# Presentation Swisscom

**at UBS Investors Club**

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# Who is Swisscom?

***A company committed to strong fundamentals and financial discipline***

## 1 Leading Telco in CH

**a** Success-fully defending strong market position

**b** Focused on operating cost and staff reductions to sustain margins

**Optimize free cash flow from core business**

## 2 Intelligent investor

**a** Larger investment only if acquisition criteria satisfied

**b** Smaller investment into innovative ì entry-ticket optionsî

**Create balanced risk-reward growth path**

## 3 Solid financial footing

**a** Preserving strong balance sheet to optimize strategic flexibility

**b** Returning all equity free cash flow to share-holders. Every year

**Combine strategic flexibility with generous yield**

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# Who is Swisscom?

## 1 Leading Telco in Switzerland

**a** **Successfully defending strong market position**

### Swisscom Fixnet:

- CHF 6 bln revenues p.a.
- 30-35% EBITDA margin
- ~ 60% share of traffic in declining voice market
- growing access (DSL) to
  - sustain growth of monthly access revenues
  - cope with threat of cable competition

### Swisscom Mobile:

- CHF 4 bln revenues p.a.
- 45-50% EBITDA margin
- ~ 65% share of subscribers in slower growth market
- pushing data to compensate declining voice ARPU:
  - residential: SMS, Vod. Live!
  - business: GPRS/WLAN/3G

**Several other companies completing the product portfolio (Enterprise Solutions, Systems, IT, Broadcast, Billag) with total gross revenues of approx. CHF 2 bln p.a.**

**with the aim to optimise free cash flow from core business**

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# Who is Swisscom?

## 1 Leading Telco in Switzerland

**b**

**focused on operating cost and staff reduction to sustain margins**

### Swisscom as an incumbent operator:

- cannot reasonably grow due to regulatory pressure
- must hence not aim to grow market share, but:
- should focus on **optimising cash flow** from its business:
  - e.g. in Swisscom Mobile by charging premium pricing and offering lower handset subsidies than competition
  - e.g. in Swisscom Fixnet by constantly redesigning processes and shedding/outsourcing workforce
- is forced to reduce workforce (> 3,000 FTE's in last 4 years), and does so in a socially responsible manner.

**with the aim to optimise free cash flow from core business**

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# Who is Swisscom?

## 2 Intelligent Investor

**a** **Larger investment only if acquisition criteria satisfied**

| Criteria | Explanation |
|---|---|
| Sustainability | Focus on sustainable cash flow generation and accretion to group cash flows |
| Strategic fit | Potential strategic/financial synergies, and ability to exploit these through control |
| Management | Availability of experienced management team |
| Price | Attractive valuation, enhancing Swisscom's CF yield |
| Size/risk | No major shift in existing risk profile |

### Rationale

**What is the uniqueness of the constellation?**

What makes Swisscom a better investor than a financial investor directly:

- We may be the only acceptable buyer for a majority stake
- We can sweat the asset better thanks to our experience
- We can extract some synergies with current operations
- We may be able to deploy our capital better on the back of low cost of debt-funding

**Create balanced risk-reward growth path**

A company committed to strong fundamentals and financial discipline

1 Leading Telco in CH — a b — optimise free cash flow from core business

2 Intelligent investor — a b — create balanced risk-reward growth path

3 Solid financial footing — a b — combine strategic flexibility with generous yield

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# Who is Swisscom?

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## Intelligent Investor

b

**Smaller invest-ment into innovative ì entry-ticket optionsî**

| Innovation | Explanation |
|---|---|
| Radar | Can't always have the best ideas yourself, crucial is ability to scan |
| Products, technology | Develop further from what is scanned. |
| Market approach | Understanding of (latent) demand. Domestically and/or internationally? As attacker or as defender? Cannibalising yourself if needed |
| Processes | Innovation goes beyond product dimension. How to organise and roll out is equally important |
| Realism | Be realistic about fit between product and demand. Manage risk |

### Example: Public WLAN

- Public WLAN scanned > 5 years ago by Swisscom's satellite office in Silicon Valley
- Product developed further between Swisscom Innovations and Swisscom Mobile for launch in 2003
- Combined approach (as defending incumbent through Swisscom Mobile in CH, and as attacker through Eurospot internationally). First focus on "land-grab", then on customers
- Fantastic product – however a niche market! Don't place bet on one technology. Combine with others (e.g. new PCMCIA card enabling seamless handover GPRS, UMTS and WLAN)

**Create balanced risk-reward growth path**

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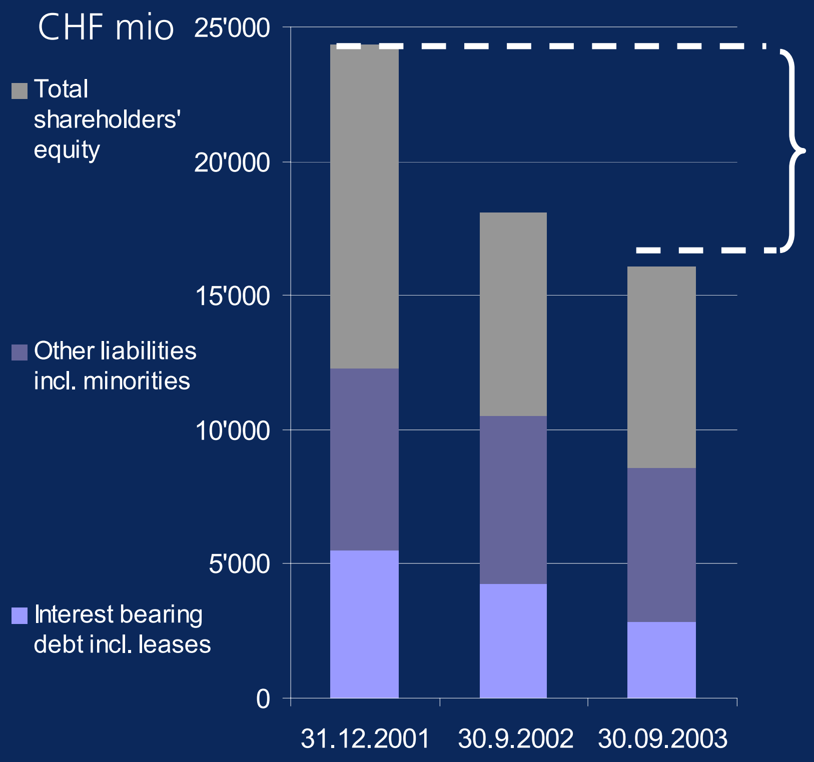
# Who is Swisscom?

3

## Solid financial Footing

a

**Pre-serving strong balance sheet to optimize strategic flexibility**

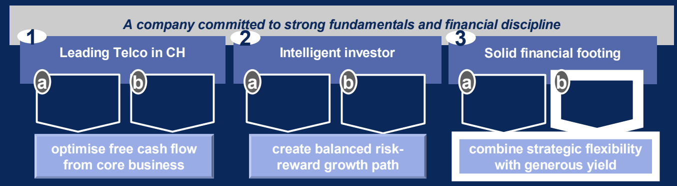



### Strategic flexibility intact:

**After shortening the balance sheet, among others by returning CHF 6.7 bln (~30% of balance sheet total !) to shareholders in less than 2 years, situation remains solid. Per 30.9.2003:**

- net cash position of CHF 334 mm
- equity ratio of 47%
- net interest coverage (EBITDA/net interest) over first 9 months at 84x
- multi-billion funding potential without loosing strong credit rating

**Combine strategic flexibility with generous yield**

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# Who is Swisscom?

3

## Solid financial Footing

b

**Returning all equity free cash flow (EFCF) to share-holders.**

**Every year**

| Definition of EFCF | 30.9.2002 | FY 2002 | 30.9.2003 | Outlook FY 2003 |
|---|---|---|---|---|
| + EBITDA | + 3,414 | + 4,413 | **+3,607** | **+ 4.5** |
| - CAPEX | - 803 | - 1,222 | **- 800** | **<= 1.3** |
| +/- working cap. Δ | - 418 | + 2 | **- 44** | **similar as full yr 2002** |
| - tax (cash) | - 165 | - 537 | **- 32** | **less than half of full yr 2002** |
| - net interest | - 52 | - 78 | **- 36** | **similar as 2002** |
| - minorities, affiliates | - 302 | - 304 | **- 392** | **- 392+120 divid. from CT** |
| = FCF from ops. | = 1,674 | = 2,274 | **= 2,303** | **= higher than in 2002** |
| - net acquisitions | - 94 | - 92 | **- 44** | **???** |
| - debt repayments (net) | - 750 | - 1,000 | **- 750** | **- 750** |
| = | = | = | = | = |
| **EFCF available to shareholders in t+1** | + 830 | + 1,182 | **+1,509** | **assuming no acquisitions, EFCF in 2003 will be clearly trending up from 2002** |

**Combine strategic flexibility with generous yield**

# In summary - Which 3 “Beliefs” would you have to share when investing in Swisscom?

*A company committed to strong fundamentals and financial discipline*

| Leading Telco in CH | Intelligent investor | Solid financial footing |
|---|---|---|
| 1 “Swisscom is able to sustain strong annual equity free cash flows - through clever defense and good cost control” | 2 “Swisscom doesn’t have a long term strategic (scale) problem if it doesn’t acquire, and only acquires if this is value accretive” | 3 “Swisscom will return all equity free cash flow to shareholders while preserving a strong balance sheet enabling strategic flexibility” |

# Thank you for your attention!

# Questions & Answers

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