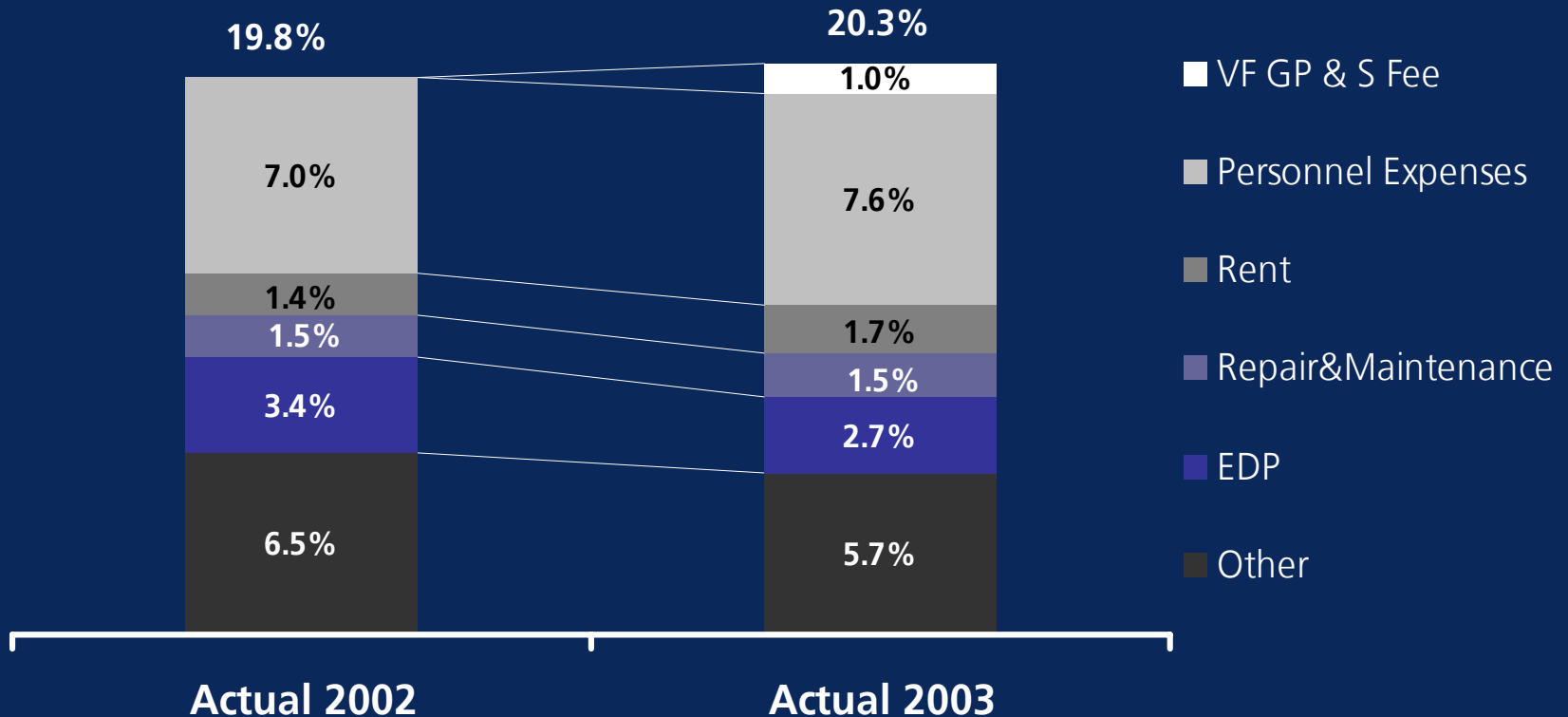
„Costs Of Goods Sold“ shifting

COGS as % of service revenues



Non-COGS reductions and Vodafone GP&S Fee

Non-COGS as % of service revenues



CAPEX in line with future network development

Trends and Drivers

- GSM from coverage to capacity
- Increasing Bandwidth requirements for Data Services and Access
- Coverage investments into WLAN and UMTS
- Equipment costs still coming down, Vodafone partnership helps

Focused investment policy

New Business / New Capacity

“Strategic Growth”

UMTS
EDGE

“Continued Operations”

PWLAN

Secure Old Business / Maintain existing Installations

“Phase-Out”

N.a.

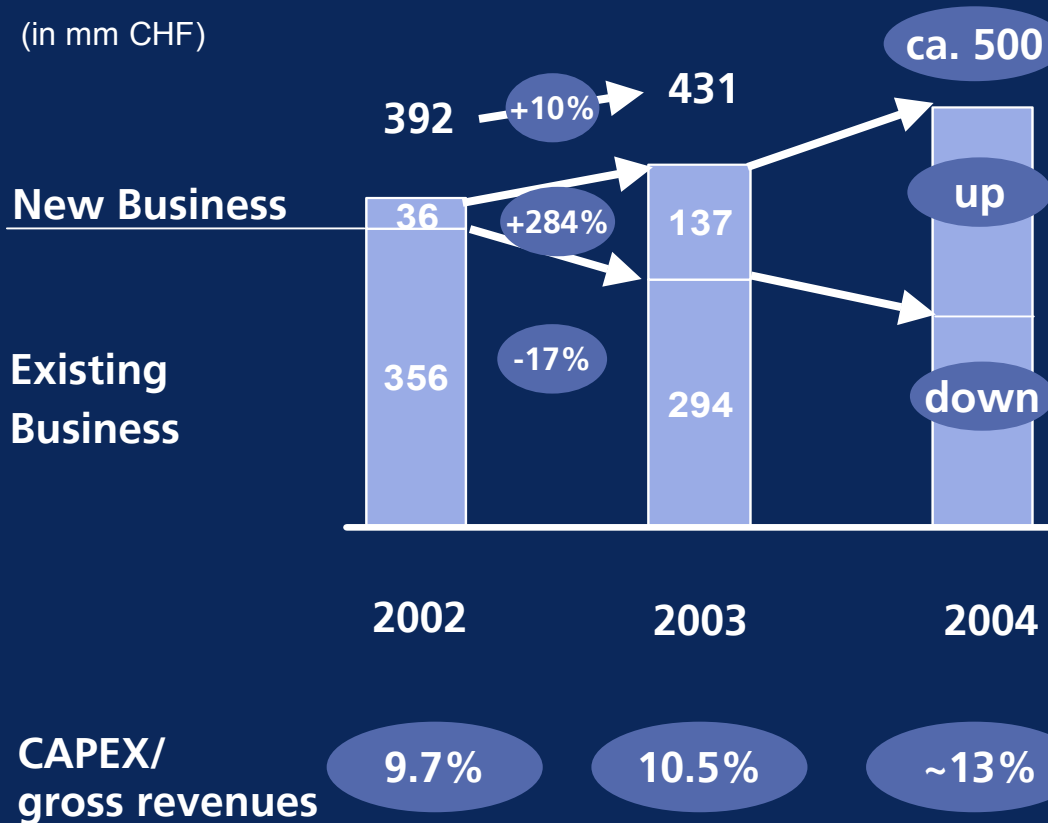
“Extending Lifetime”

GSM/GPRS

Shifting focus towards (near) future technologies

CAPEX

(in mm CHF)



- Special focus on UMTS coverage. Target per ye 2004: 70% of population*
- Implementation of EDGE as a complementary technology to UMTS for high coverage of area, intrain and deep indoor
- Roll out P-WLAN: target 800 hotspots in Switzerland per year 2004, the most relevant locations are covered by Swisscom Mobile
- GSM/GPRS capacity still substantial chunk of investment sum in 2003

* Coverage according BAKOM definition

Good progress in “value-exchange”

Partnership

- Vodafone became 25% shareholder in Swisscom Mobile in 2000
- Swisscom Mobile has access to all Vodafone Group programs

Clear advantages from partnership

Quantitative

Access to global purchasing agreements

- cost savings on equipment (~CHF 70mm p.a.)
- faster/earlier delivery

Products

- Vodafone Live!
- Eurocall, assisted roaming
- Virtual Home environment

Qualitative

Management

- VOD board representation
- management exchange, specialist training/develop.

Cooperation

- benchmark access
- participation in all work-groups in technology and products

Regulatory framework

- Regulatory dilemma on Mobile Termination
- No legal basis for forced network opening in current GSM license (expiry May 2008)
- Tele 2 and In&Phone as new provider in Switzerland

Defending the core

Managing Transition

Ready for the Future

- Technology as a fundament
- Bandwidth and Coverage
- Capacity
- Handsets
- Getting the value proposition right:
 - residential segment
 - business segment

Voice and Data Access Technologies

| Technology | Application | Dynamic / Issues |
|------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| GSM | <ul style="list-style-type: none"> ▪ Messaging | <ul style="list-style-type: none"> ▪ SMS growth rate 9% p.a. |
| GPRS | <ul style="list-style-type: none"> ▪ RAS ▪ Picture Messaging ▪ Entertainment ▪ Browsing / Download | <ul style="list-style-type: none"> ▪ GPRS traffic growth rate 20% p.m.* ▪ MMS traffic growth rate 29% p.m.* ▪ Content rev. gr. rate 6.4% p.m.* ▪ Too narrowband and expensive for RAS, real sound and moving pictures |
| UMTS/EDGE | <ul style="list-style-type: none"> ▪ RAS ▪ Video Messaging ▪ Entertainment ▪ Browsing / Download / Streaming | <ul style="list-style-type: none"> ▪ Emerging ▪ Few terminals ▪ Coverage |
| WLAN | <ul style="list-style-type: none"> ▪ RAS ▪ All multimedia applications | <ul style="list-style-type: none"> ▪ WLAN traffic gr. rate 13% p.m.* ▪ Local coverage only ▪ Fragmentation |
| HSDPA | <ul style="list-style-type: none"> ▪ RAS ▪ All multimedia applications | <ul style="list-style-type: none"> ▪ From 2008 |

* average compounded monthly growth rate (October 2003 to February 2004)

Vision for Business Customers

Business customers would like ...

- same level of functionality, usability and security on the move as on a stationary PC at a reasonable price
- full broadband coverage, high average bandwidth and high end to end quality of service

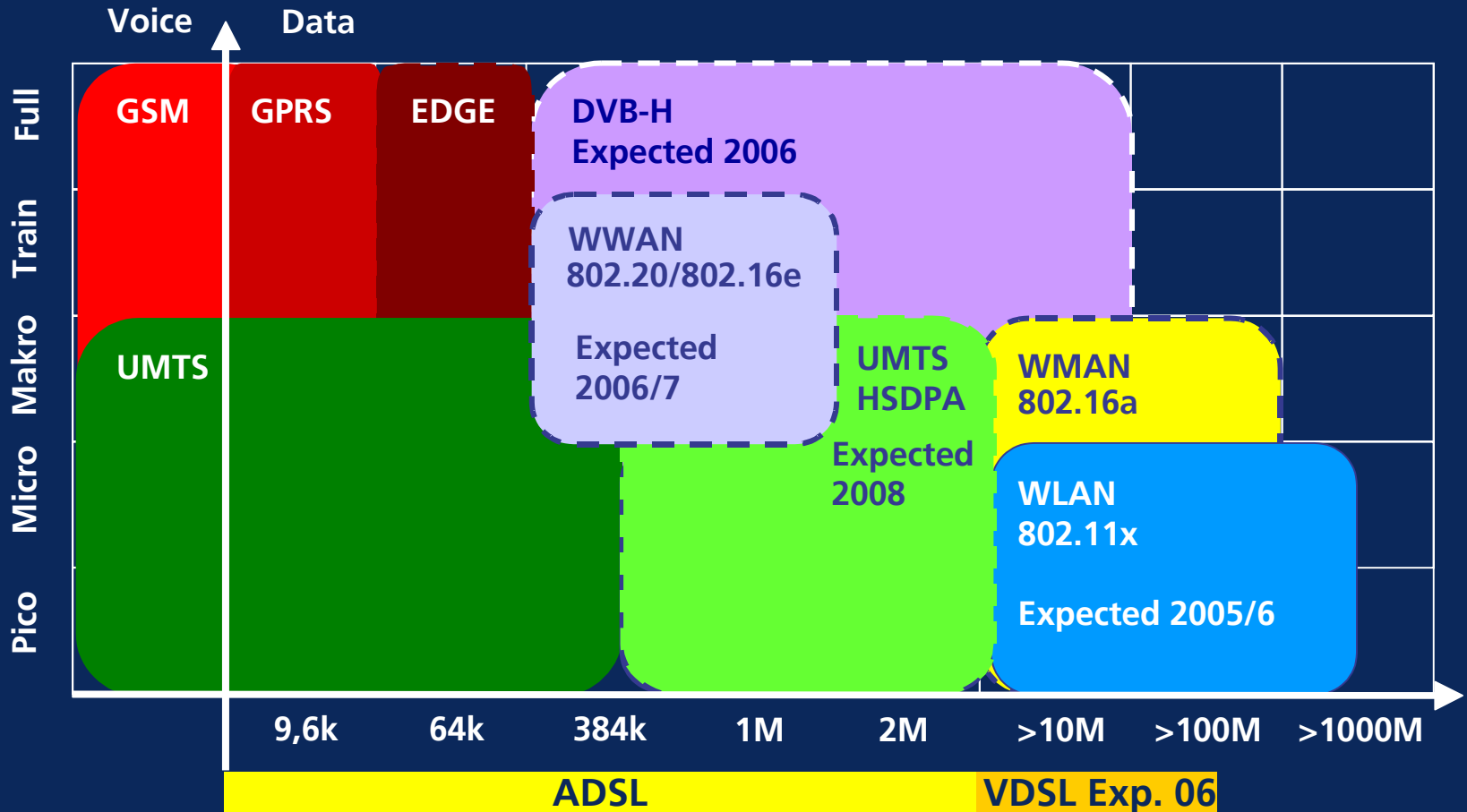
Realising this wish is impossible

- in the near term
- with only one access technology

But there may be ways to come close to it ...



Mobile Voice, Data and Broadcast Technologies



Key questions

Bandwidth and Coverage

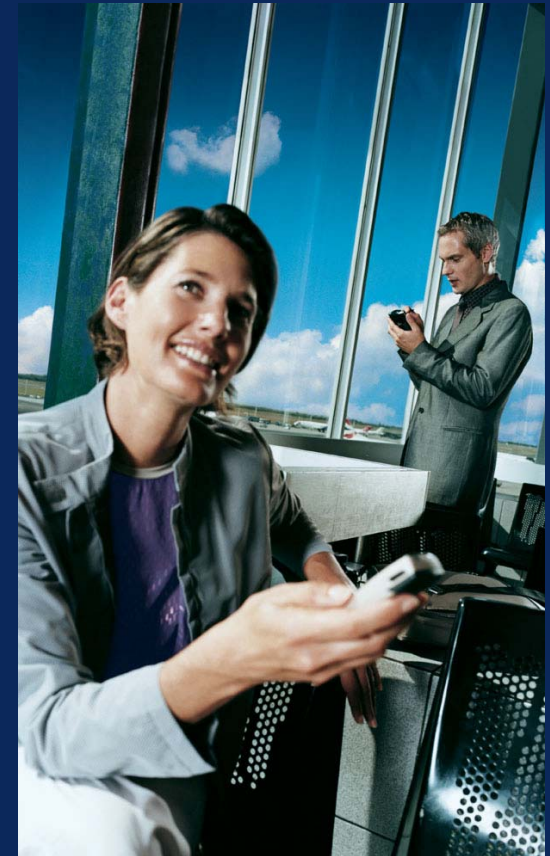
- How to achieve full area and population broadband coverage including in-train at a reasonable price?

Capacity





- How to provide enough capacity in hotspot areas?

Handsets

- Which terminals will be available in the next 12 months?



Terminals: 12 months roadmap

| WLAN | With PC-Card or with external Phone | Only with external Phone | Only very few devices | Some devices | UMTS |
|------|----------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|------|
| | Mostly integrated | Mostly integrated | Only very few or with SD-Card on MS Smartph. | None in Europe Mostly in Japan | |
| | With PC-Card or with external phone | Only with external phone | Only very few devices | few devices | EDGE |
| |  <p>Notebook/ Tablet PC</p> |  <p>PDA / Pocket PC</p> |  <p>Smart Phones</p> |  <p>Mobile Phones</p> | |

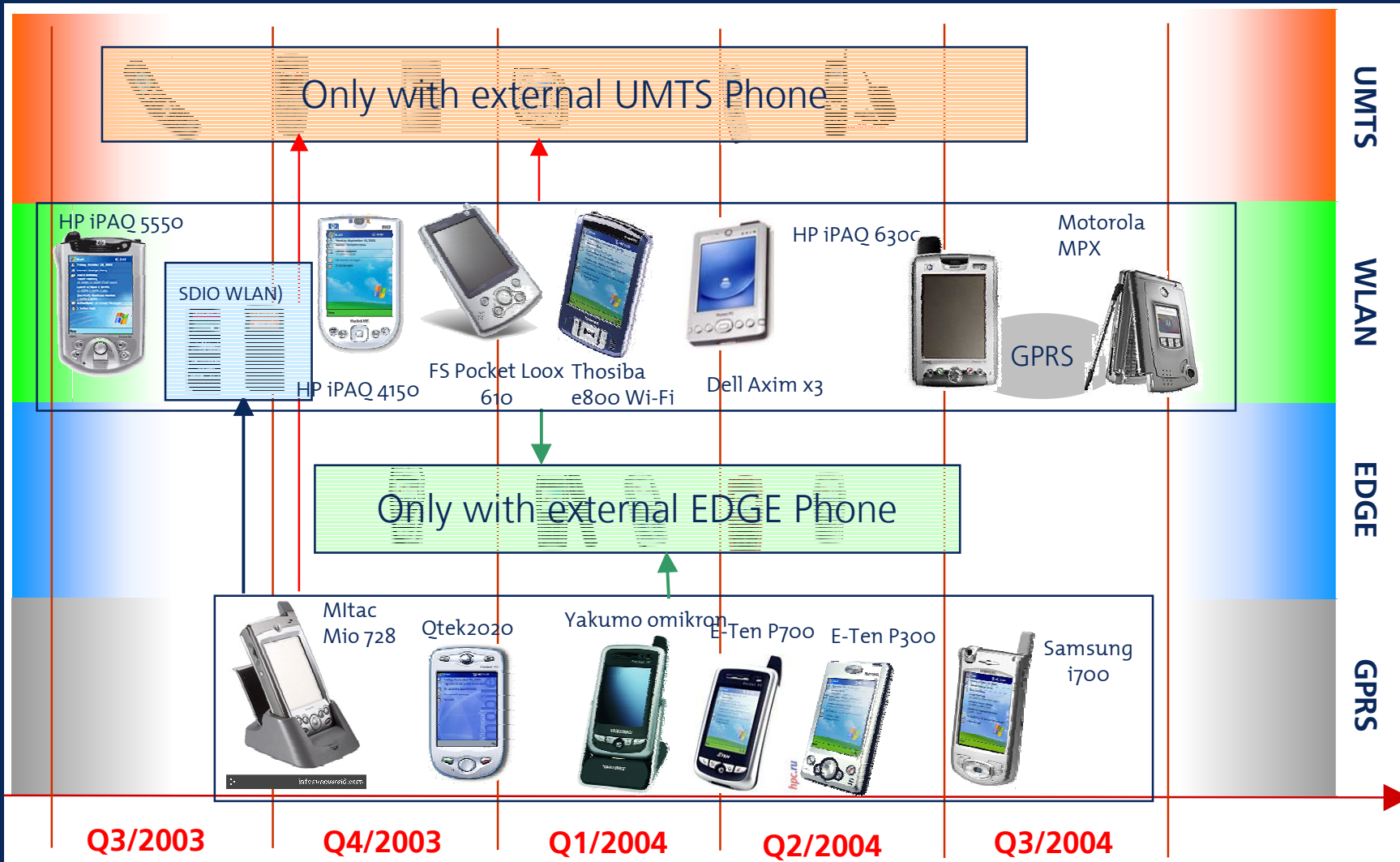
Mobile phones: 12 months roadmap



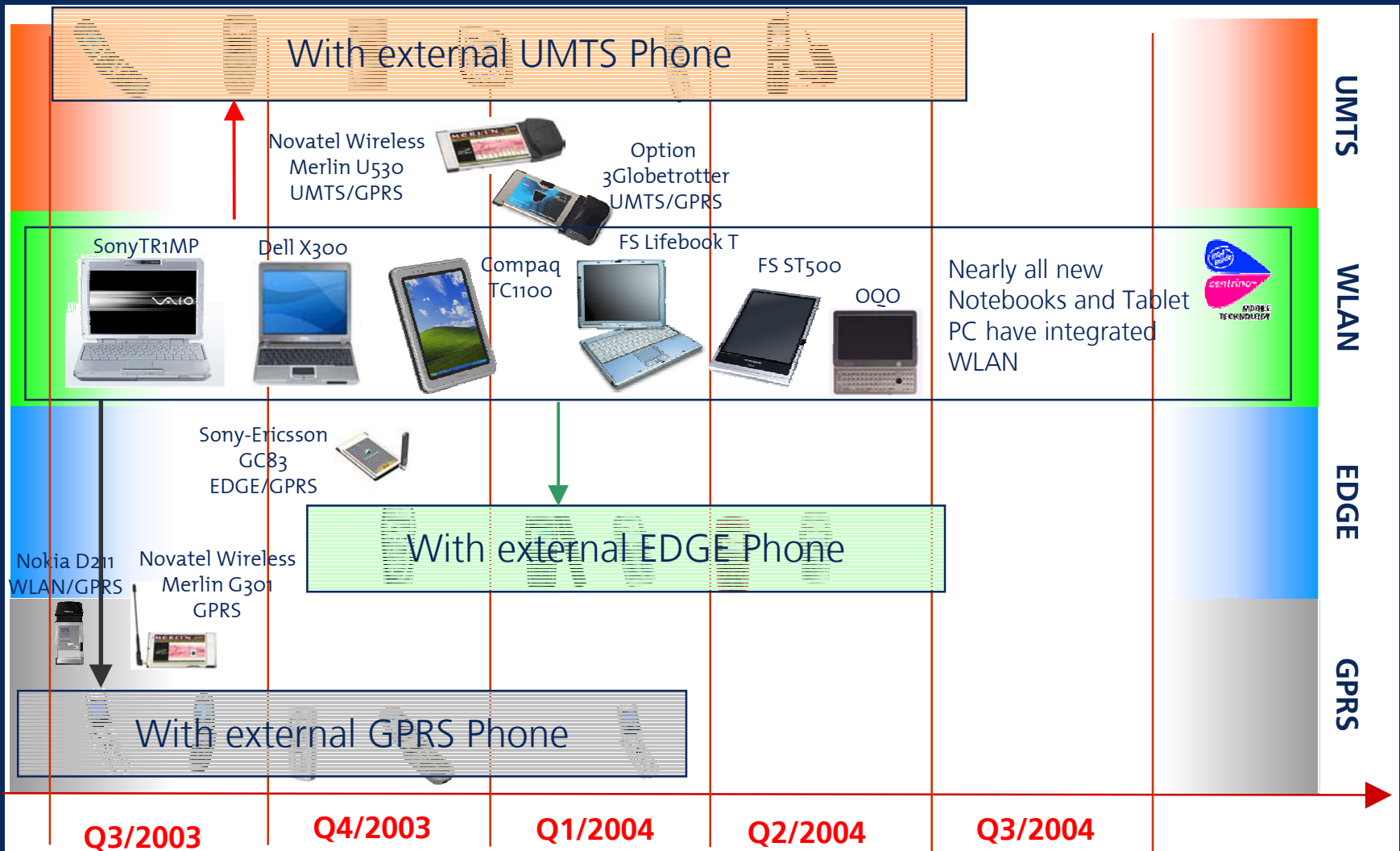
Smart phones: 12 months roadmap



Pocket PCs: 12 months roadmap



Notebooks/Tablet PCs: 12 months roadmap



Lessons learned

- Offer the most attractive handsets with colour screen, camera, real sound, java etc.
- Ensure ease of use on handsets, portal and applications
- Present the best available national and international content
- Integrate handset operating system with application layer
- Offer the best service in any touch point
- Be fair - give your clients full cost transparency and consider willingness to pay



Lessons learned

- Offer the best broadband coverage, the highest average bandwidth and the highest end to end quality of service
- Don't believe in a single future standard access technology - be prepared for further fragmentation
- Make technology transparent for the clients - offer seamless access
- Be fair - give your clients full cost transparency and consider willingness to pay
- Guarantee end to end security



Strategic summary

Defending the core

- Narrowband commoditising - but still 80% of business
- Stimulate usage of narrowband services
- Increase awareness of more broadband applications
- By exploiting knowledge how to increase customer satisfaction

Manage Transition

- Stay focussed on cost control and CAPEX allocation
- Cope with regulatory threats

Ready for the Future

- Master technology
- Ensure bandwidth, coverage and capacity
- Offer best portfolio of hardware
- Have a vision of the desired value proposition for both residential and business customers



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