

Swisscom results:

“And the winner is: Q3 2010”

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9 November 2010



# Agenda

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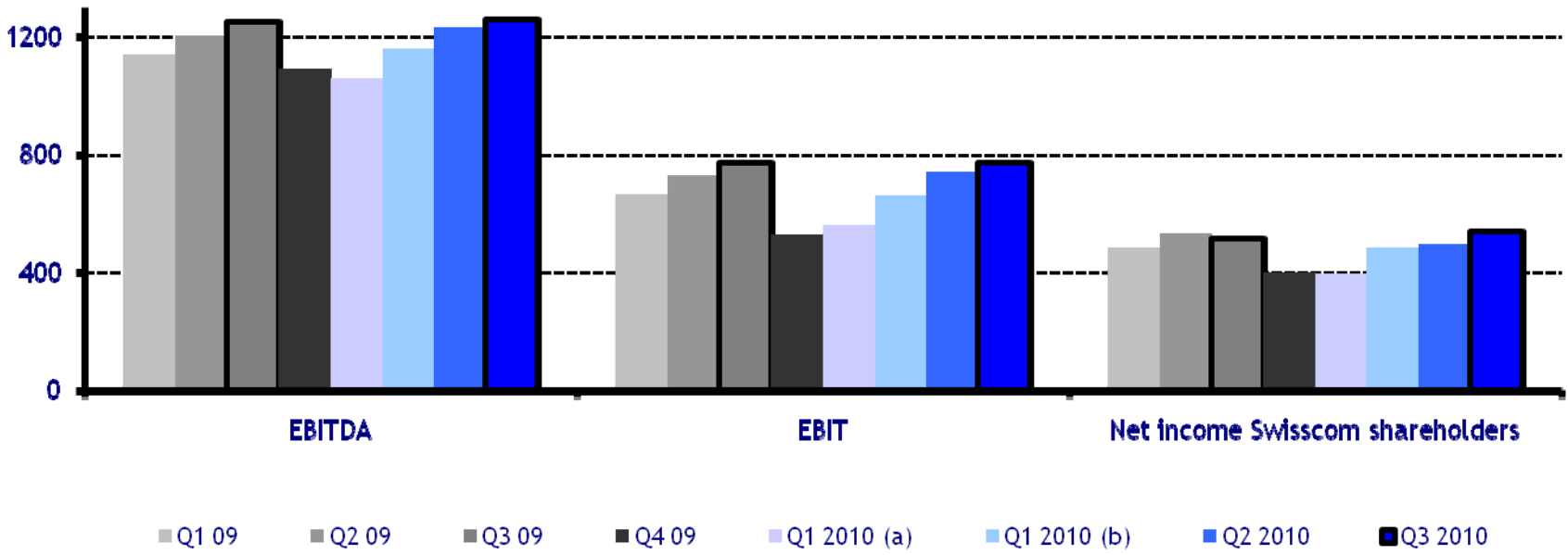
- ① And the winner is: Q3 2010 Carsten Schloter, CEO
  - ② Q3 highlights
  - ③ Offer to Fastweb minority shareholders
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- ④ Segmental results 9 months Ueli Dietiker, CFO
  - ⑤ Group results
  - ⑥ Outlook 2010

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Q&A

# And the winner is: Q3 2010

CHF mm



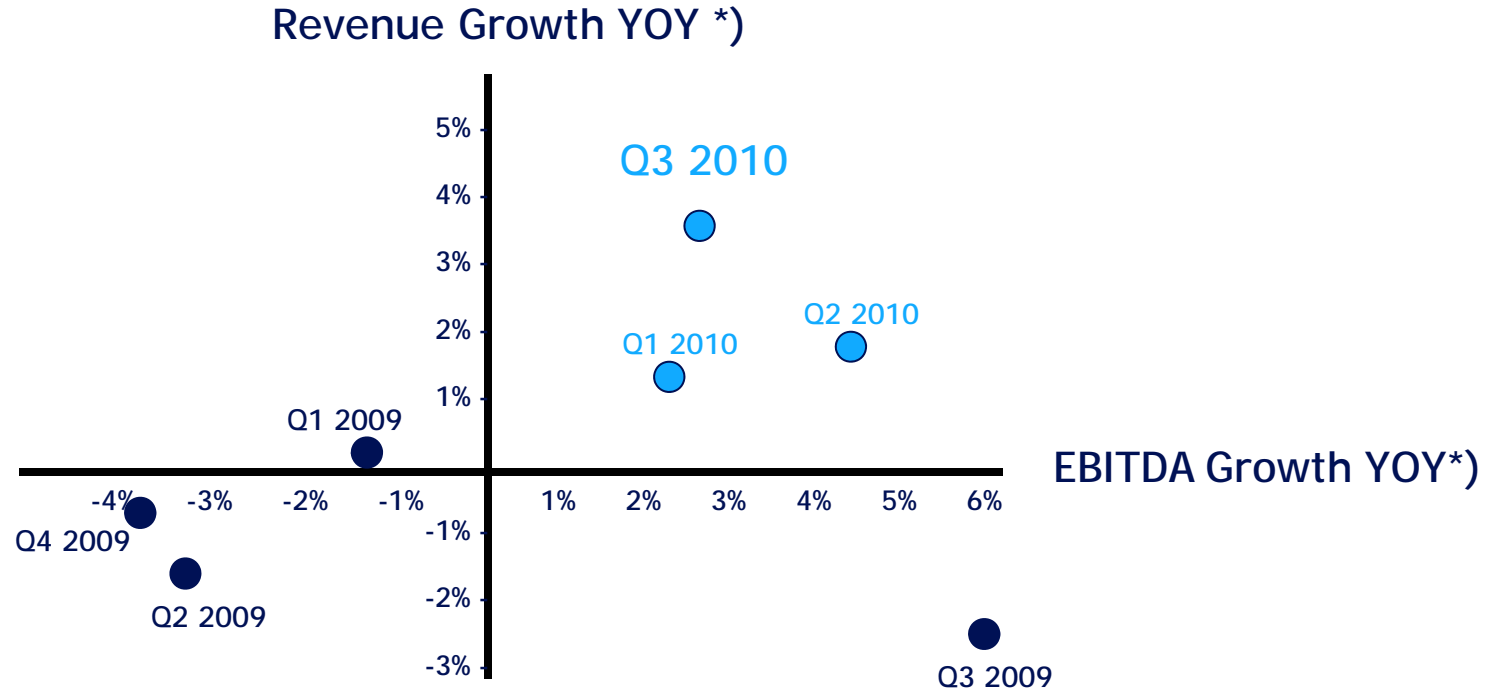
(a) Q1 2010 as reported  
(b) Q1 2010 excluding one-off provision of CHF 102mm for Fastweb VAT case

Financially, again a very strong quarter!



# And the winner is: all off 2010

Change YoY, total Swisscom Group in constant currency (@ CHF 1.40/€)

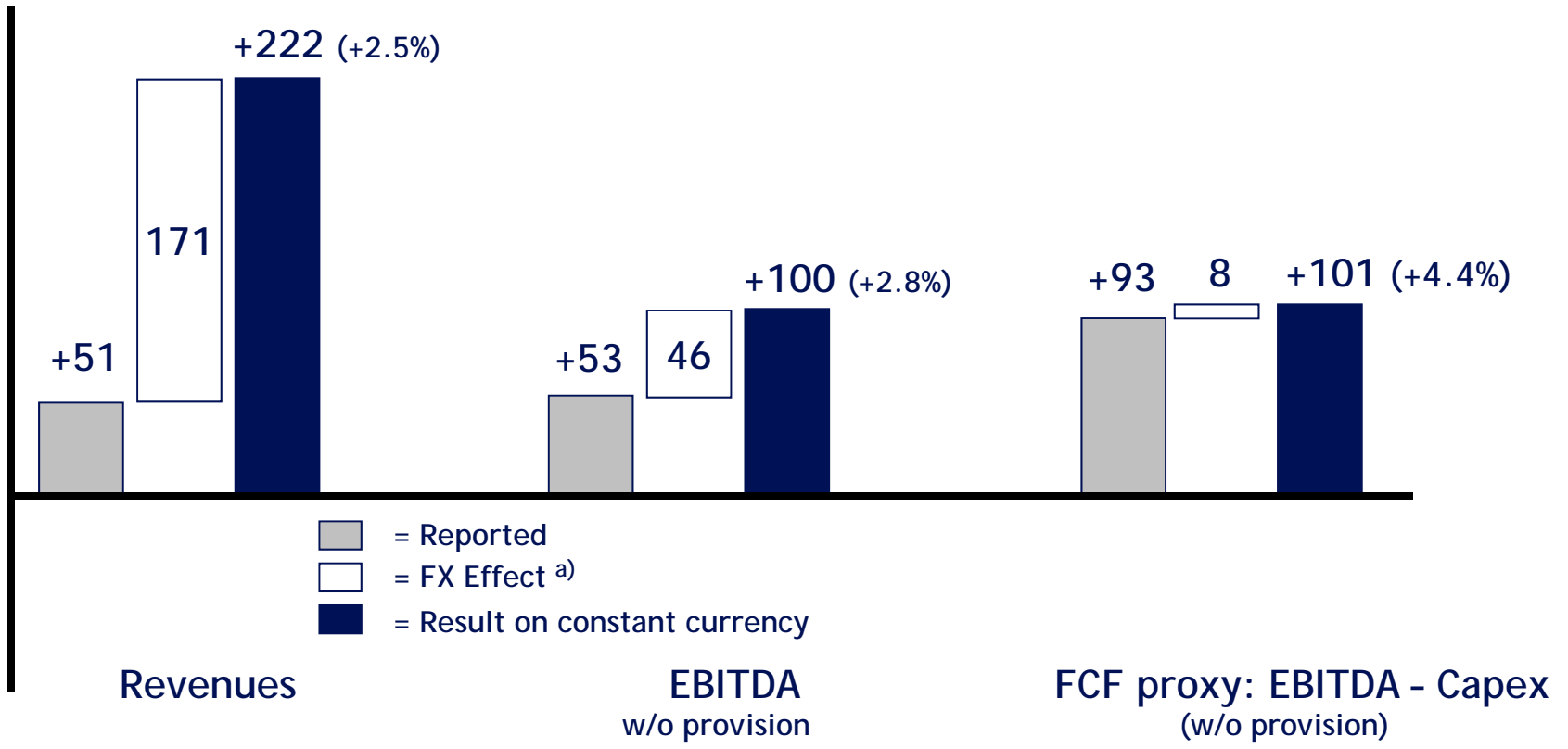


\*) adjusted by M&A transactions, provisions and other one-off items

Trends have improved in 2010, with Q3 2010 the clear “winner”

# 9m<sub>09</sub> < 9m<sub>10</sub> < (9m<sub>10</sub> @ FX<sub>09</sub>): strong despite weak Euro

Change YoY (9m 2010 versus 9m 2009) in CHF mm, total Swisscom Group



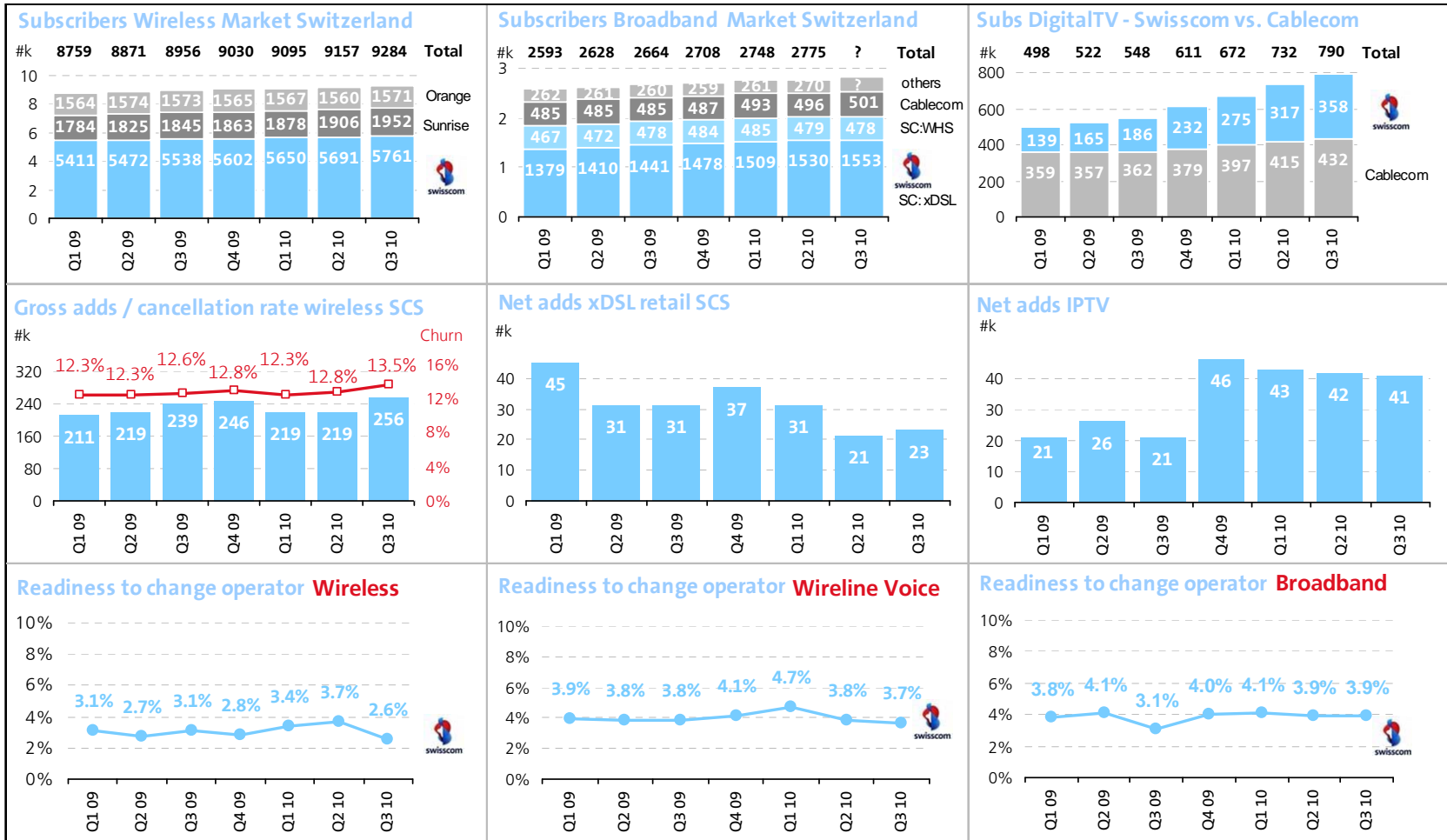
(a) Average exchange rate CHF/€ in 9m 2009: 1.5100 and 9m/2010: 1.3911, i.e. a strengthening of 7.9%

Strong underlying results, with no negative impact on FCF from stronger Swiss Franc as Fastweb Capex was booked at lower CHF rate



# Cockpit - customer trend over last 7 quarters

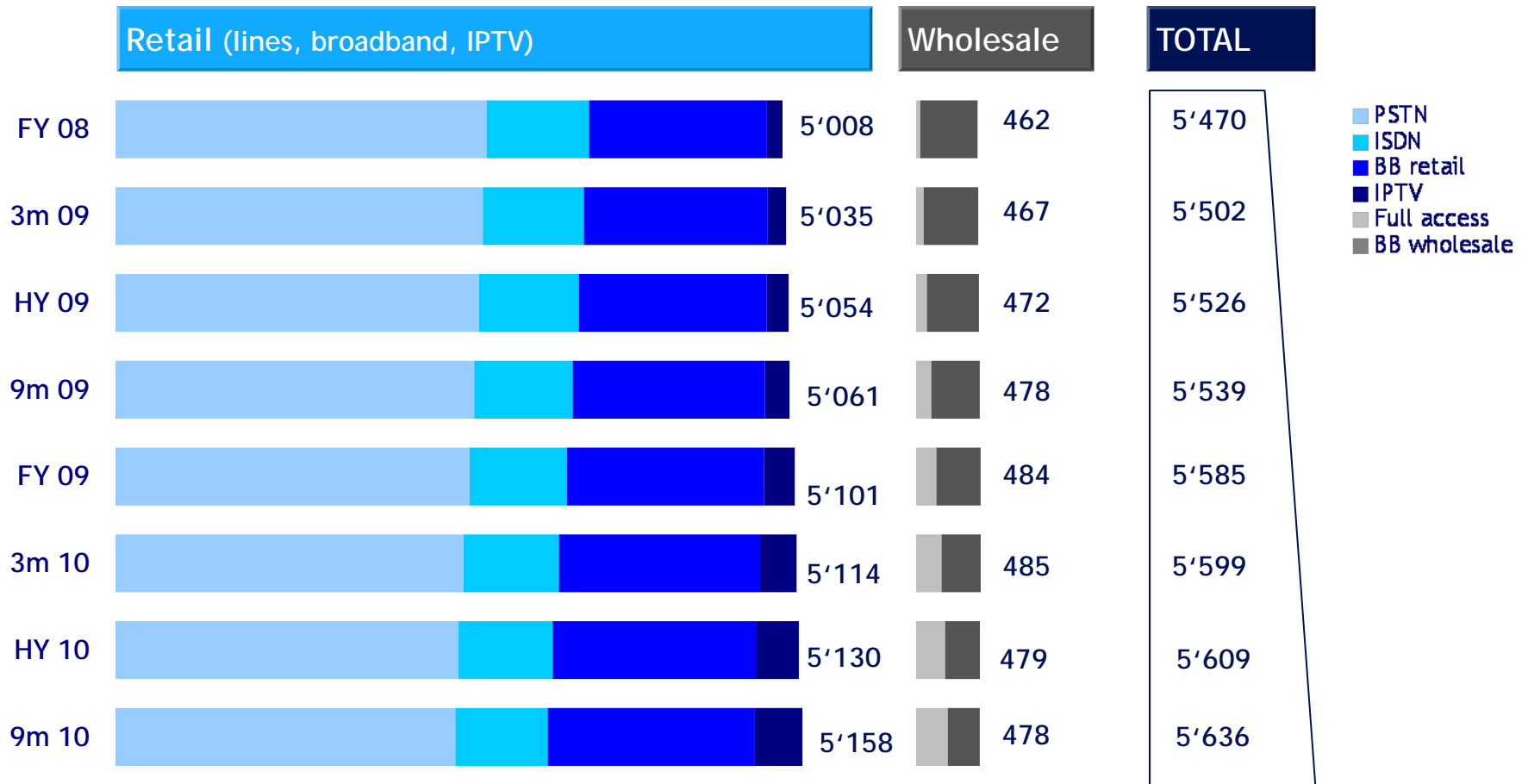
Up and downs, overall good market performance



# Wireline: more revenue generating substance

Development since 31.12.2008

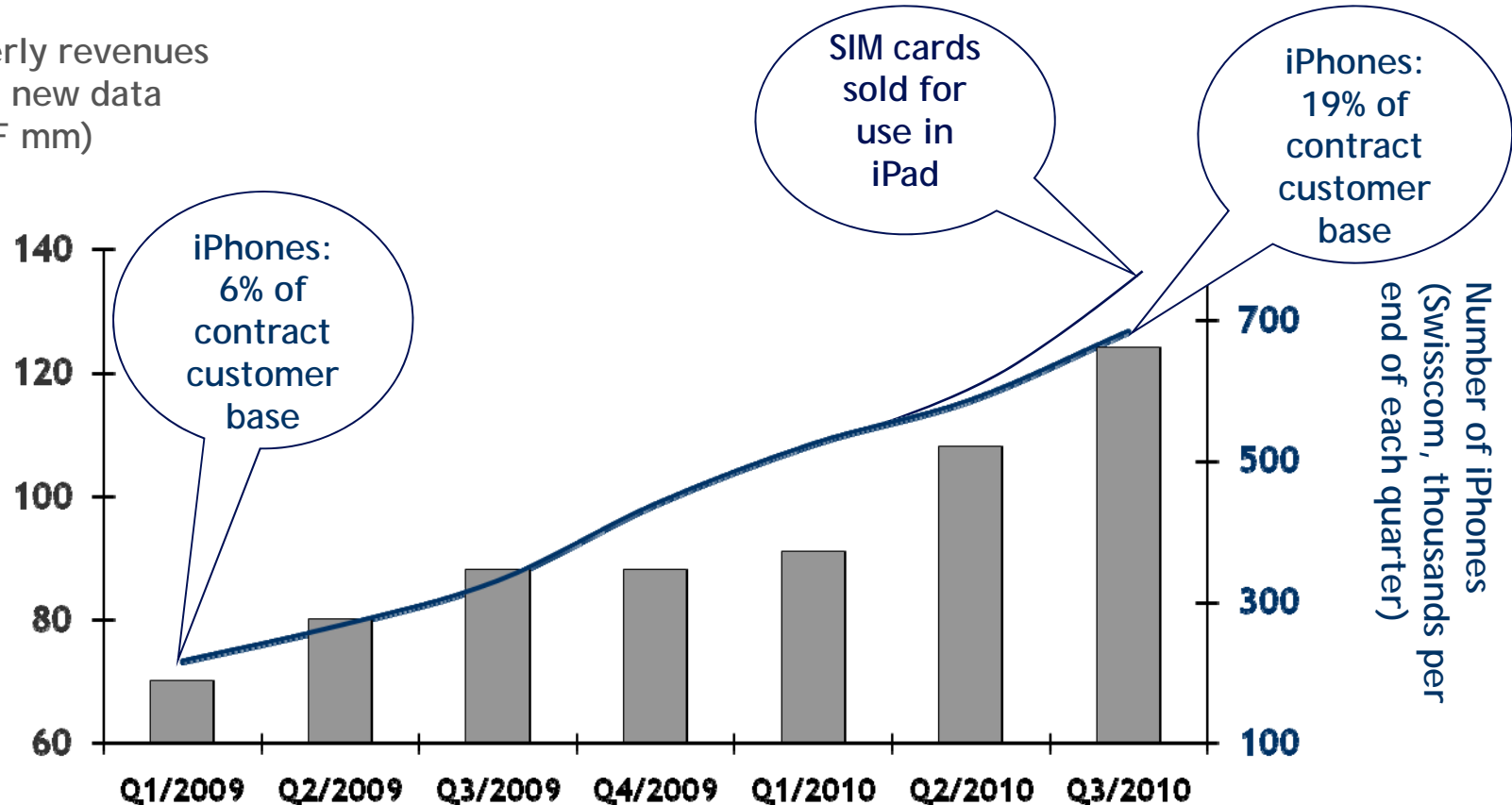
Total substance



Retail substance growing (+1.8% YoY),  
wholesale incl. FULL stable overall, yet swiftly moving to full access

# Wireless: mobile new data revenues taking off

Quarterly revenues  
mobile new data  
(in CHF mm)

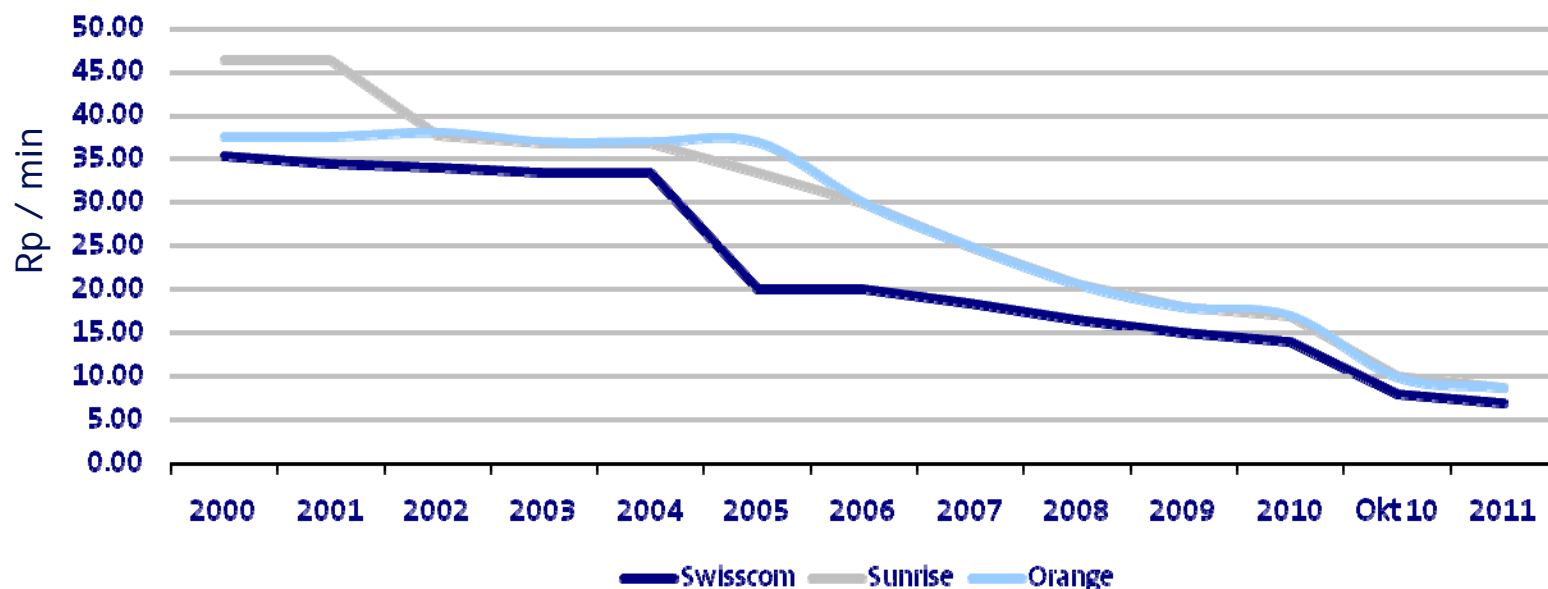


(a) Consists of Data Traffic, domestic and outbound roaming from Swisscom customers. i.e. excl. SMS & MMS

Mobile new data one of the most important growth drivers (+CHF 85mm or +36% YoY), helped by customer friendly devices such as iPhones and iPads

# Highlights Q3

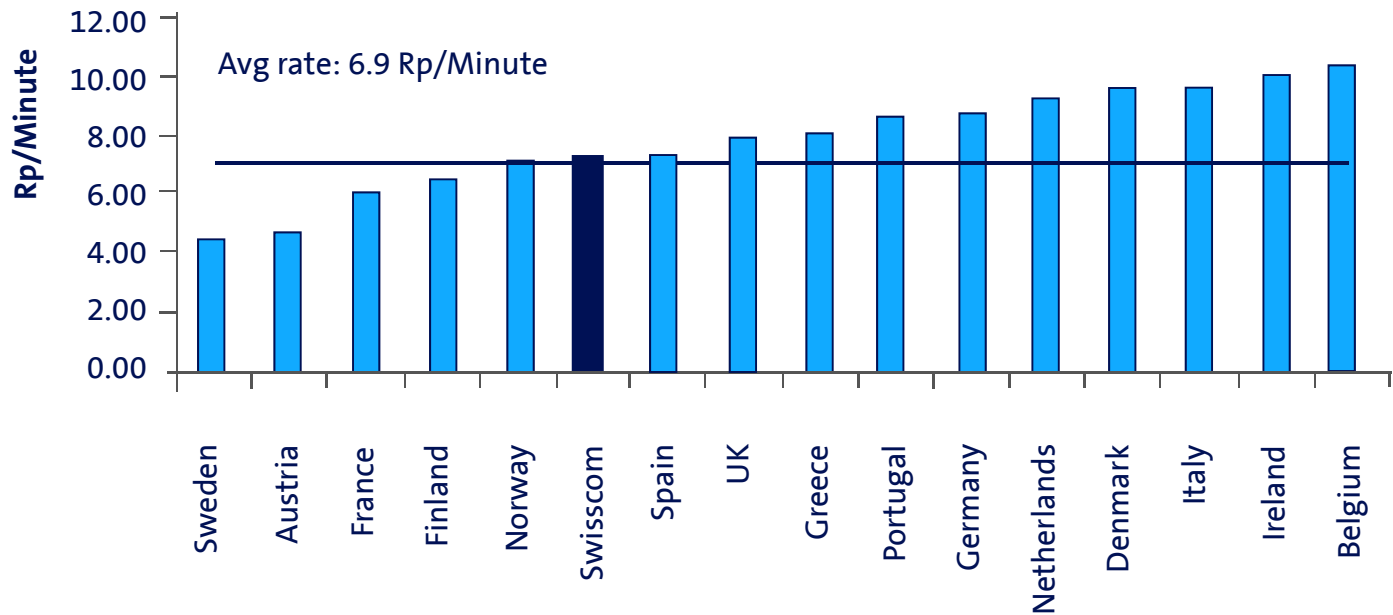
## Mobile Termination Rates (MTRs) adapted



- Symmetrical MTR cuts agreed with competitors from Oct 2010: CHF 80mm lower revenues p.a. (from 2011), no EBITDA impact
- Extension of MTR cuts to retail F2M tariffs to have CHF 50 mm impact on revenues and EBITDA in 2011 (assuming no elasticity)

# Highlights Q3

Swisscom MTR's now on European average \*



\* Status as per summer 2010

# Highlights Q3

## **Swisscom awarded best mobile broadband network**

- Winner of a big survey carried out by the connect journal (issue 11/2010)
- Swisscom offers best coverage, superb connection quality and top speeds for mobile surfing

## **4G mobile communications technology LTE**

- Swisscom is testing LTE. First trials show stable operations. LTE introduction in 2011 at earliest – as fill-in technology
- Massive retrofitting of existing networks by YE 2010: HSPA upgrade to speeds of 7.2 Mbps at least and 1'200 supplemented WLAN hotspots

## **Several fibre-optic agreements signed (Geneva, St. Gallen)**

- Partnership agreement for the construction of a fibre-optic network
- Agreement will guarantee the implementation of an open access infrastructure
- Timeframe of 4-5 years to connect the majority of households and businesses

# Fastweb offer

## Offer @ 18€/share launched in October, final acceptance day 12 November

- Aim to delist Fastweb from Milan stock exchange
- Goal to create more strategic and operational flexibility through 100% ownership (after squeeze out)
- Total cash out for Swisscom expected of € 256mm, not endangering the dividend payment capability of the Group

## Progress so far

- Acceptance per 8.11 would lead to >85% ownership for Swisscom
- Typical practice for tender offers is that tendering takes place in last 3 days

## Options

- Ownership > 95%: right to buy remaining shares (squeeze out)
- Ownership < 95%: right to withdraw the offer
  - Ownership > 90%: right to delist the company (if acceptance condition waived)
  - Ownership < 90%: option to merge Fastweb into a non-listed Swisscom entity

**Conclusion:** advisable in all cases for minority holders to tender their shares, as this will be the easiest way to monetize their stake

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Q&A

# Segments - Residential Customers

## Financials and operational data

	30.09.2010	YOY
Net revenue in MCHF <sup>1)</sup>	3'874	3.3%
Direct costs in MCHF	-942	6.6%
Indirect costs in MCHF <sup>2)</sup>	-618	-2.2%
Contribution Margin 2 in MCHF	2'314	3.5%
<i>Contribution Margin 2 in %</i>	<i>59.7%</i>	
CAPEX in MCHF	88	-5.4%
FTE's	4'605	-2.8%

	30.09.2010	YOY
Voice lines in '000	2'503	-6.7%
BB lines in '000	1'369	7.5%
Wireless customers in '000	4'487	2.2%
Wireless cancellation rate (annualised)	15.0%	1pp
Blended wireless ARPU in CHF	42	-2.3%
thereof ARPU new data in CHF	4.6	35.3%
Blended wireless AMPU in Min.	100	4.2%
Wireline traffic national in Mmin.	3'750	-6.6%
Wireline traffic int'l in Mmin.	478	-6.3%
TV subs in '000	348	87.1%

1) incl. intersegment revenues

2) incl. capitalised costs and other income

## 9m 2010

- Net revenue up by 3.3%, driven by **Service revenue (+2.2%)** and higher revenue from the sale of smart phones
- **Wireless revenue up +1.6%** as subs and new data growth overcompensates price erosion and lower termination rates
- **Wireline revenue down -0.7%** (broadband subs, IPTV growth in addition to new bundle offers can nearly compensate voice line loss, price erosion)
- **Direct cost up +6.6%** (the effects from higher number of sold smart phones and Swisscom TV partially offset by lower outpayments)
- **Indirect cost down -2.2%** (mainly due to lower number of FTE and efficiency gains)
- **Contribution Margin** stable at around 60%
- **TV Subscriber up 87%**
- **New Data ARPU up 35%**

# Segments - Small & Medium-sized Enterprises

## Financials and operational data

	30.09.2010	YOY
Net revenue in MCHF <sup>1)</sup>	882	2.8%
Direct costs in MCHF	-128	-2.3%
Indirect costs in MCHF <sup>2)</sup>	-100	0.0%
<b>Contribution Margin 2 in MCHF</b>	<b>654</b>	<b>4.3%</b>
<i>Contribution Margin 2 in %</i>	<i>74.1%</i>	
CAPEX in MCHF	5	-37.5%
FTE's	743	-4.3%

	30.09.2010	YOY
Voice lines in '000	513	0.6%
BB lines in '000	155	9.9%
Wireless customers in '000	485	9.0%
Wireless cancellation rate (annualised)	6.0%	-1pp
Blended wireless ARPU in CHF	94	-2.1%
thereof ARPU new data in CHF	13.0	22.6%
Blended wireless AMPU in Min.	210	0.5%
Wireline traffic national in Mmin.	1'078	-2.6%
Wireline traffic int'l in Mmin.	133	-5.0%

1) incl. intersegment revenues

2) incl. capitalised costs and other income

## 9m 2010

- Net revenue up by +2.8% YoY (price erosion compensated by higher number of subscribers and new data growth)
- Direct costs down by -2.3% due to lower outpayments (decreasing rates)
- Indirect cost stable
- Contribution Margin up 1.0%-points to 74.1% YoY due to revenue increase and lower direct costs
- BB lines up by +9.9%
- New Data ARPU up 22.6% to 13 CHF/month

# Segments - Corporate Business

## Financials and operational data

	30.09.2010	YOY
Net revenue in MCHF <sup>1)</sup>	1'375	1.1%
Direct costs in MCHF	-322	0.3%
Indirect costs in MCHF <sup>2)</sup>	-312	-4.9%
<b>Contribution Margin 2 in MCHF</b>	<b>741</b>	<b>4.2%</b>
<i>Contribution Margin 2 in %</i>	<i>53.9%</i>	
CAPEX in MCHF	50	-7.4%
FTE's	2'209	-1.8%
	30.09.2010	YOY
Voice lines in '000	231	-4.5%
BB lines in '000	29	11.5%
Wireless customers in '000	789	12.1%
Wireless cancellation rate (annualised)	4.0%	-5pp
Blended wireless ARPU in CHF	68	-6.8%
thereof ARPU new data in CHF	17.2	14.7%
Blended wireless AMPU in Min.	166	-6.7%
Wireline traffic national in Mmin.	1'160	-4.7%
Wireline traffic int'l in Mmin.	266	0.0%

1) incl. intersegment revenues

2) incl. capitalised costs and other income

## 9m 2010

- Revenue of 1'375 MCHF up by 1.1%. Decline of wireline revenue (voice lines and traffic volume) overcompensated by rising projects/outsourcing and Mobile revenue (subscriber and new data growth)
- Direct cost stable (increase in project/outsourcing revenue with low margin offset by lower outpayments)
- Indirect cost decline -4.9% (lower number of FTE and less expenses for external employees)
- Contribution Margin increased by 0.6%-points to 53.9% of net revenue due to revenue increase and cost management
- Order intake for project/outsourcing business totalling 123 MCHF (+11 MCHF vs. PY)

# Segments - Wholesale

## Financials and operational data

	30.09.2010	YOY
Revenue from external customers in MCHF	583	-13.2%
Intersegment revenue in MCHF	393	-6.9%
<b>Net revenue in MCHF</b>	<b>976</b>	<b>-10.8%</b>
Direct costs in MCHF	-630	-10.3%
Indirect costs in MCHF <sup>1)</sup>	-16	14.3%
<b>Contribution Margin 2 in MCHF</b>	<b>330</b>	<b>-12.7%</b>
<i>Contribution Margin 2 in %</i>	<i>33.8%</i>	
CAPEX in MCHF	-	nm
FTE's	103	17.0%
	30.09.2010	YOY
Full access lines in '000	238	107.0%
BB (wholesale) lines in '000	240	-33.9%
Wireline wholesale traffic in Mmin.	7'258	-14.9%

1) incl. capitalised costs and other income

## 9m 2010

- **Net revenue decreased by 118 MCHF**
  - lower wireline termination volumes
  - lower interconnection rates
  - lower wireless termination rates
  - ongoing substitution towards full access
  - revenue decrease in data services
  - + higher inbound roaming
- **Direct costs down by 72 MCHF** as many revenue drivers push also down direct cost
- **Full access lines** growing substantially, mostly substituting wholesale broadband lines (ULL replaces wholesale broadband)

# Segments - Networks and Support Functions

## Financials and operational data

	30.09.2010	YOY
Personnel expenses in MCHF	-490	-1.8%
Rent in MCHF	-139	-20.1%
Maintenance in MCHF	-154	4.8%
IT expenses in MCHF	-244	-2.0%
Other OPEX in MCHF	-221	12.8%
Indirect costs in MCHF	-1'248	-1.3%
Capitalised costs and other income in MCHF	122	-10.9%
<b>Contribution Margin 2 in MCHF</b>	<b>-1'126</b>	<b>-0.2%</b>
Depreciation, amortisation and impairment in MCHF	654	7.6%
<b>Segment result in MCHF</b>	<b>-1'780</b>	<b>2.5%</b>
CAPEX in MCHF	640	4.1%
FTE's	4'005	-3.4%

## 9m 2010

- **Personnel expenses** down by 9 MCHF mainly driven by lower personnel expenses due to a lower number of FTE partially offset by higher termination benefits
- **Segment result** decreased by 44 MCHF mainly as a result of higher depreciation and amortisation due to the capitalisation of a customer relationship management system
- **CAPEX** above previous year (4.1%) mainly driven by higher spending for the fibre-infrastructure and next generation network

## Financials and operational data

	30.09.2010	YOY
Consumer revenue in MEUR	535	3%
SME revenue in MEUR	301	-2%
Executive revenue in MEUR <sup>1)</sup>	569	5%
Net revenue in MEUR <sup>1)</sup>	1'405	3%
OPEX in MEUR	-1'105	7%
Capitalised costs and other income in MEUR	41	-42%
<b>EBITDA in MEUR</b>	<b>341</b>	<b>-16%</b>
<b>EBITDA in MEUR w/o VAT prov.</b>	<b>411</b>	<b>2%</b>
<i>EBITDA margin in %</i>	<i>29.3%</i>	
CAPEX in MEUR	303	-3%
FTE's	3'125	1%

In Swisscom accounts	30.09.2010	YOY
EBITDA in MCHF	473	-23%
CAPEX in MCHF	421	-11%

	30.09.2010	YOY
BB customers in '000	1'712	7%
Mobile customers in '000	330	106%

1) incl. revenues to Swisscom companies

## 9m 2010

- **Revenues** increased by 2.9% YoY - with a positive contribution from Consumer- and Executive segment. SME affected by very aggressive competition.
- Standalone **EBITDA** reaches 411 MEUR, up +1.7% YOY with a margin of 29.3% (-0.3pp lower compared to last year but +0.4pp vs. 6m 2010)
- In Swisscom's accounts, a **provision** of 70 MEUR for the pending VAT case has been posted in Q1, directly affecting segmental EBITDA
- Contribution to Swisscom accounts in CHF lower than previous year, due to an ongoing strengthening of Swiss Franc in a YOY context (FX impact on total net revenue -166 MCHF / on EBITDA -41 MCHF)

# Segments - Other operating segments

## Financials and operational data

	30.09.2010	YOY
Swisscom IT Services in MCHF	387	28.1%
Swisscom Participations in MCHF	235	-0.4%
Hospitality Services in MCHF	58	1.8%
Other in MCHF	1	-80.0%
External revenue in MCHF	681	13.5%
Net revenue in MCHF <sup>1)</sup>	1'279	2.4%
OPEX in MCHF	-1'049	3.0%
Capitalised costs and other income in MCHF	35	-5.4%
EBITDA in MCHF	265	-1.1%
<i>EBITDA margin in %</i>	<i>20.7%</i>	
CAPEX in MCHF	79	-2.5%
FTE's	4'381	2.9%

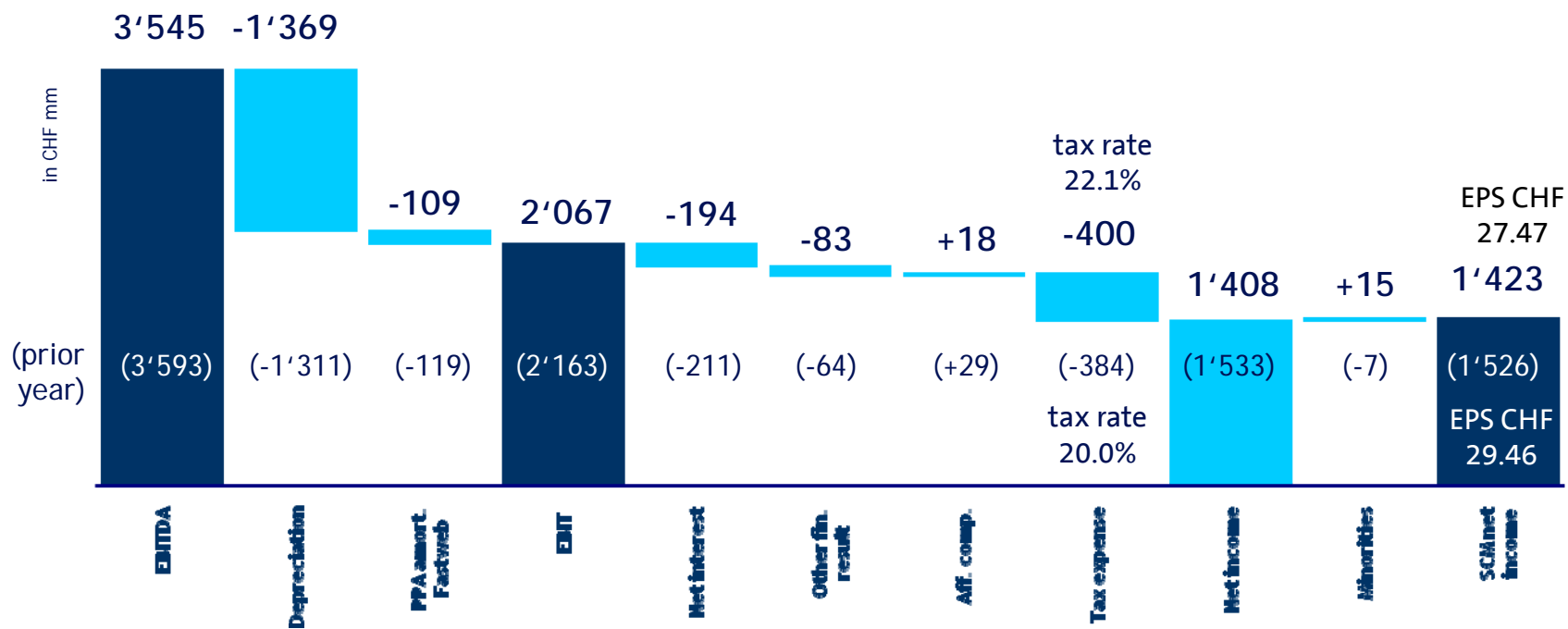
1) incl. intersegment revenues

## 9m 2010

- External revenue up 81 MCHF (+13.5%):
  - IT Services up 85 MCHF, mainly from new group companies Resource, Sourcag & Panatronic
  - Swisscom Participations down 1 MCHF, the effect from outsourcing of facility management in 2009 was nearly offset by higher revenue from construction activities
- Intercompany revenues down 51MCHF due to outsourcing of facility management and reduced intercompany revenues at IT services
- EBITDA and margin slightly down
- Order intake IT Services CHF 353mm

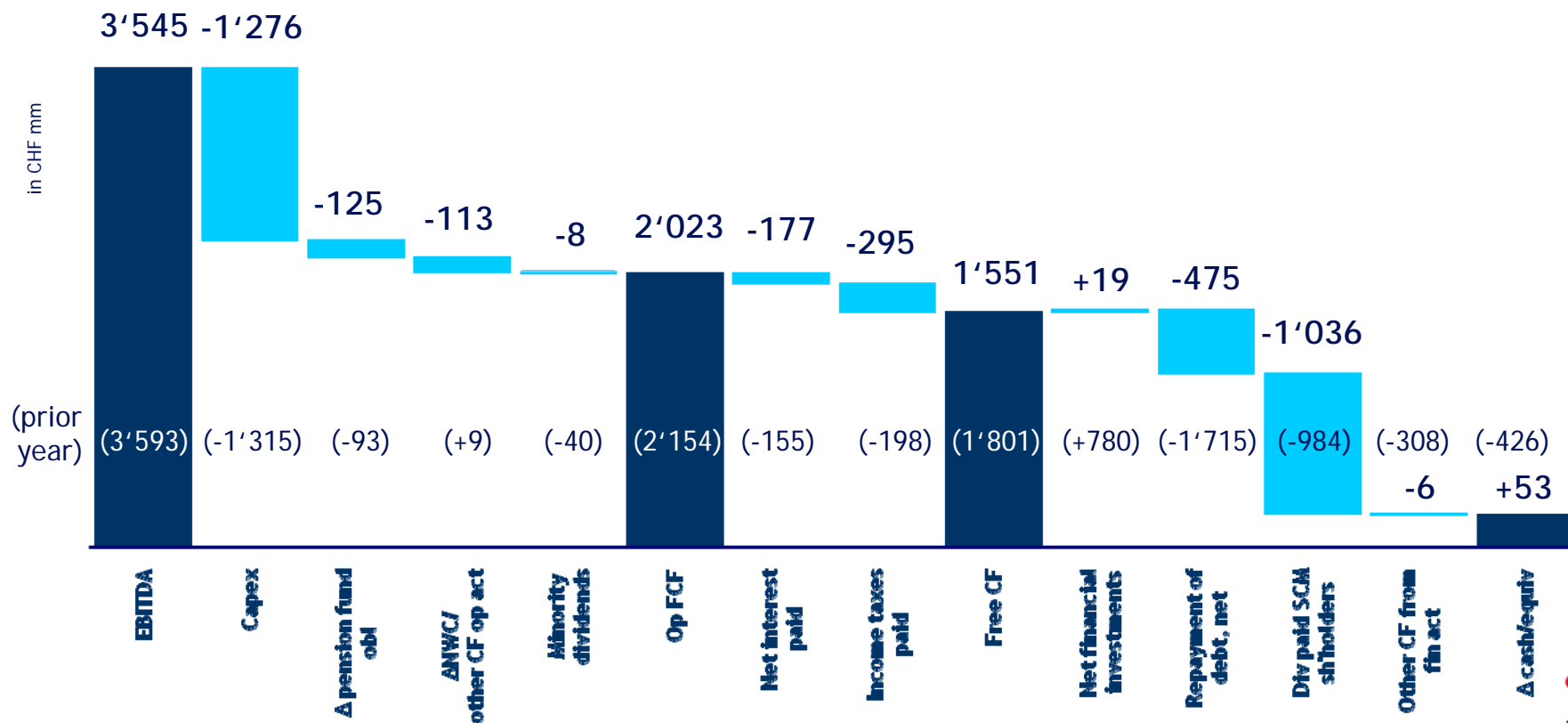
# Group YTD: P&L breakdown

EBIT and net income substantially lower compared to PY driven by EBITDA impact from Fastweb VAT provision as well as higher depreciation



# Group results - Cash flow breakdown

No cash flow impact from VAT provision. Despite lower capex and lower dividend payments to minority shareholders, operating free cash flow decreased by 131 MCHF due to the growth in net working capital



# Outlook 2010 - substantially improved

	previous guidance in CHF and €	expected change	new "guidance" in CHF bln (at assumed rate of 1.40 CHF/€)	comments
<b>Revenues</b>				
Swisscom without Fastweb (CHF bln)	9.15	+	9.35	Both less price erosion as well as higher volume growth than expected
Fastweb (€ bln)	<u>1.95</u>	-		Just under € 1.9 bln, largely caused by changed revenue recognition and lower wholesale revenues
<b>Proforma Group in CHF bln</b> (assuming avg of CHF 1.40/€)	11.9	CHF +100mm	12.0	FY2010 to be slightly better than originally expected
<b>EBITDA</b>				
Swisscom without Fastweb (CHF bln)	3.75	++	4.0	Less price erosion as well as higher volume growth than expected lead to higher revenues, which translates fully into higher EBITDA. Additionally some extra cost savings achieved
Fastweb without VAT provision (€ bln)	<u>0.58</u>	--		-5% lower than expected, largely caused by revenue recognition which impacts EBITDA
Proforma Group in CHF bln (assuming avg of CHF 1.40/€)	4.6	CHF +200mm	4.8	
VAT provision		€ -70mm	<u>-0.1</u>	
<b>Proforma Group including VAT provision</b>		CHF +100mm	4.7	FY 2010 better than expected despite CHF 100mm VAT provision and lower exchange rate
<b>Operating Free Cash Flow</b>	2.6	0	2.6	Stable despite VAT provision and slightly higher (IT) CAPEX Fastweb. W/o potential extraordinary payments from existing regulatory provisions.

# Questions & Answers

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# Cautionary statement regarding forward-looking statements

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