

Innovation

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Approach

- Option building through innovation
- Disruption
- Swisscom's approach

Execution

Outlook

Michael Shipton, CSO

Innovation as an integral part of option building

Swisscom strives to identify investments opportunities abroad – a key aspect is the identification of *industry disruptions* leading to the creation of *market niches*

*A company committed to strong fundamentals
and financial discipline*

**Innovative multi-service
company in Switzerland**

**Superior
performance**
in core
domestic businesses

Entry into
adjacent and
complementary
businesses

**Disciplined investor in
growth options abroad**

Investments in
**international value
opportunities** with
a balanced
risk/reward profile

Build a number
of **options** in
various phases of
development

**Focus on new *niches*
resulting from *industry
disruption***

Disruption changes the game

The communication industry remains extremely dynamic as disruptive developments in technology and business models quickly reshape the landscape

Technology driven disruption

- Silicon developments leading to increased and integrated capabilities
- IP development leading to increasing system openness and convergence
- ...

Business model driven disruption

- No-frills / low-price models
- Self cannibalisation
- Situative behaviour oriented models
- ...



**Changes in
the industry
landscape**

Disruption creates threats *and* opportunities

The changes create a need for incumbent players to react decisively in their own markets, and lead to opportunities for focussed attacks abroad



Swisscom as incumbent uses WLAN as additional communications technology

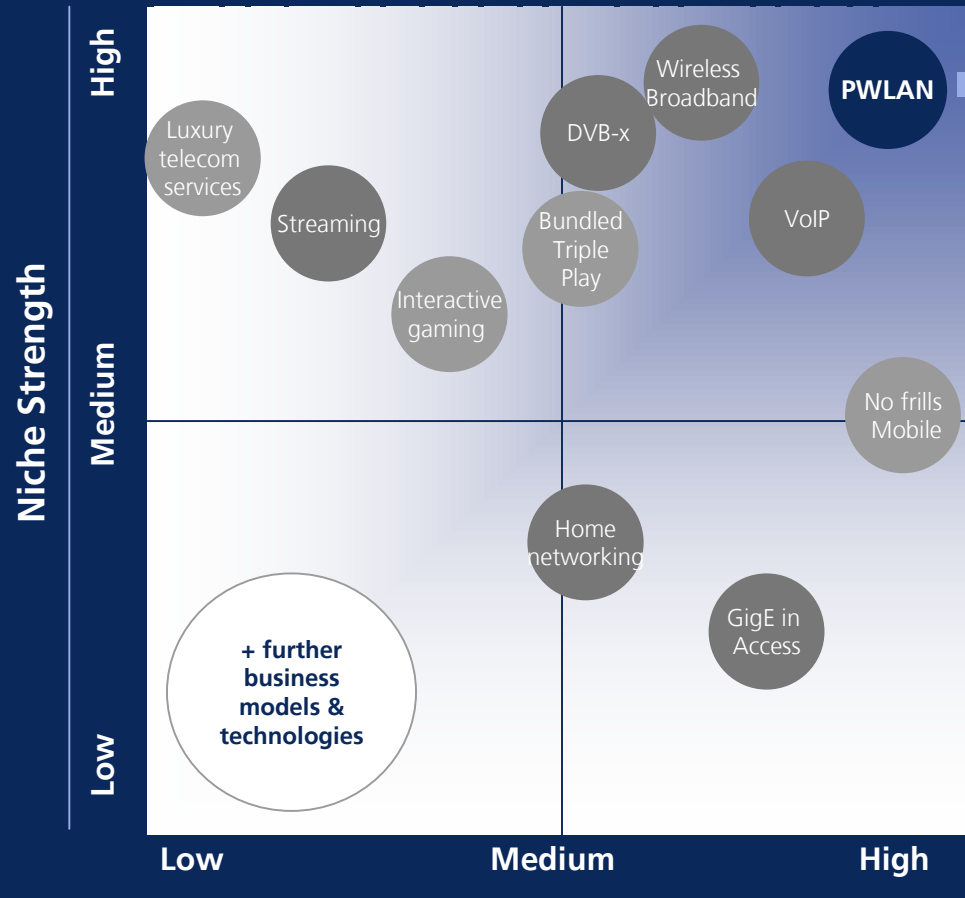
- In fixed-line, WLAN serves as a in-house network to complement the DSL offering
- In mobile, WLAN is used as an additional technology for an optimised ubiquitous mobile data connectivity
- In the business market, WLAN complements existing networking technologies

Abroad, Swisscom enters a new market niche emerging as a result of WLAN

- To offer mobile broadband connectivity at hot spots across Europe to professionals on the move

A systematic approach to execution is essential

Swisscom analyses the attractiveness of opportunities by assessing the combination of the disruptive potential and the strength of the niche character



1 European PWLAN identified

Execution

swisscom eurospot

2 Occupy niche

3 Learning and adapting

4 Expand niche

Disruptive Potential



Business Model disruption



Technology disruption

Approach

Execution

- Occupy
- Adapt
- Expand
- Specific learnings

Outlook

Frédéric Gastaldo, CEO Eurospot

swisscom **eurospot** - *Occupy*: speed of land grab was key ...

Eurospot started with acquisitions followed by a fast organic development of the initial footprint

The European PWLAN market is a **multi-domestic market**

- Seek a leading position in each market entered
- Focus on Germany, UK and Benelux as entry territories
- Targeted acquisition of industry leading start-ups in each country

Integration of acquisitions in an **entrepreneurial outfit**

- Headquarters in Geneva
- Mix of "Swisscom-insiders" with experienced "attackers"
- Specific set of governance rules

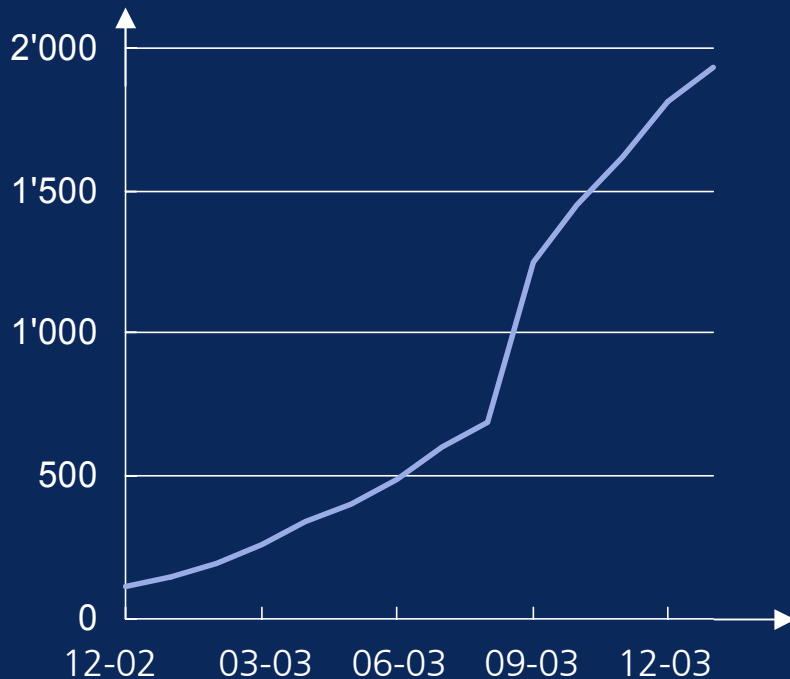
Land grab, i.e. broad approach to locations & exclusive contracts:

- Hotels (e.g. Hilton, Intercontinental, Kempinski, NH Hotels etc)
- Airports (e.g. London City)
- Train stations (e.g. Paddington, Waterloo)

swisscom eurospot ... resulting in successful site acquisition

Swisscom Eurospot has quickly secured a leading position in Europe and is recognised as such by the hospitality industry and service providers

Number of contracted hotspots



- In northern Europe (Germany, UK, Benelux), successful location acquisition has brought Swisscom Eurospot to a leading position ahead of the incumbents
- In southern Europe (Spain, Italy and Portugal), Swisscom Eurospot ties with the incumbents (the jury is still out)
- 2'000 hotspots representing approximately 200'000 hotel rooms mainly in four and five stars properties

swisscom - *Occupy*: strong national positions

By reaching leading national positions, Swisscom has become a strongly recognised service provider in each of the markets

Contracted hotspots

Germany

#1 SC Eurospot (580)
#2 T-Mobile (400)

France

#1 Orange (1'200)
#2 SC Eurospot (198)

UK

#1 BT Openzone (956)
#2 SC Eurospot (801)

Spain

#1 SC Eurospot (234)
#2 Telefónica (162)

Benelux

#1 SC Eurospot (206)
#2 KPN (140)

Italy

#1 Telecom Italia (150)
#4 SC Eurospot (20)

Active access points

Germany

#1 SC Eurospot (3'720)
#2 Ganag (1'300)

France

#1 Orange (5'000)
#2 SC Eurospot (820)

UK

#1 SC Eurospot (494)
#2 BT Openzone (350)

Spain

#1 SC Eurospot (2'636)
#2 Kubi Wireless (805)

Benelux

#1 SC Eurospot (2'020)
#2 Telenet (300)

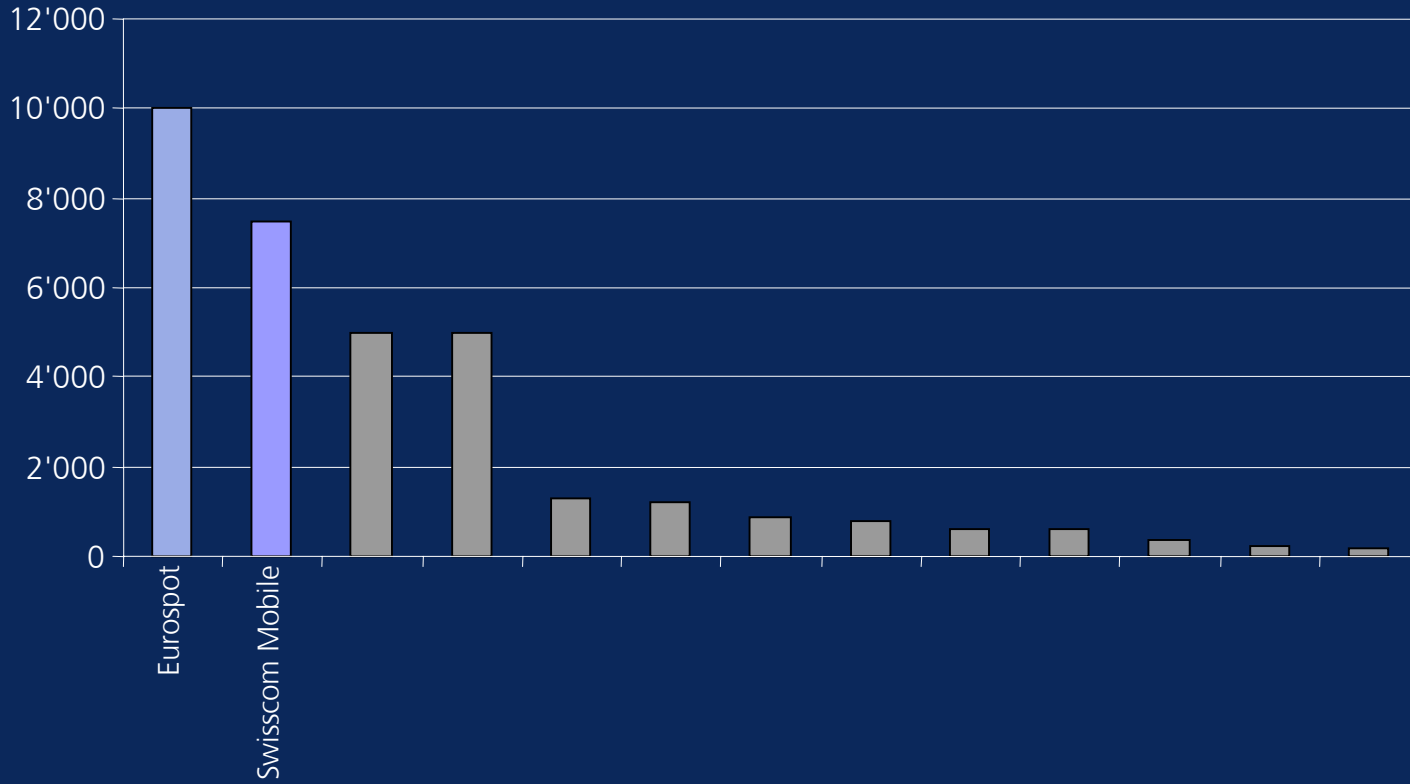
Italy

#1 Telecom Italia (600)
#4 SC Eurospot (65)

swisscom eurospot - *Occupy*: today Europe's leader in terms of active access points

Swisscom Eurospot did not only stop at contracting hot spots but also activated a very large number of access points at these locations

Active access points



- *Adapt*: from hotspot operator to service provider

Immediately after initial market-entry, Swisscom Eurospot focused on learning from customers and partners and has adapted and refined its business model. This led to increased usage month after month : 2000 sessions per day in February.

Usage and revenue patterns indicated a sustainable niche in the hospitality industry: situative behaviour segmentation leading to the identification of “international travellers staying in 4 star hotel” as core segment

Maximisation of return on investment driven by **targeted new services**:

- fixed access adapter and PC Corner
- enabling conferences (broadband access, on-site support, etc.)

Strategic **partnership** to support professionals on the move:

- Roaming agreements
- Microsoft as partner in Europe

Defendable **pricing strategy** in niche market as opposed to the mass market:

- Relationship with venue owner supporting business model
- Quality of service and security valued by end user

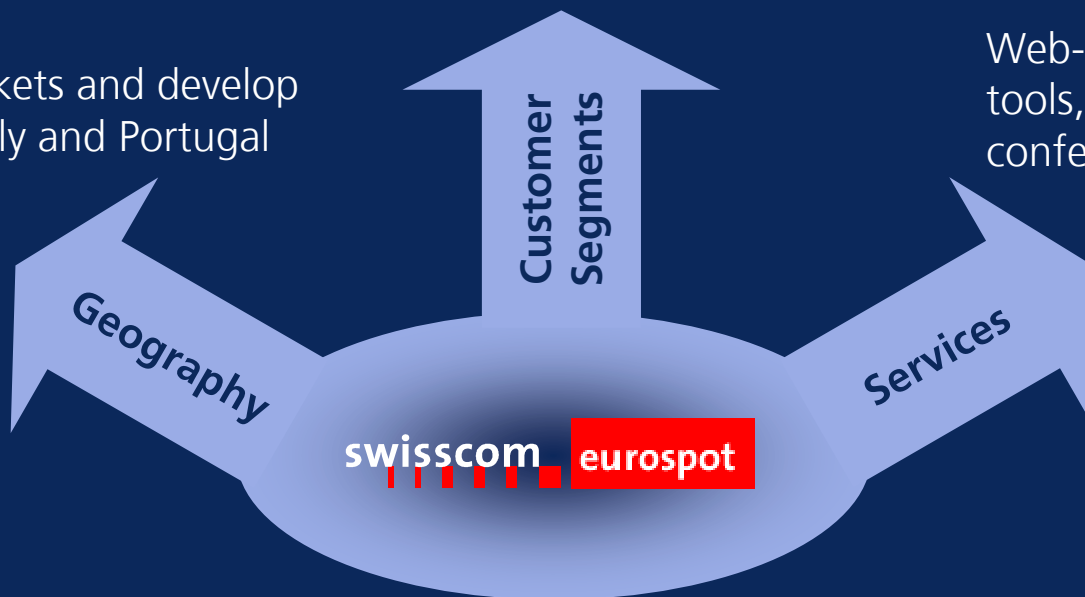
swisscom eurospot - *Expand: a work in progress*

Revenues per active access point is constantly increasing and represents our main performance indicator. In parallel, Eurospot expands along three directions

Situative behaviour niches such as “business travellers in vacation”; sales force personnel in 3- star hotels, etc.

Enter new markets and develop existing e.g. Italy and Portugal

Web-casting, collaborative tools, file-sharing for conferences, etc



swisscom **eurospot** - replicable for the future

1 Speed and adaptation capability:

- Managerial experience
- Balance between strategic focus and flexibility
- Highly professional implementation

2 Governance:

- Specific governance principles adapted to ventures
- Top-management exposure enables quick decisions

3 Commitment:

- A venture is a marathon and not a sprint
- Shared strategic beliefs giving a long term perspective



**Specific learning to serve
as a basis for potential
further ventures**

Approach

Execution

Outlook

- A business focused view
- Skills and approaches
- Technology trends
- A long-term example

Walter Steinlin, CTO

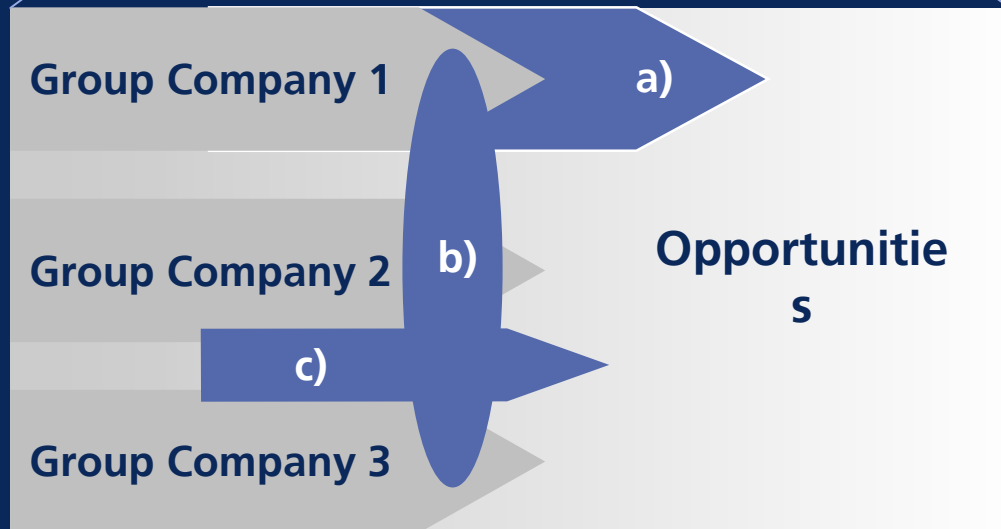
Swisscom innovations facilitates ...

How to facilitate

- Scan and identify technologies
- Assess relevance for Swisscom
- Acquire knowledge
- Support market introduction

Where to facilitate

- a) beyond immediate issues:
room to look ahead
- b) across current strategies:
synergy
- c) outside current strategies:
new business



... with a business focused view in the „innovation programs“

Integrated
Communication Services



Software and Security
Technologies



Media and Service Design



Business Support Systems



Network Services
(wired and wireless)

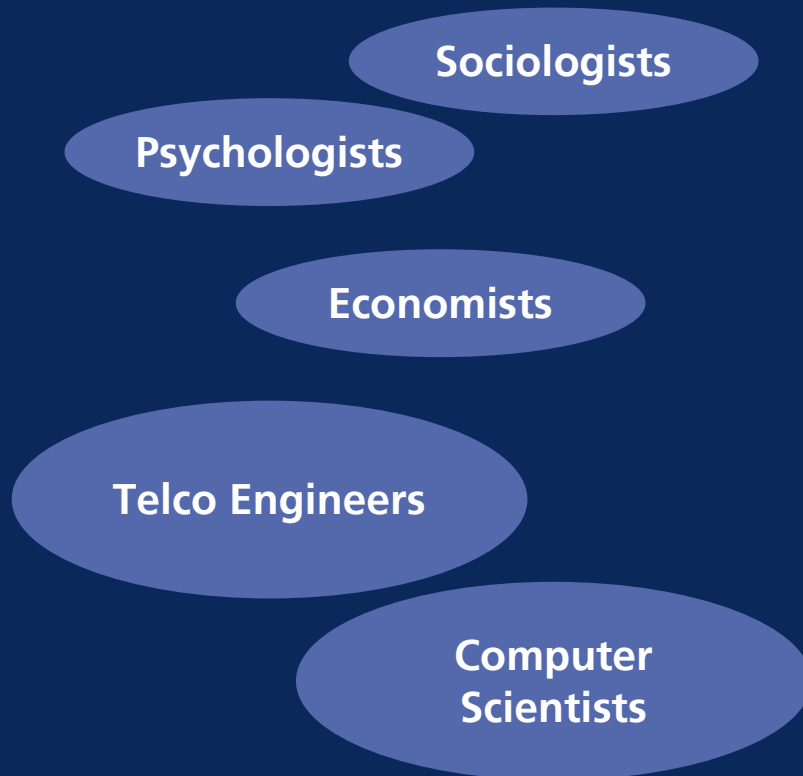


EMC and Environmental
Business Impact



With interdisciplinary skills and a mix of approaches

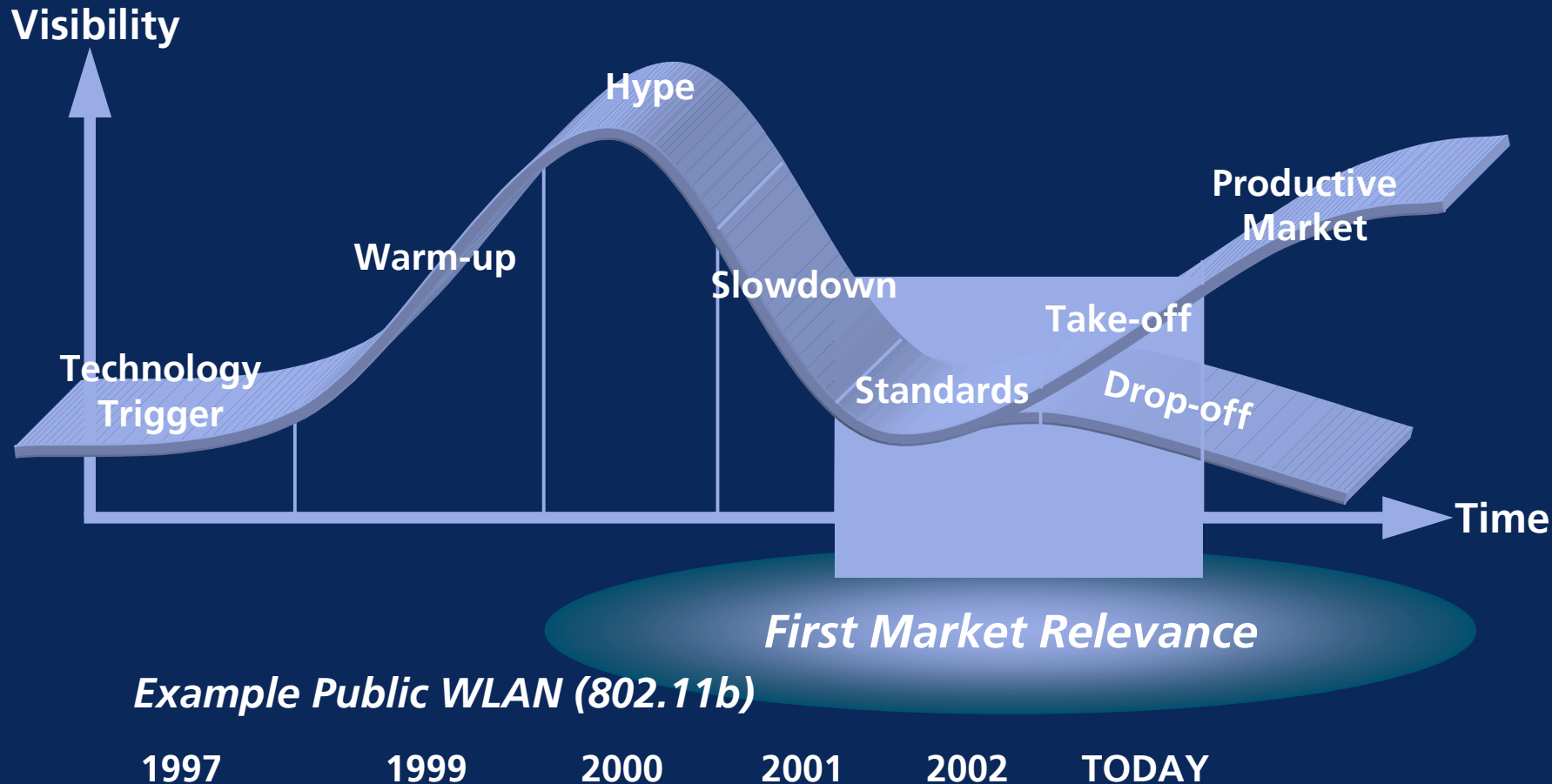
Interdisciplinary Skills



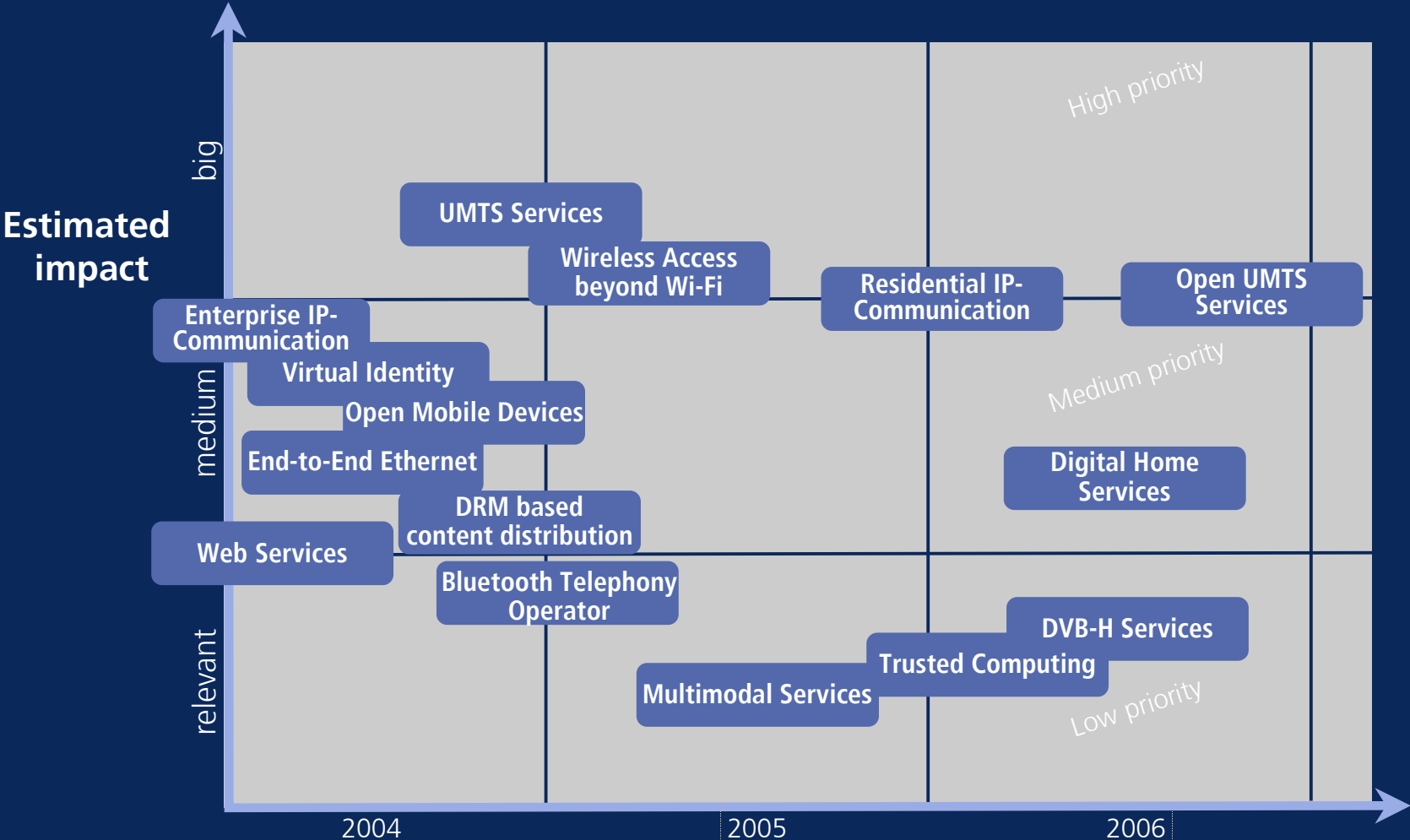
Various Approaches

- **We do**
 - Desk research
 - Lab tests
 - Field trials
- **We partner**
 - Academia and Industry
 - International R&D (EURESCOM, IST, ...)
- **We leverage**
 - Outpost in Silicon Valley
 - Focus groups

Technology Trends follow the „Hype-Cycle“- Key is to estimate the „First Market Relevance“



Our prioritised Technology Map shows the most important technology driven opportunities



Remark: Focus on technologies, that are not yet introduced into the mass market

As a long-term example: wearable computing for private use of telecommunications

We need to know

- **the technologies**
- **how people use them**
- and
- **how to provide services**



Follow the
adjacent Demo
of Wearable
Computing !

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