

# “Q2: second to none”

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Q2 2014 analyst and investor presentation  
Conference call  
20 August 2014



# Agenda Q2: second to none

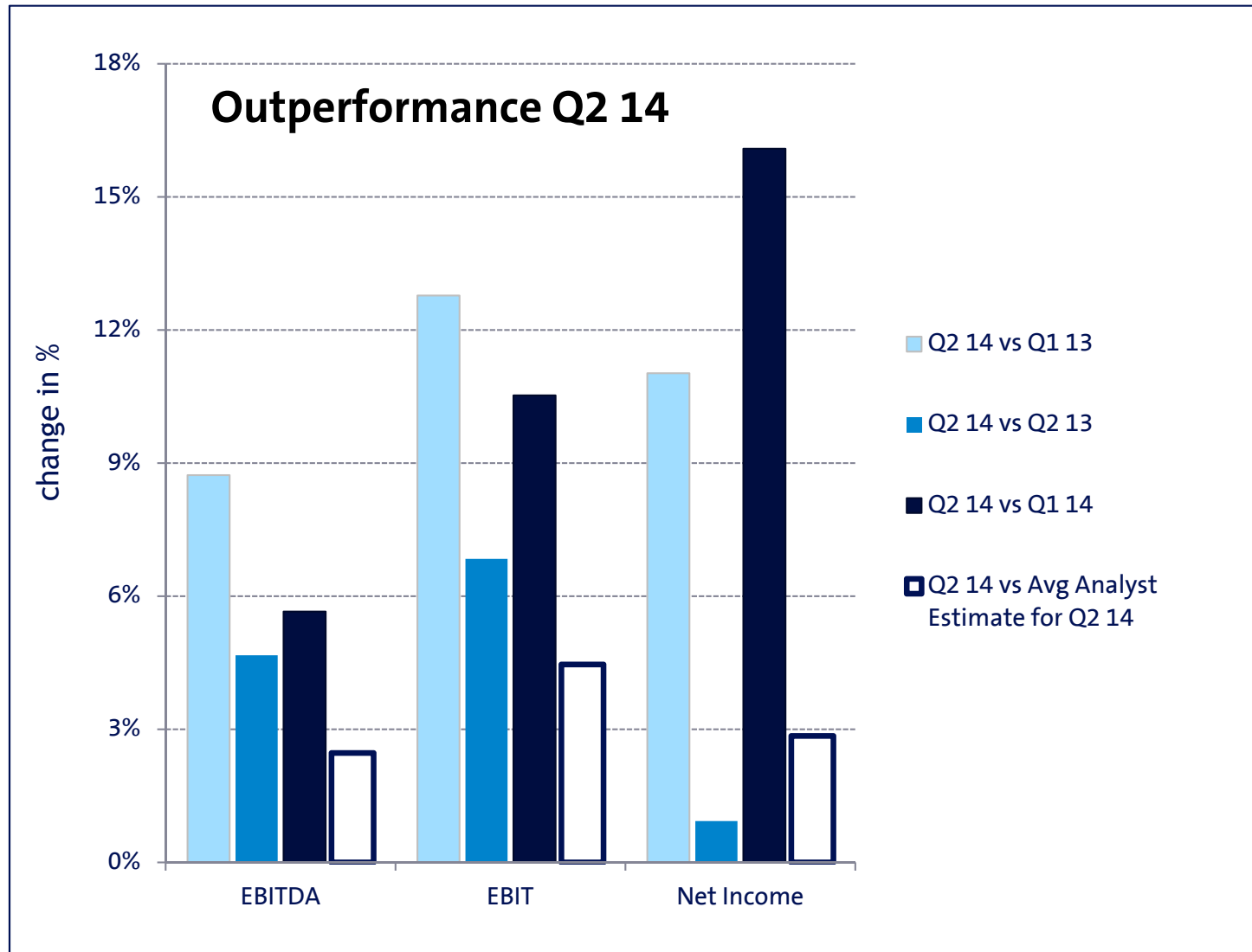
Ch.	Topic	Speaker
	Welcome & Introduction	Bart Morselt, IR
1	Q2: second to none <ul style="list-style-type: none"><li>• Q2 2014 outperformance</li><li>• Financials Q1 and Q2 solid</li><li>• Operational momentum strong</li><li>• Outlook for 2014 EBITDA increased</li></ul>	Urs Schaeppi, CEO
2	Group results P&L	Mario Rossi, CFO
3	Q&A	All
	Attachments	

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# Q2 2014: second to none

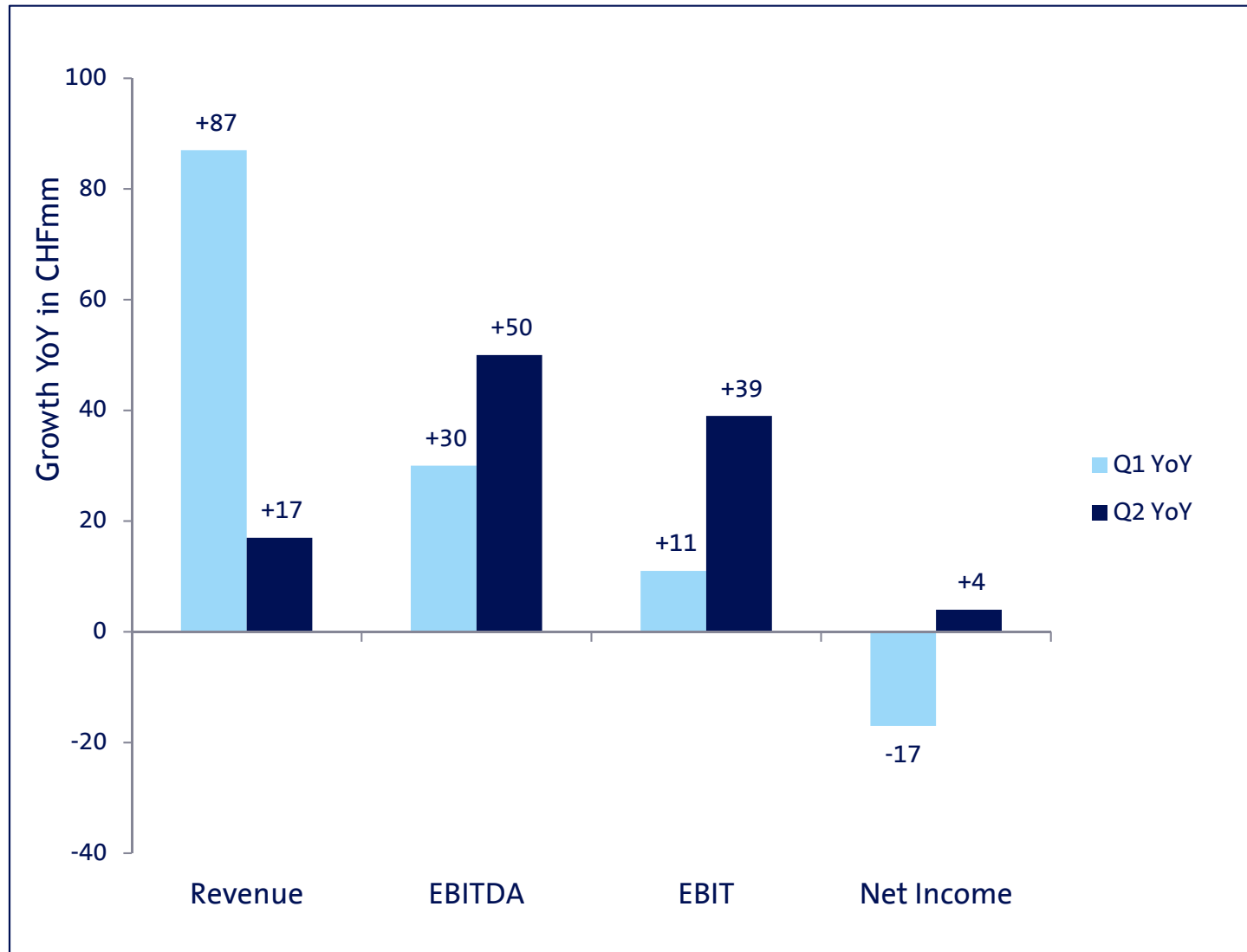
*Q2 2014  
profitability much  
better, both YoY  
and QoQ*



# Q1 and Q2 results solid. Growth YoY continues

*Reported EBITDA and EBIT growth even higher than revenue growth in Q2, especially caused by a shift in composition of the revenue growth away from low margin sales (e.g. in Q2 CHF 38mm lower hardware sales than last year)*

*Growth net income somewhat lower due to financial cost of interest swap (no cash out) and very low tax rate in Q2 2013*

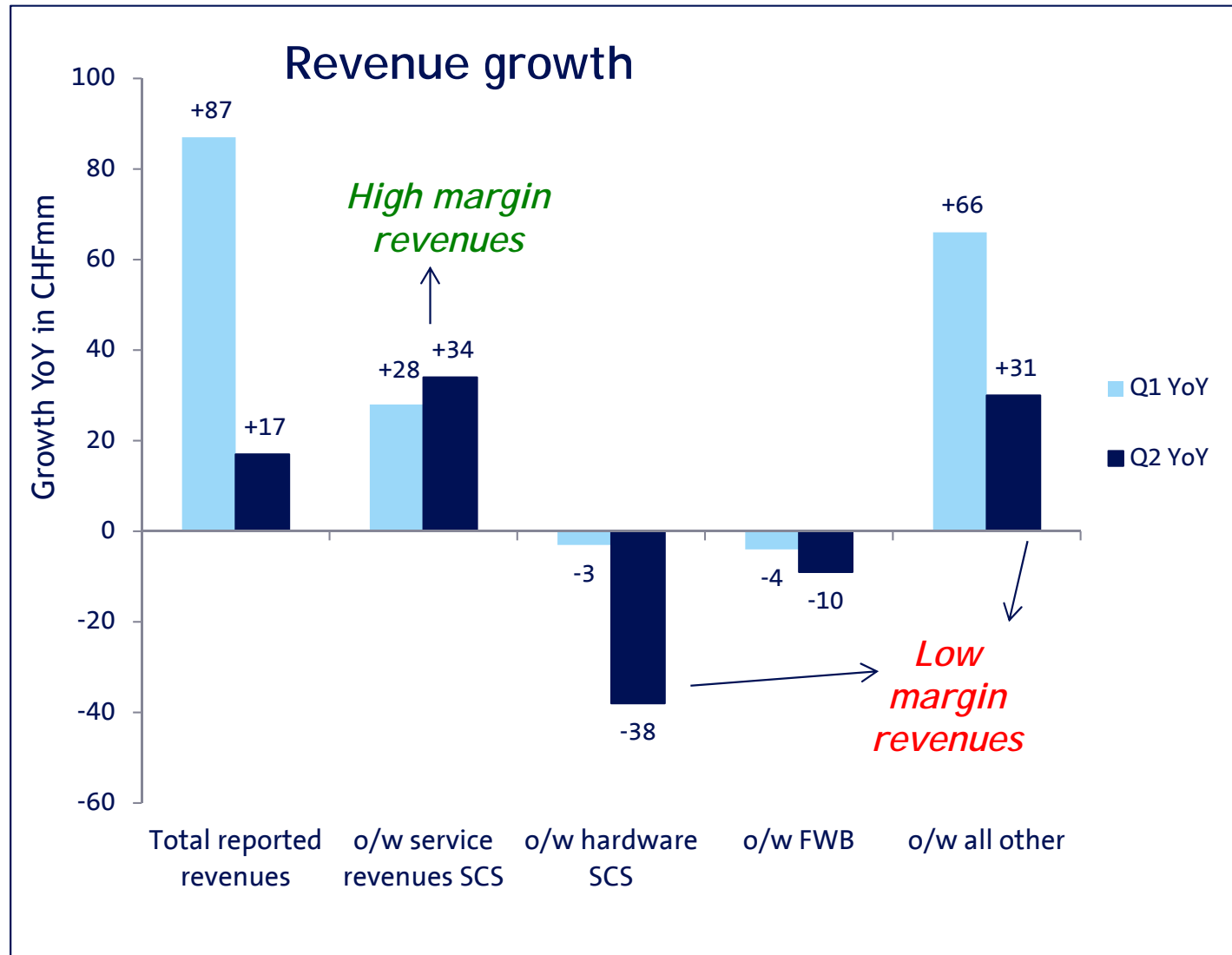


# Quality of revenue growth (+17mm in Q2) improved

Reported revenue growth in Q2 (+17mm) is 70 mm lower than in Q1

This lower growth however was caused solely by a decline in LOW Margin revenues, namely 38mm lower hardware sales (at „zero“ margin“) and lower growth of IT revenues

Core sales from high margin service revenue went up by +34mm compared to +28 mm in Q1

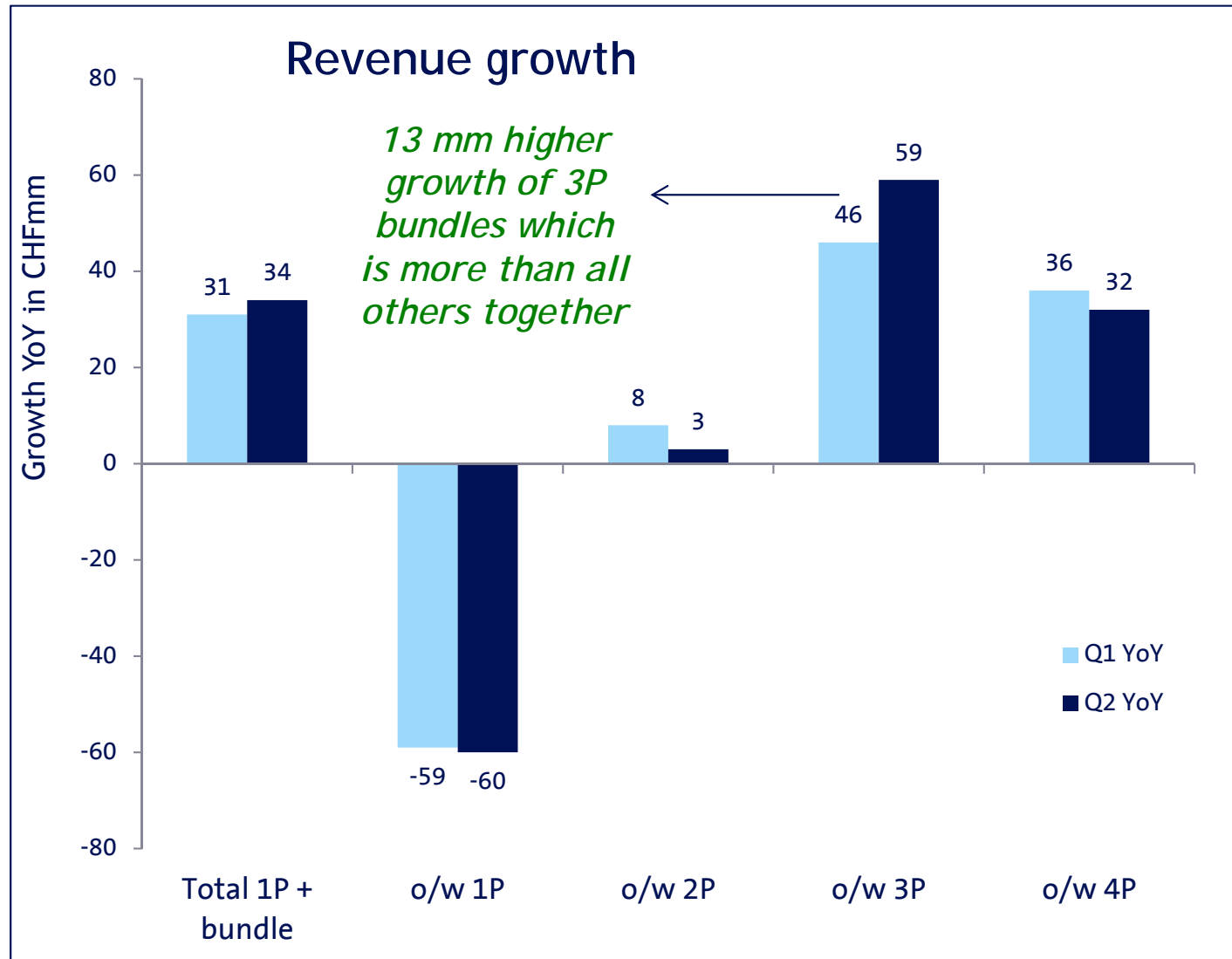


# Within service revenues, all bundles are growing, however 3P is the big driver, with mobile being a key driver

3P bundles very successful, growing CHF 59mm YoY in Q2 to CHF 238mm sales. Consists of 3 combination packages:

- TV, fixed voice & broadband (CHF +25mm YoY in Q2)
- Broadband, TV and mobile (CHF +21mm YoY in Q2)
- Fixed voice, broadband & mobile (CHF +13mm YoY in Q2)

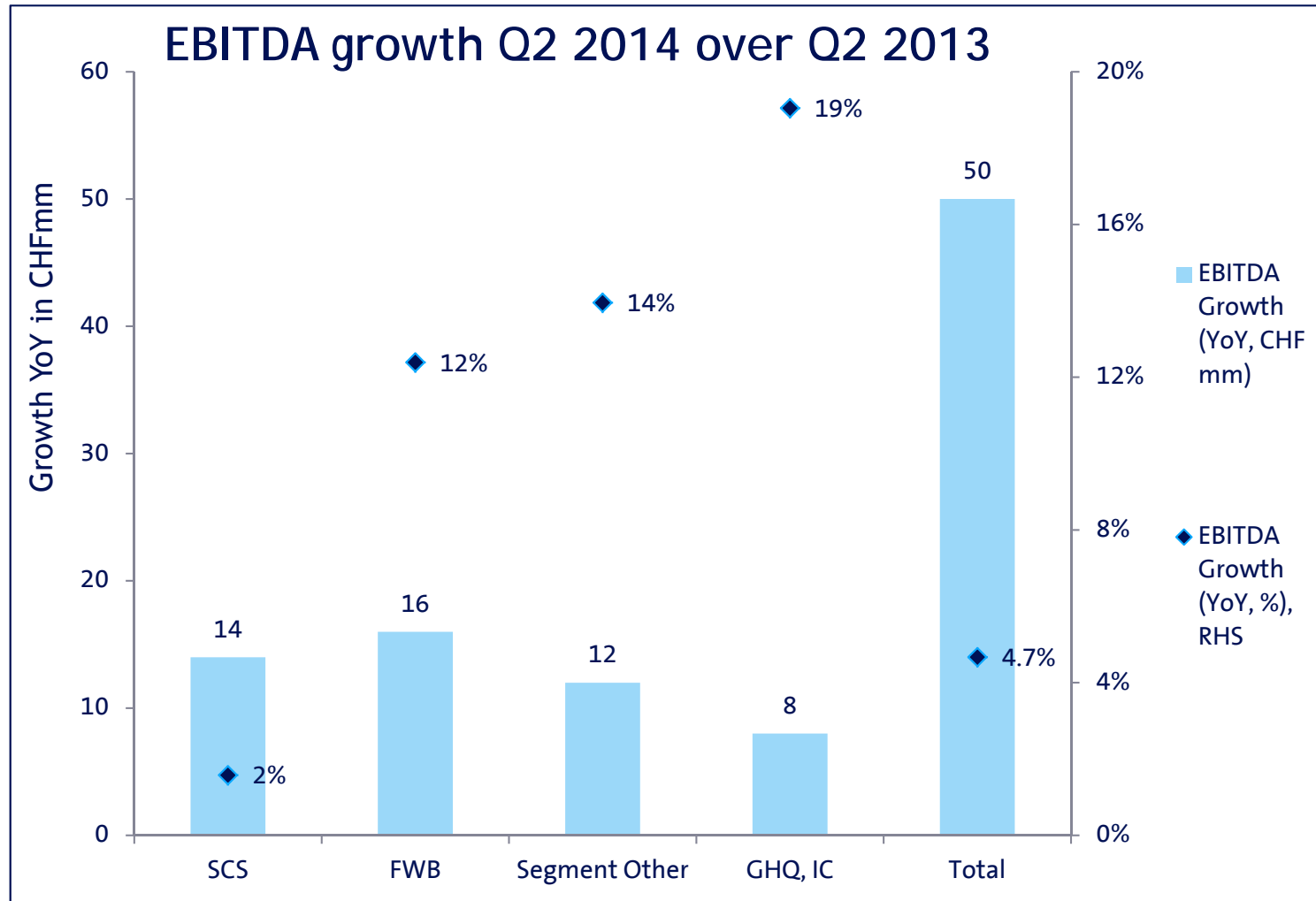
3P bundles that include a mobile component, account for 58% of growth (CHF 34mm)



# Reported EBITDA growth across the board

*Pretty even absolute contribution by segments to total reported EBITDA growth in Q2*

*Reported EBITDA growth in Q2 of 4.7% YoY includes some one-off gains (s. next page), however is also positive without these one-offs*





# Normalised EBITDA trend stable from Q1 to Q2

*Reported EBITDA in Q2 has gone up with CHF 50mm compared to Q2 2013*

*Underlying performance (without acquisitions, real estate, etc.) has stabilized with an increase of +CHF 26mm compared to Q2 2013*

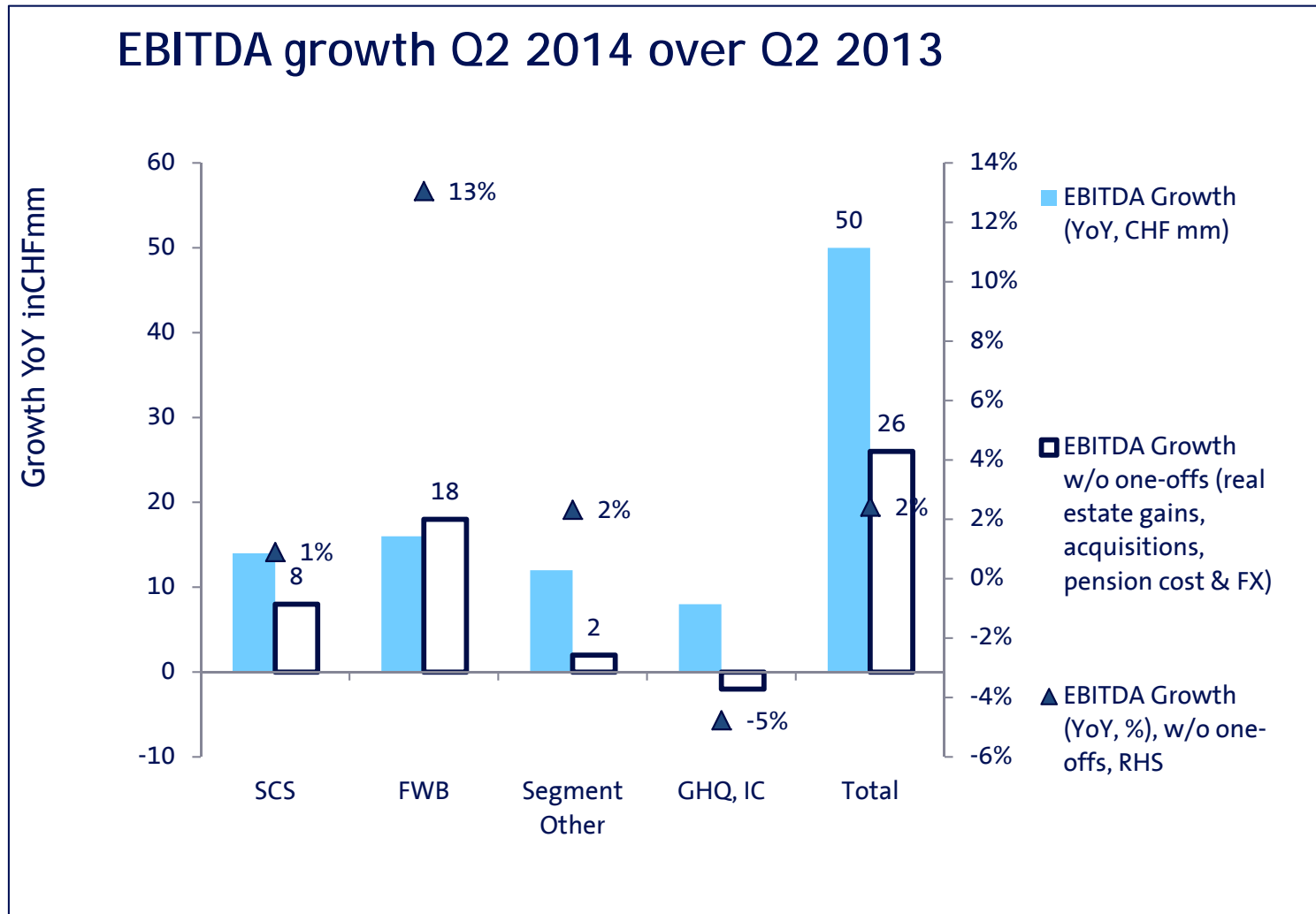
## EBITDA development YOY (CHF mm)

	Q1	Q2	H1
Swisscom Switzerland	17	14	31
Fastweb	13	16	29
<i>o/w effect of lower regulated costs</i>	<i>8</i>	<i>9</i>	<i>17</i>
All other	0	20	20
<b>Reported EBITDA</b>	<b>30</b>	<b>50</b>	<b>80</b>
<i>o/w</i>			
M&A impact	9	2	11
Real estate gain	0	11	11
Currency impact	0	-2	-2
Pension and restructuring cost	-6	13	7
<b>Normalised EBITDA</b>	<b>27</b>	<b>26</b>	<b>53</b>

# Normalised EBITDA growth still strong

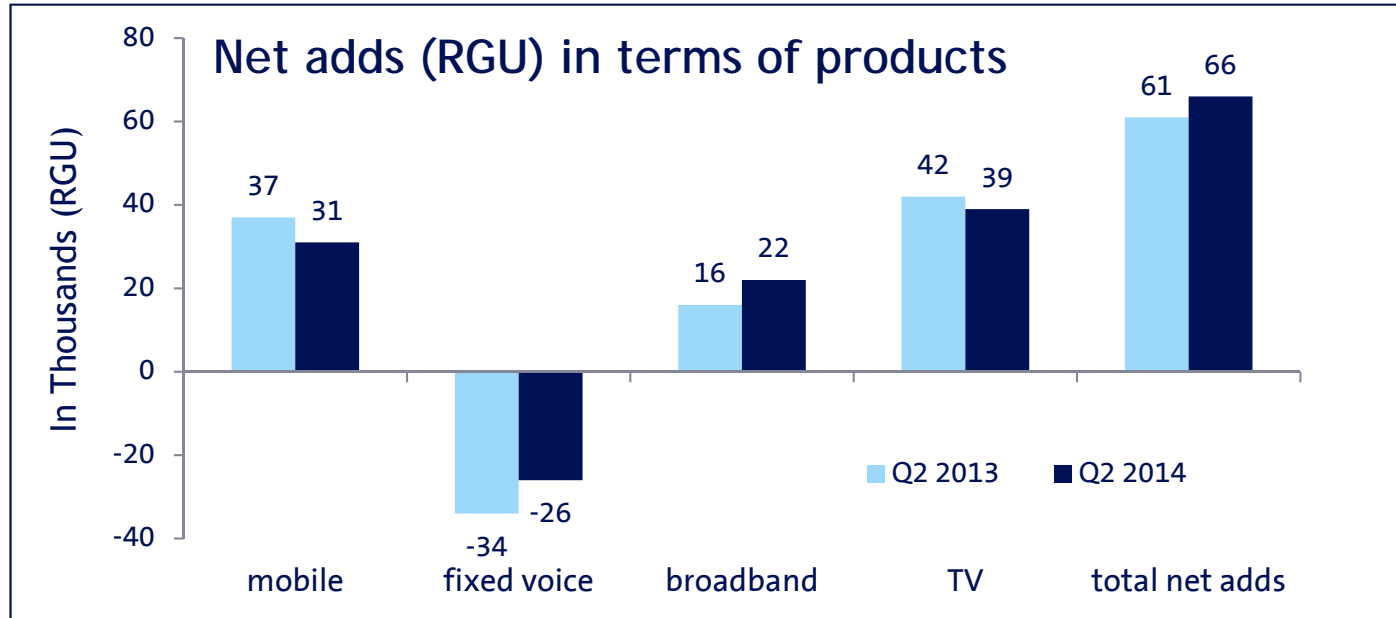
*EBITDA growth in Q2 if corrected for acquisitions, lower pensionfund cost, real estate gains and FX, still amounts to CHF 26mm (+2.4%).*

*Especially Fastweb is profiting from continued cost control including lower ULL and MTR fees*

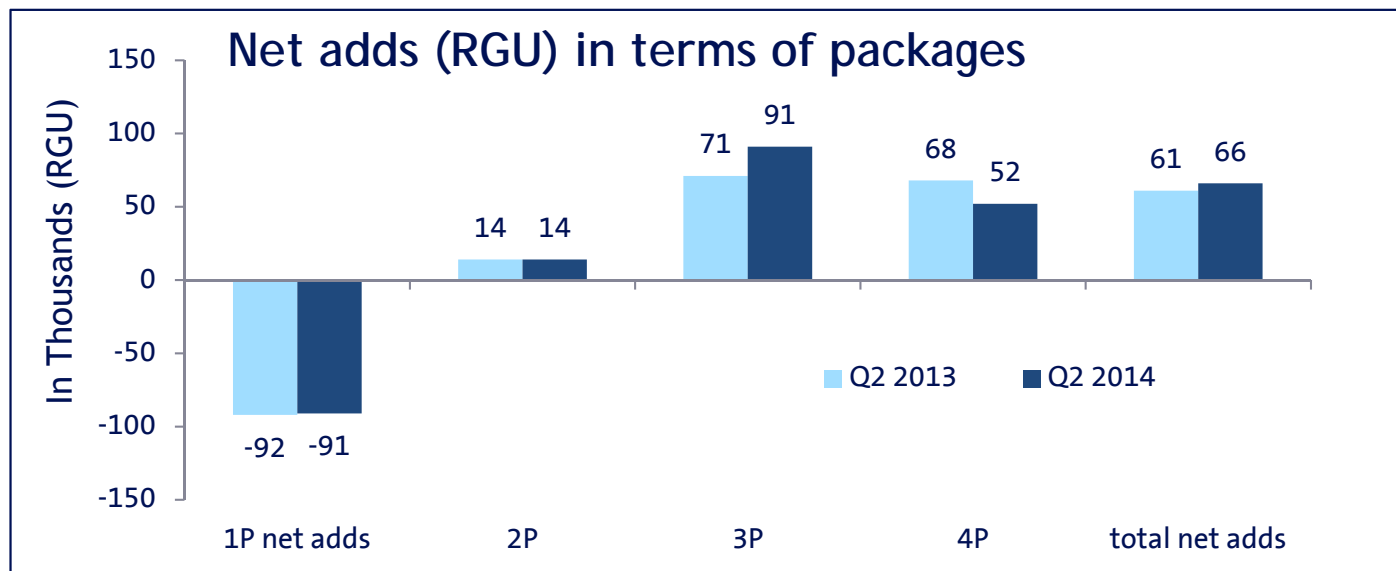


# Operational momentum strong - net adds Switzerland

*Net adds RGUs in Q2 up 8% compared to Q2 2013. Key drivers are lower line loss fixed voice, and higher broadband adds*



*Net adds in terms of how the products were sold (as single play or as a bundle), shows that esp. 3P growth has been the key driver*

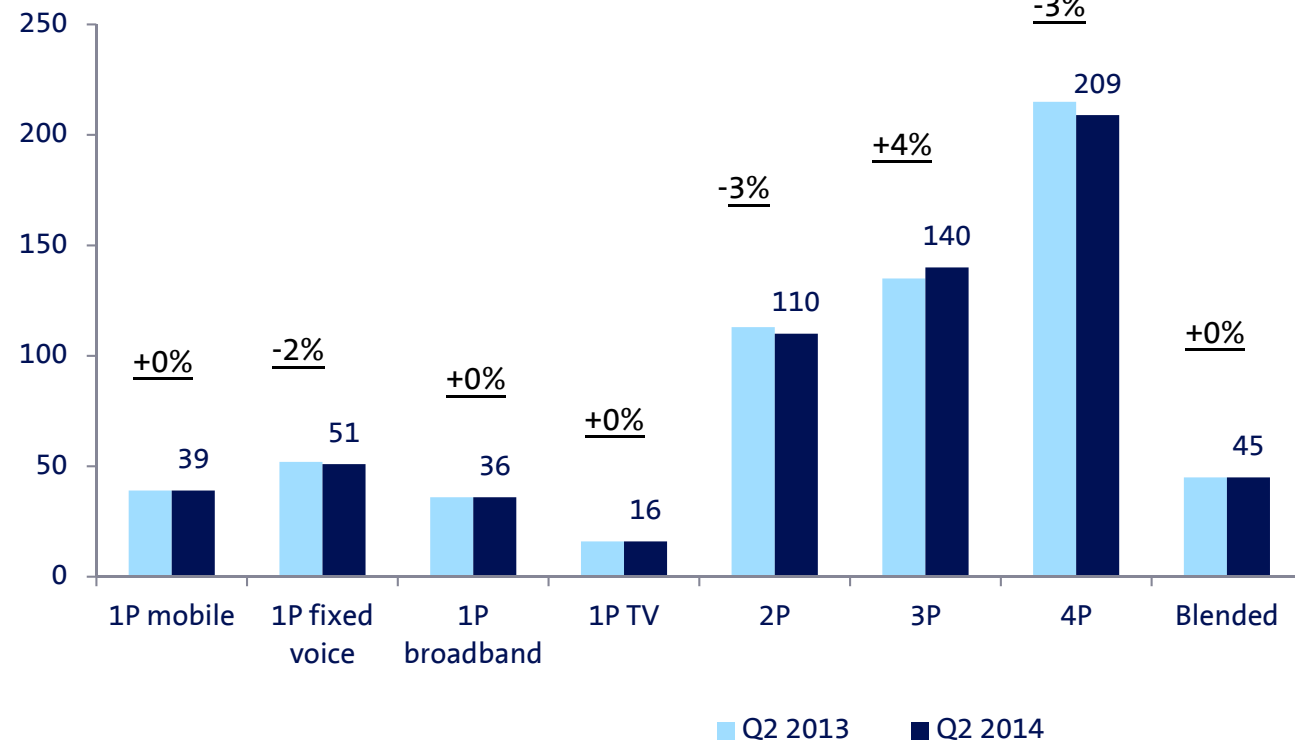


# Operational momentum strong - ARPU Switzerland

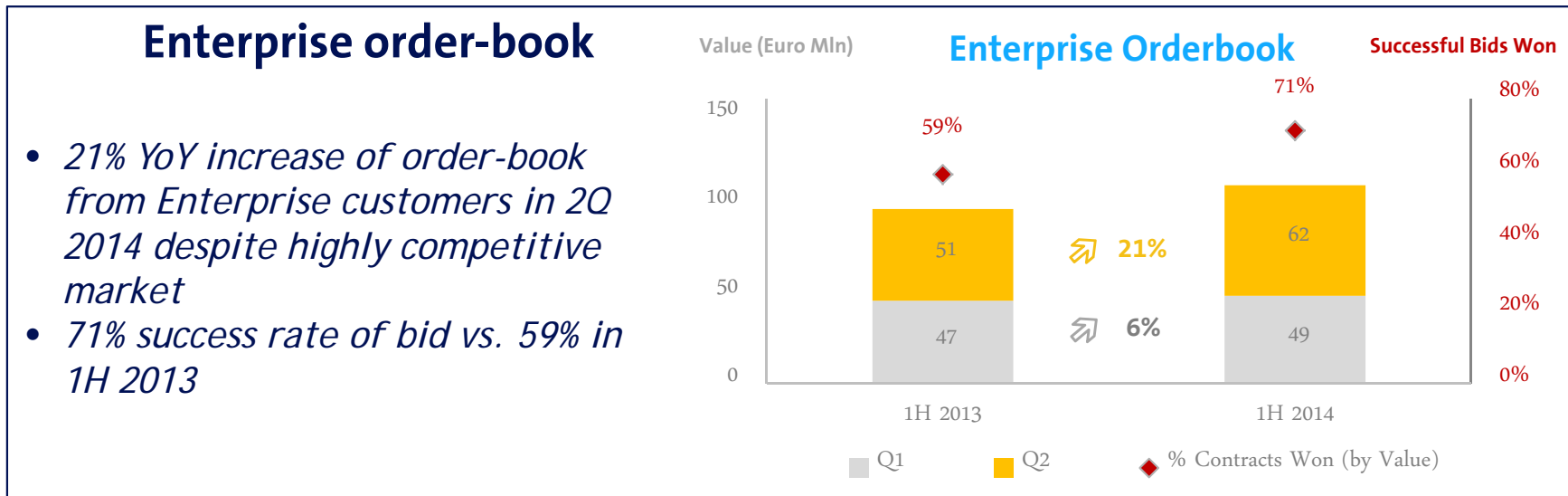
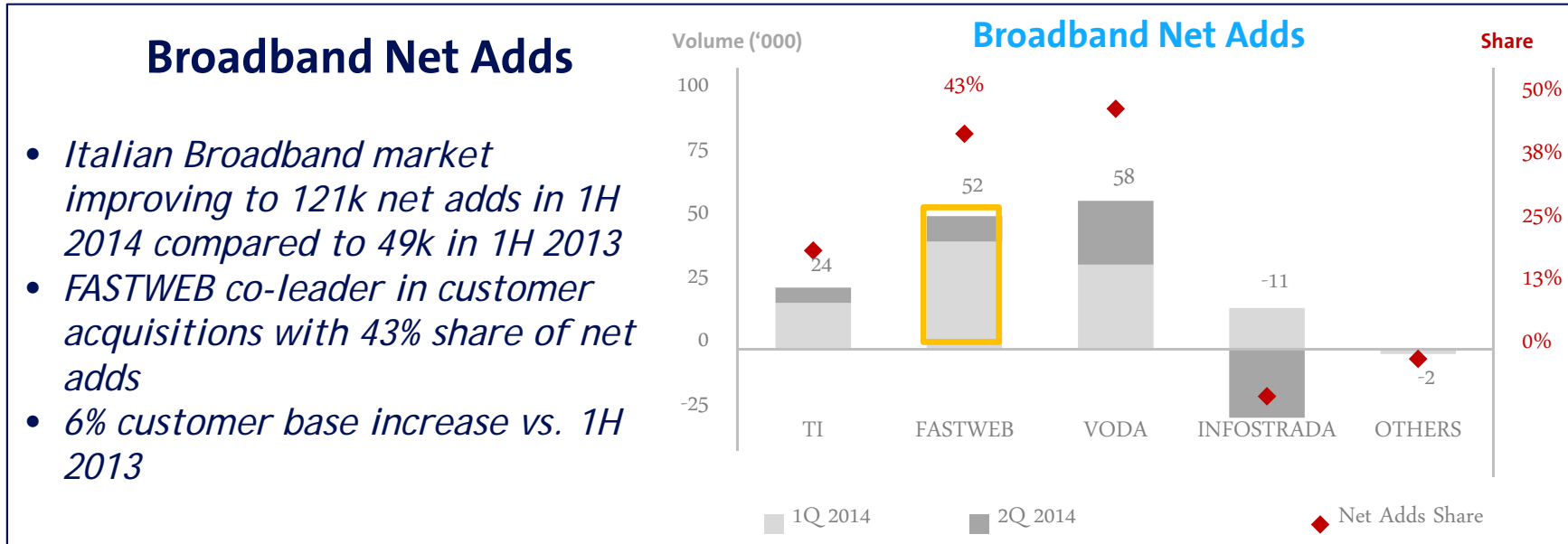
*ARPU declines momentum in bundles has come down to a maximum of 3% p.a. only (2P and 4P), while single play ARPUs are nearly stable*

*With 4% ARPU growth in the fastest growing 3P line of products, the blended ARPU over all products together has stabilized at CHF 45 per month*

### ARPU (CHF/month) in the respective quarter



# Operational momentum strong - FASTWEB



# Operational momentum strong - FASTWEB also with solid underlying financial results

14

## **Steady revenues**

Revenues in line with 1H 2013, up 1% YoY net of low margin wholesale hubbing

## **Strong EBITDA trend**

12% YoY EBITDA growth at 236 Mln Euro in the first half  
Net of the positive effect of lower LLU/BS regulated costs, EBITDA growth equal to >5%  
Margin increase from 26% in 1H 2013 to 29%

## **CAPEX increase mainly due to FTTS roll out**

284 Mln Euro invested in 1H 2014, 20% of which for NGN roll out

## **Positive FCF trend excluding FTTS**

Not considering FTTS, FCF is positive by almost 40 Mln Euro and increasing YoY

# Outlook for 2014 EBITDA increased

## Revisited guidance 2014 for EBITDA (CHF >4.4 bln)

2013 Actual  
CHF 4.3 bln

⇒

2014 Guidance  
CHF 4.35 bln

⇒

2014 Revisited  
CHF > 4.4 bln

- In H1 2014, CHF 80mm EBITDA growth was realized vs H1 2013. Of this, CHF 53 mm was “clean” underlying operational performance, and 27mm one-offs
- In H2, expect another 40-60mm growth, of which around half will be one-off (expected real estate gains to be partially compensated by lower YoY effect from ULL fees at Fastweb which were all booked in Q4 2013 for the full year 2013). No additional YoY effect from recent acquisitions (Cinetrade, Entris). Potential small upside from PubliGroupe acquisition (upon consolidation in Q4)
- Growth rate of operational EBITDA growth in H2 to come down, especially as H2 2013 was already strong (e.g. from positive Infinity effect on ARPU)

Unchanged guidance 2014 for  
revenues (CHF 11.5 bln) and CAPEX (CHF 2.4 bln)

# Update on public takeover bid for PubliGroupe

16

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- The primary aim of the transaction is to fully control local.ch and to continue developing its strategic directories business in its existing market environment
  - The offer is based on a price of CHF 214 per registered share
  - On 11 August 2014 (final interim results), 71.53% of all PubliGroupe shares were tendered and Swisscom's interest in PubliGroupe totals to 90.59%
  - The offer extension period ends on 25 August 2014. Approval of the competition commission still pending
  - The closing of the transaction is foreseen for 8 Sept. 2014 leading to a cash-out of CHF 475mm and followed later on by a delisting. Expected annualised impact on EBITDA of CHF +20mm (total EBITDA contribution moves from CHF 40 to 60mm)
  - Swisscom intends to sell the minority shareholding in the media companies and to support the announced sale of FPH Freie Press Holding AG to NZZ (with a positive cash-in of approx. CHF 50mm in Q4 2014)
  - For the other shareholdings and assets of PubliGroupe, Swisscom will consider all options
  - Following Swisscom's takeover of PubliGroupe, Swisscom and Tamedia plan to incorporate the companies local.ch and search.ch in a joint subsidiary (likely in H1 2015, and subject to regulatory approval). Swisscom will hold 69% of the joint subsidiary and consolidate the company, while Tamedia will hold the remaining 31%. From the merger, Swisscom expects to generate another CHF 20-30mm higher annual EBITDA esp. through synergies, leading to a total EBITDA contribution for the group by then of upto CHF 90mm p.a.



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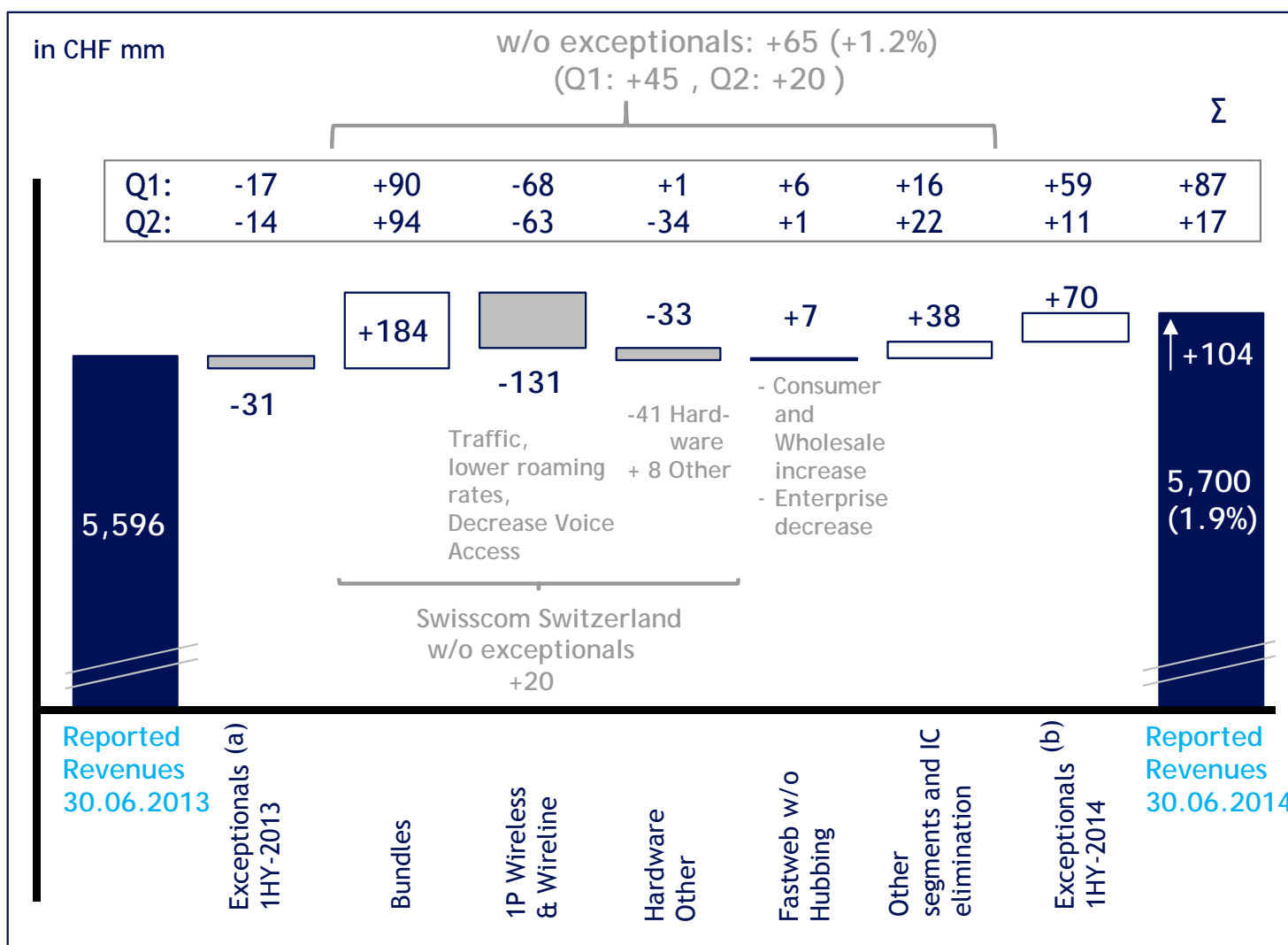
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# Group results

## Revenue breakdown

Without FX, hubbing and M&A effects, revenue went up CHF 65mm YOY (1.2%).

Underlying top-line of Fastweb went up by CHF 7mm YOY, Consumer segment and Wholesale with increase, Enterprise with decrease.



(a) Hubbing Fastweb (CHF -31mm)

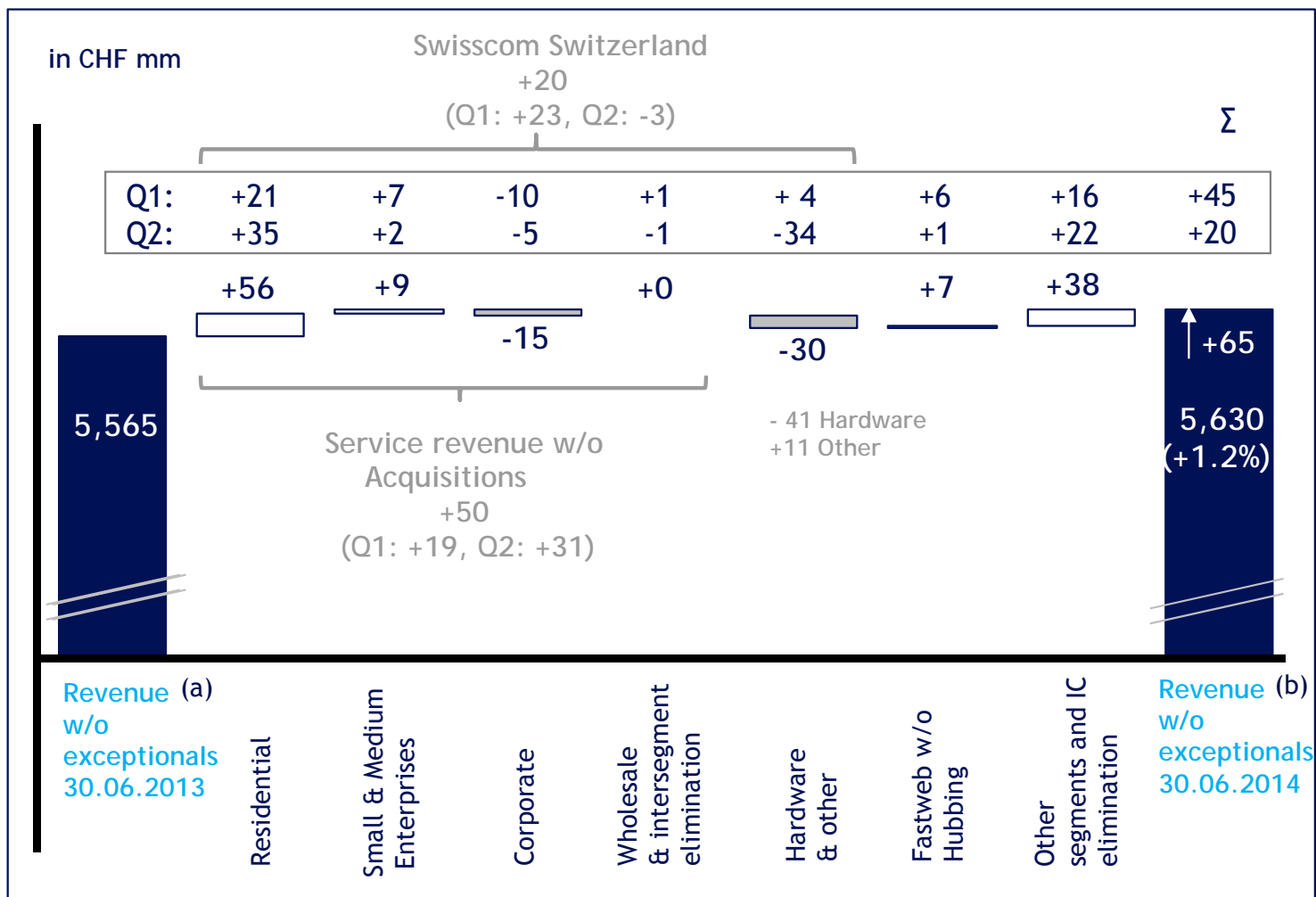
(b) Acquisitions (CHF +60mm), Hubbing Fastweb (CHF +18mm), change exchange rate (CHF 8mm, weakening of Euro against Swiss Franc of 0.8%)

# Group results

## Revenue breakdown by segments

*Underlying Service Revenue of Swisscom Switzerland up CHF 50mm, partly compensated by lower Hardware Sales.*

*Fastweb underlying revenue up CHF 7mm.*

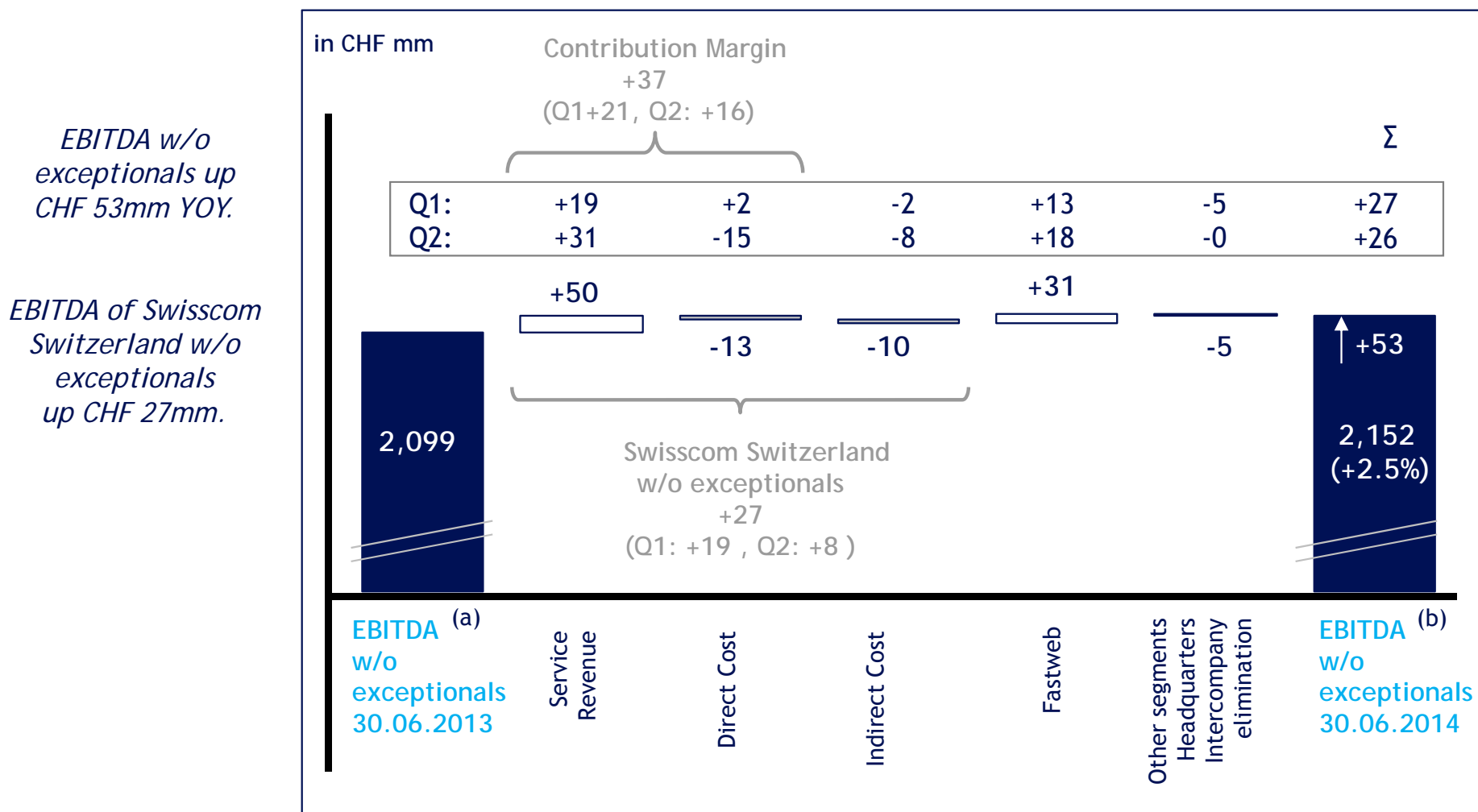


(a) Without Hubbing Fastweb (CHF -31mm)

(b) Without Acquisitions (CHF -60mm), Hubbing Fastweb (CHF -18mm), change exchange rate (CHF 8mm, weakening of Euro against Swiss Franc of 0.8%)

# Group results

## EBITDA breakdown



(a) Without release of provisions (CHF +3mm)

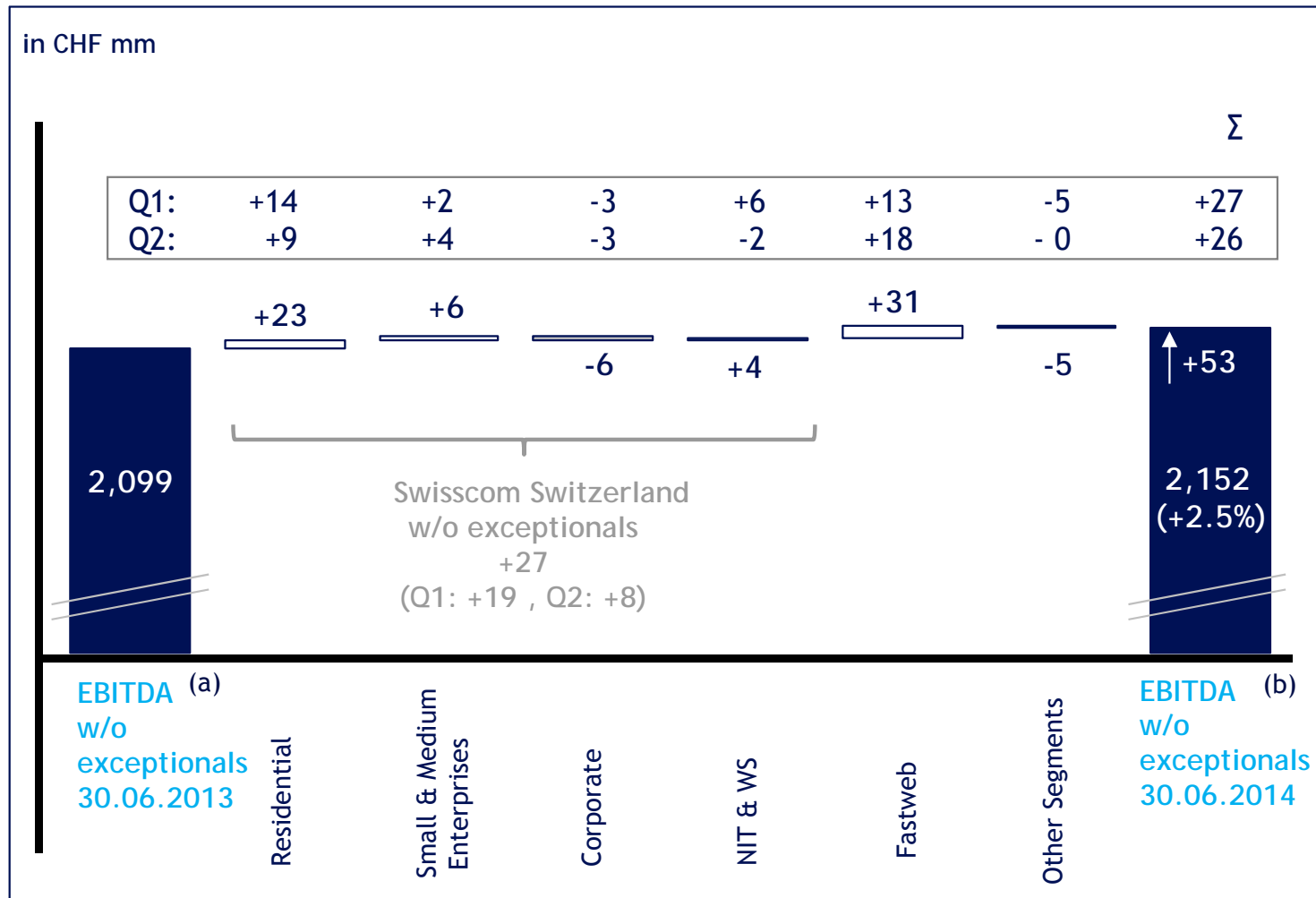
(b) Without M&A (+11mm), additional gain on sale of real estate (+11mm), lower Pension cost (+10mm), change exchange rate (CHF -2mm), weakening of Euro against Swiss Franc of 0.8%)

# Group results

## EBITDA breakdown by segments

EBITDA of Swisscom Switzerland w/o exceptionals up CHF 27mm.

EBITDA of Fastweb up CHF 31mm.



(a) Without release of provisions (CHF +3mm)

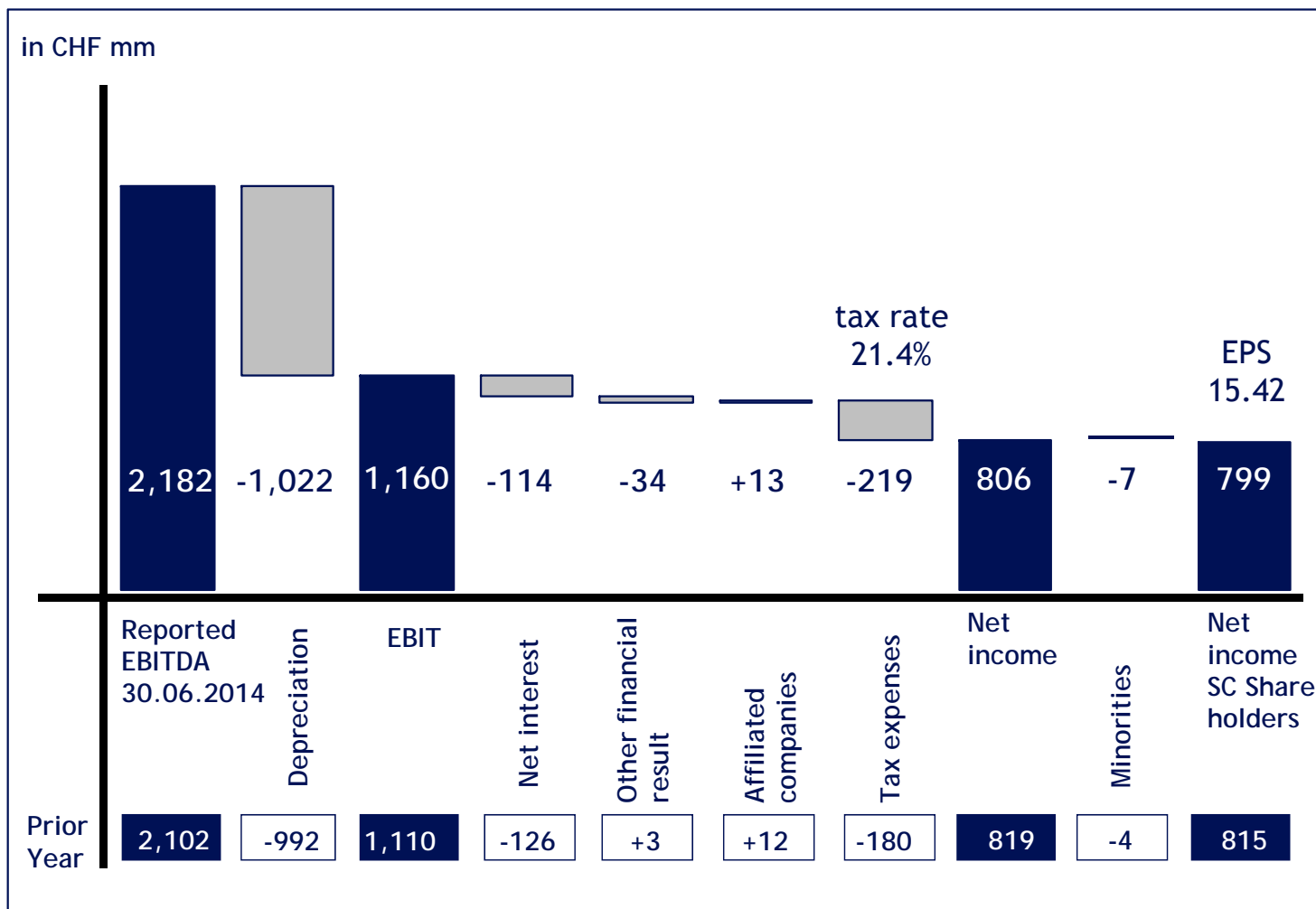
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# Group results

## Net Result

*In 1HY 2014, net income of the group amounts to CHF 806 mm.*

*Earnings per share equals to CHF 15.42.*



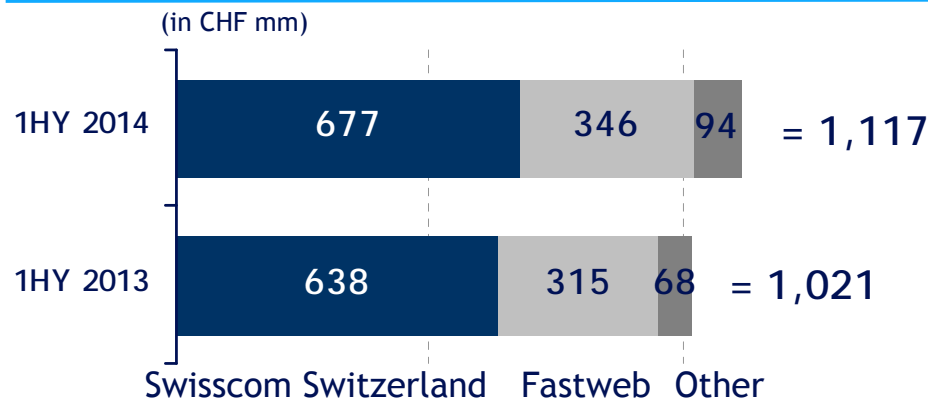
# Group results

## CAPEX

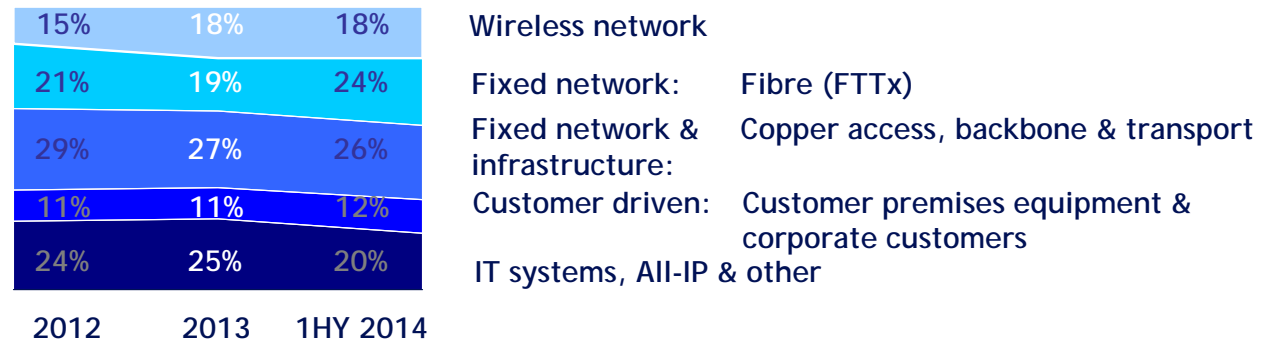
*Ongoing FTTx rollout leads to higher CAPEX at Swisscom Switzerland.*

*CAPEX increase at Fastweb is mainly due to the expansion of the fibre-optic network.*

in CHF mm  
**Increase YoY (CHF +96mm) driven by expansion of fibre networks**



**Swisscom Switzerland with increasing capex in fibre network**

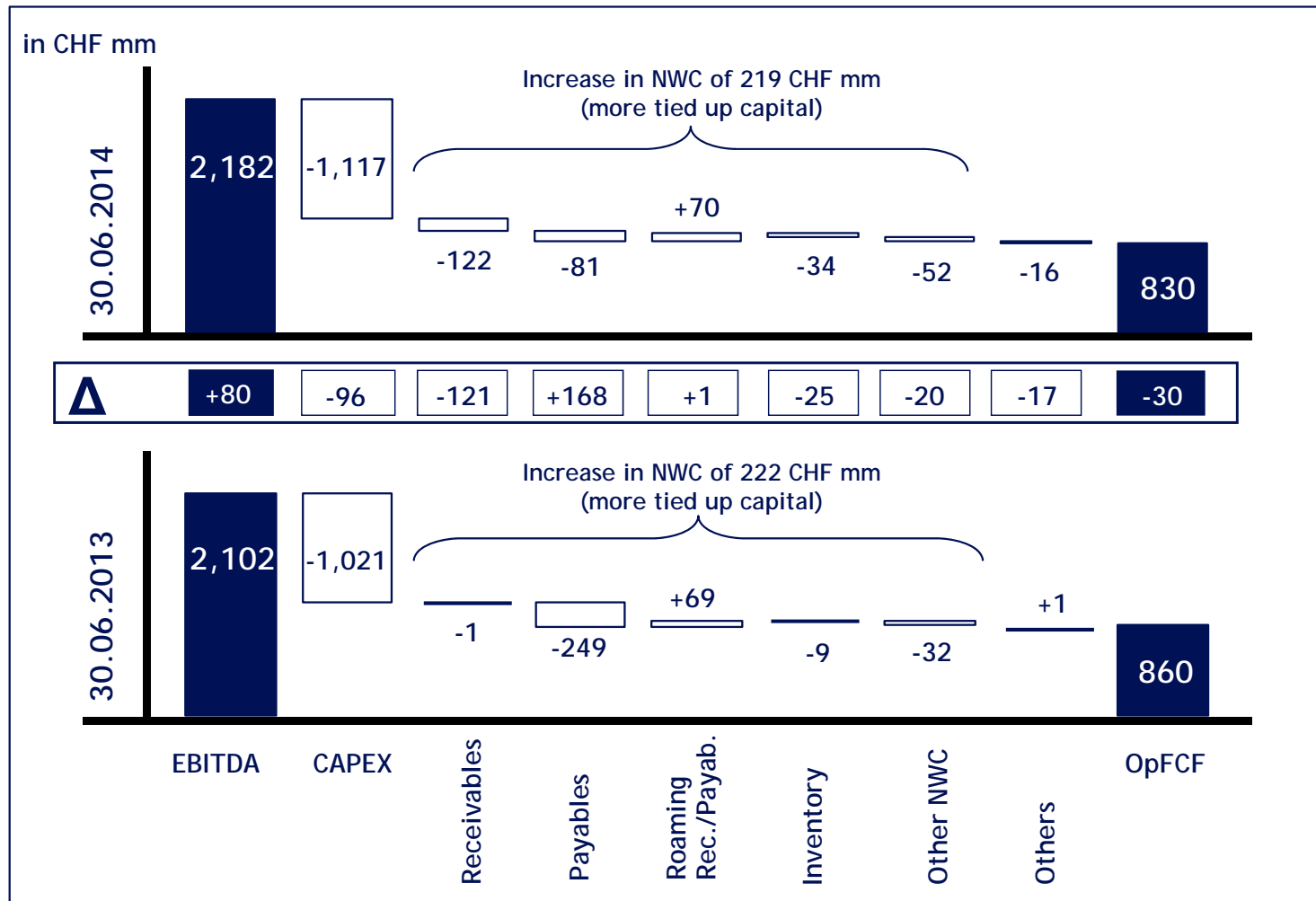


# Group results

## OpFCF

Higher capital expenditures mainly for the fibre-optic networks led to a lower OpFCF of CHF -30 mm.

In 1HY 2014 the change of NWC is on the level of previous year.





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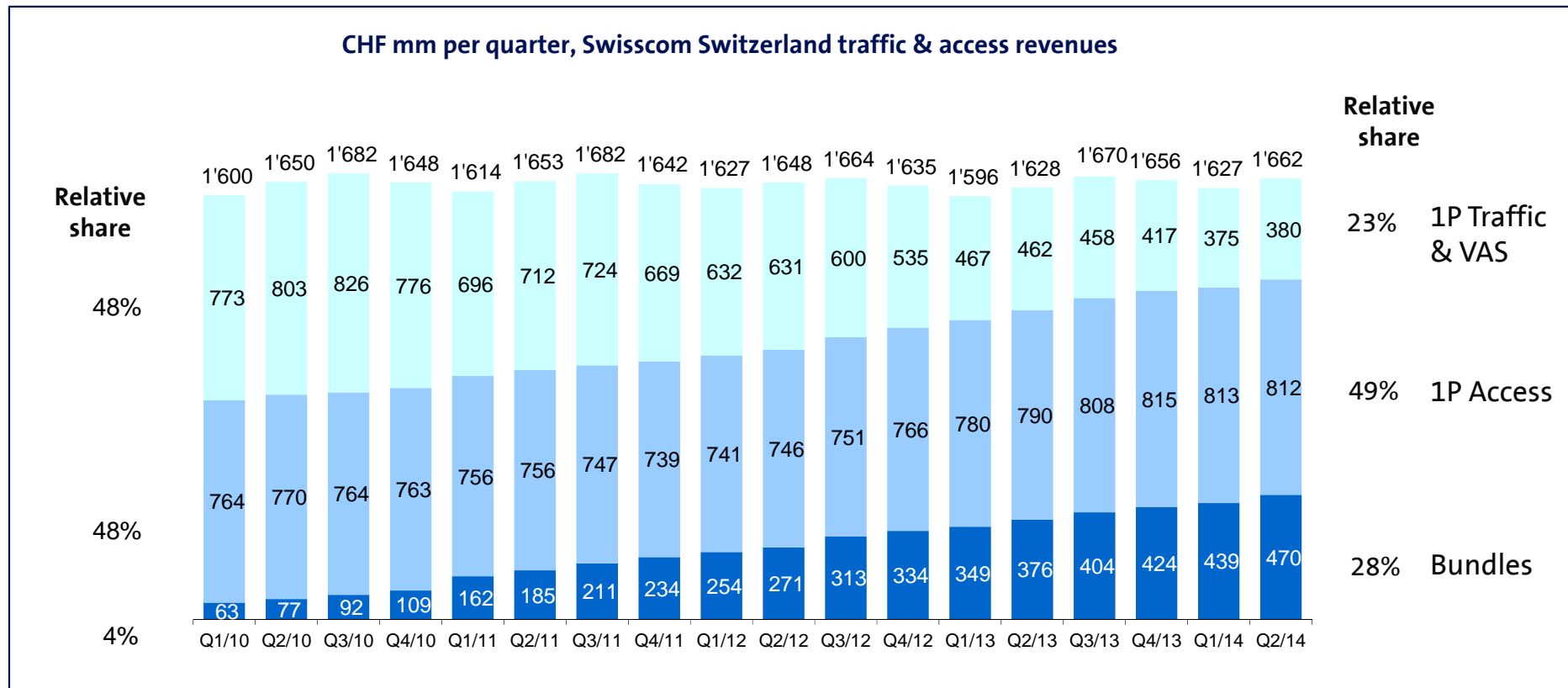
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# Bundles replacing 1P

Business model for local telco can no longer rely on usage based charging

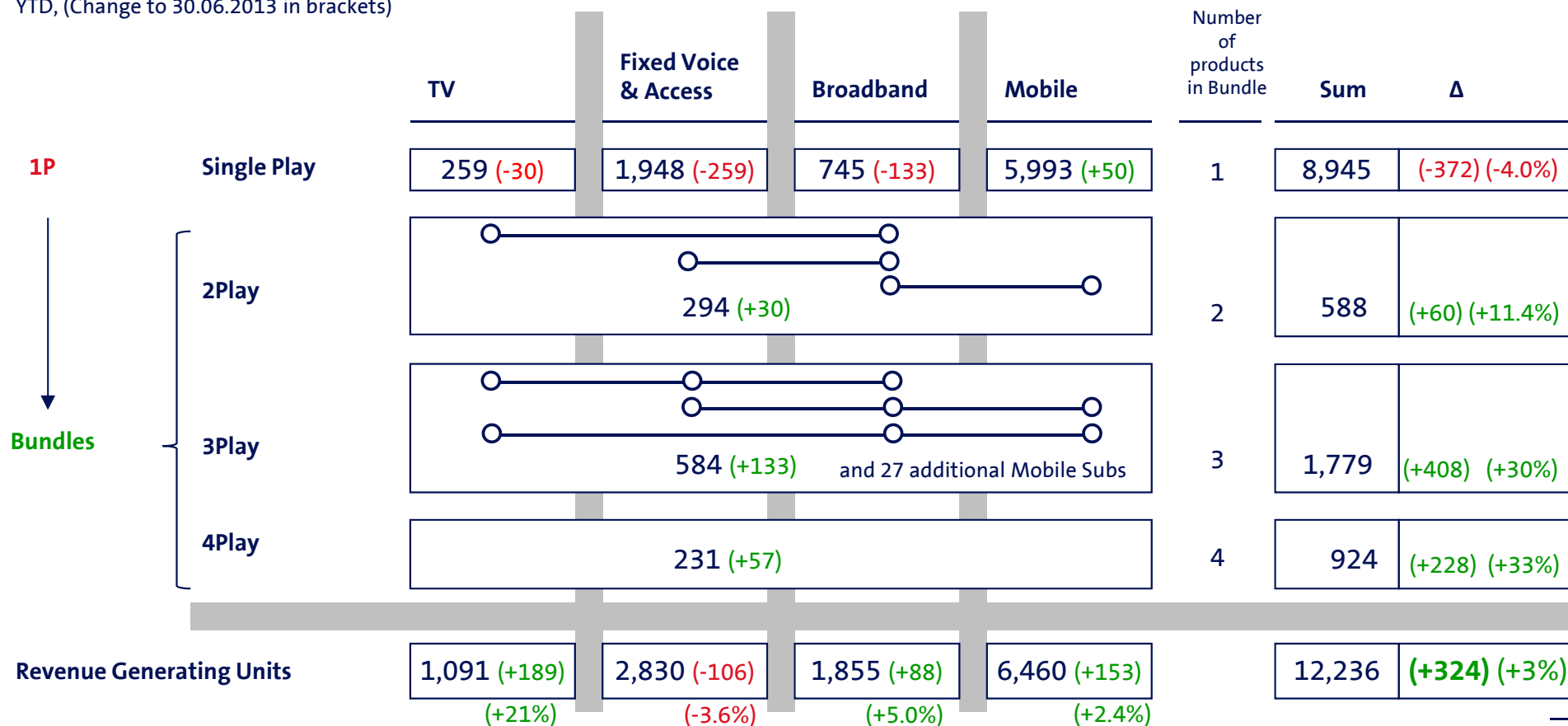


Bundles & Access revenues now represent 77% of revenues compared to 52% 4 years ago.

# RGU's

## Swisscom Switzerland Access Lines/Subs/Products (000)

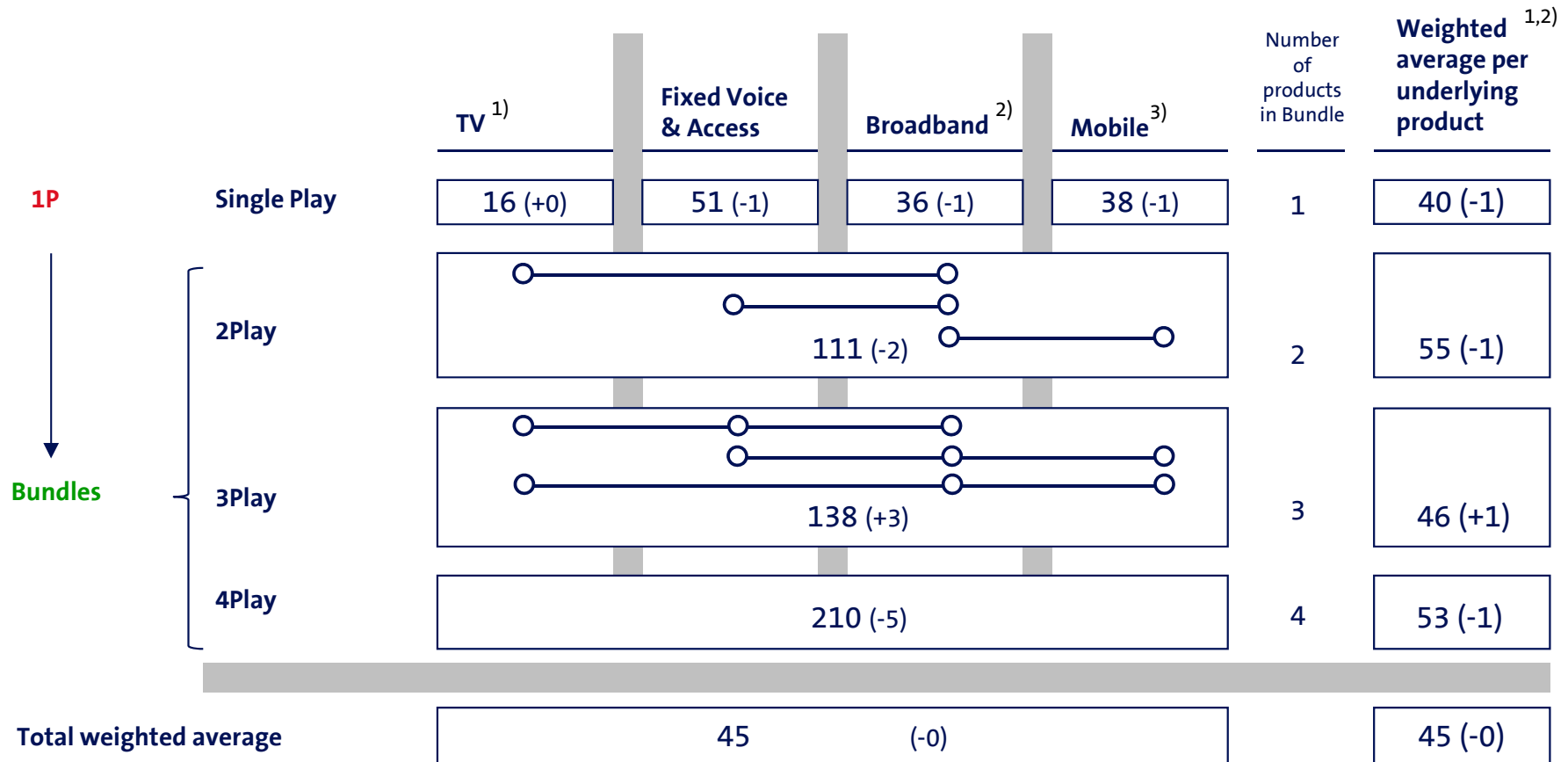
YTD, (Change to 30.06.2013 in brackets)



Number of revenue generating units up by +2.7% YOY.

# ARPU

YTD, (Change to 30.06.2013 in brackets)



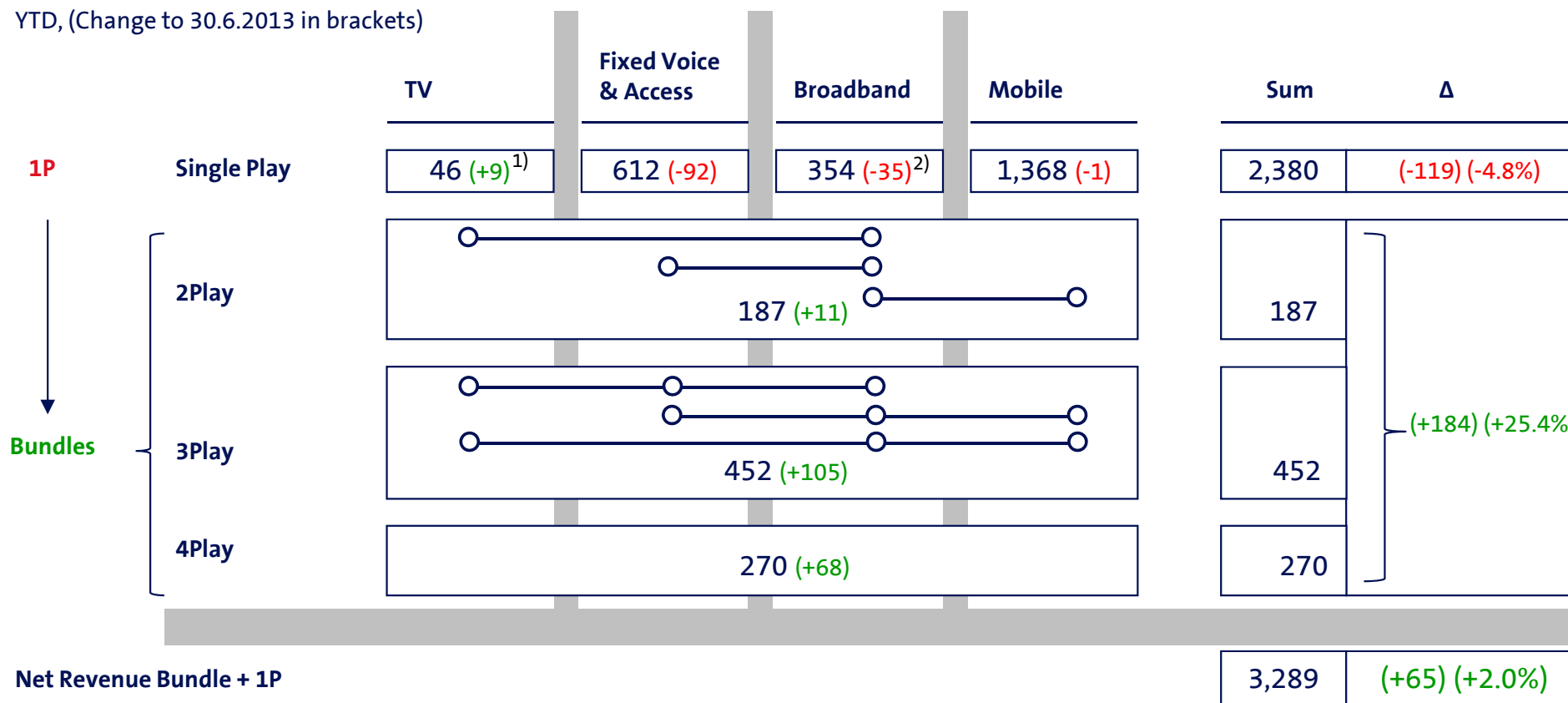
Move to bundles implies up-scaling to higher ARPUs

- 1) ARPU Base Fee
- 2) ARPU excl. Business Networks
- 3) ARPU excl. Mobile Termination

# Revenues (RGU x ARPU)

## Net revenues (CHF mm)

YTD, (Change to 30.6.2013 in brackets)



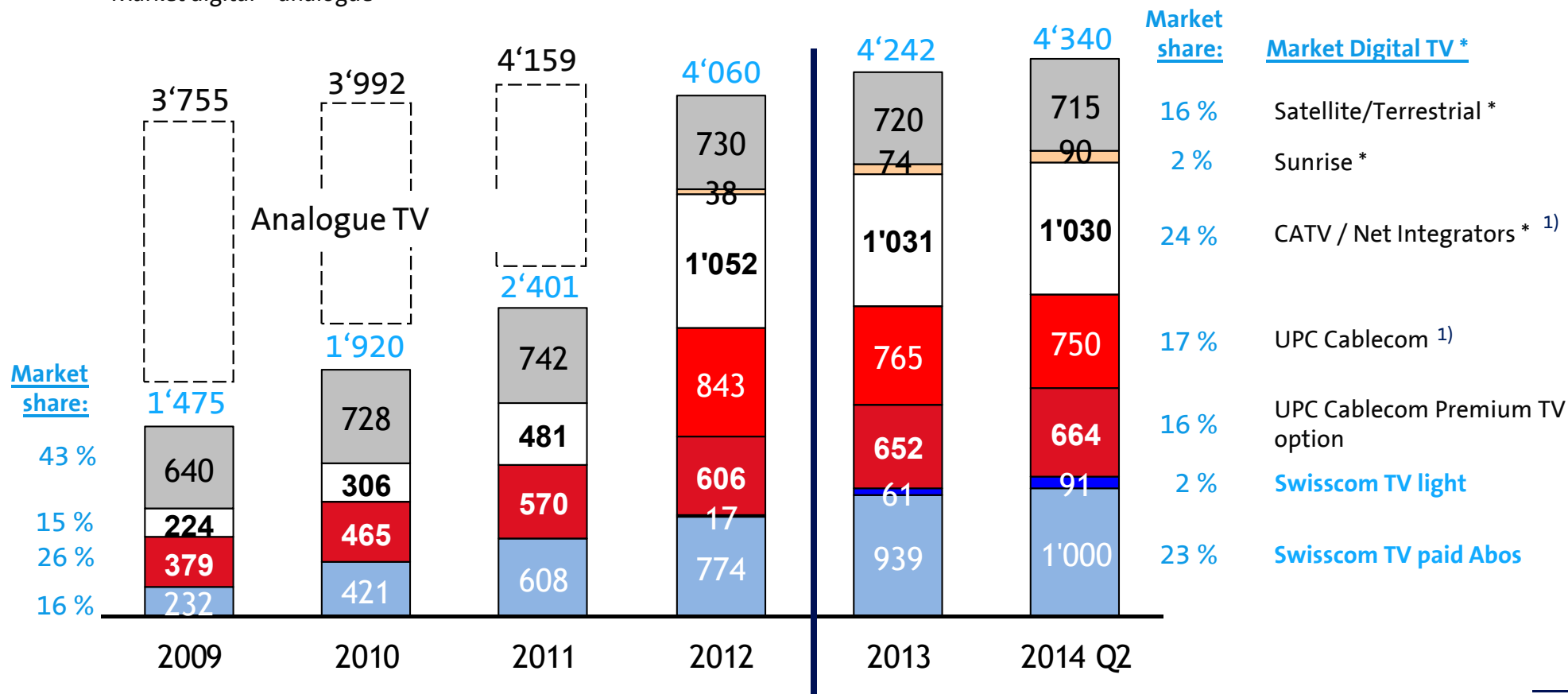
1) includes impact from acquisition Cinetrade.

2) including revenues for business networks/internet which are not included in retail broadband ARPU

# TV market Switzerland

## Market volumes (000) digital TV

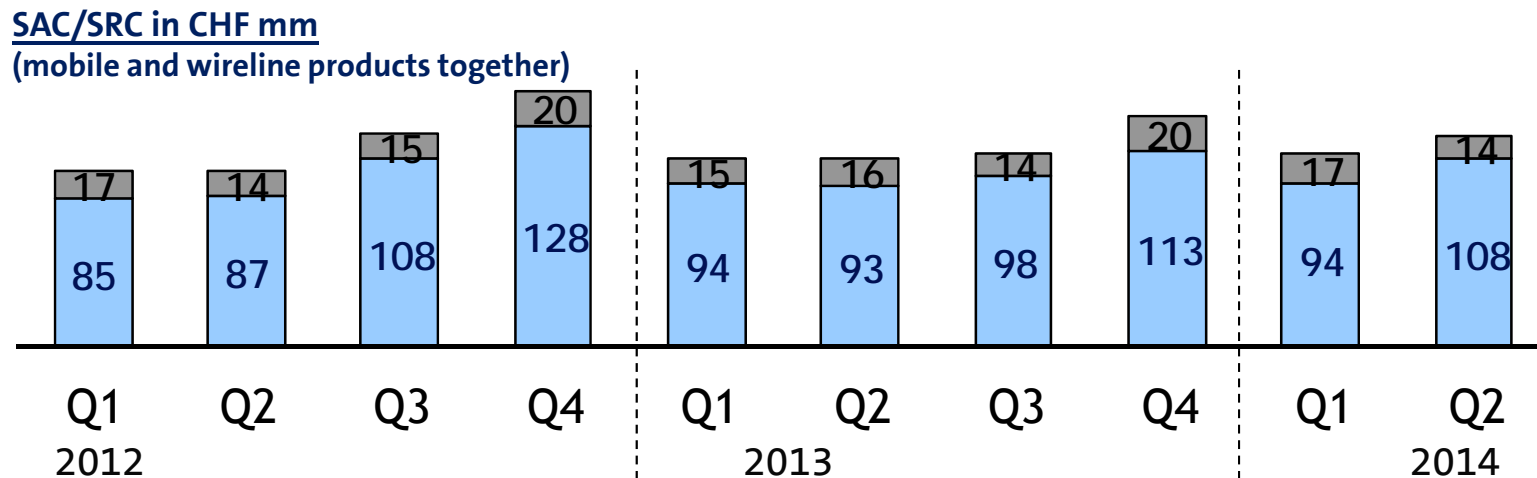
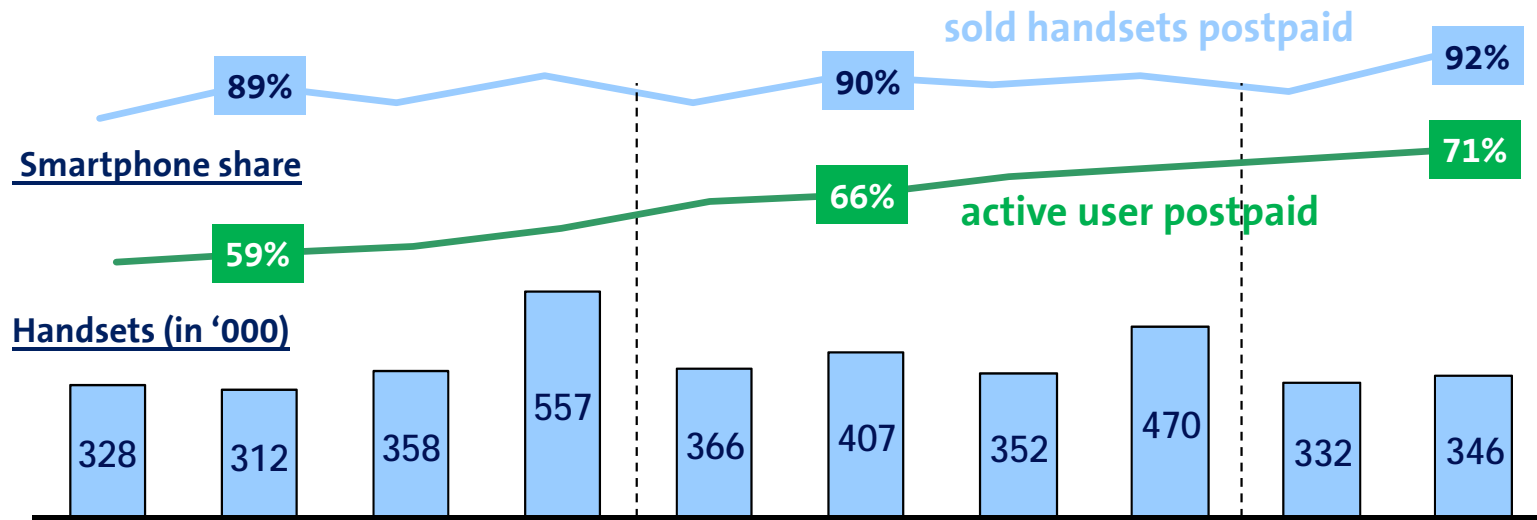
Market digital + analogue



1) Migration to digital largely driven by analogue customers who have been transferred technically, but have not subscribed to a digital product yet: these are potential customers for Swisscom

\* Estimates for Q2 2014

# Handsets & SACs



Corporate Segments  
Residential Segment

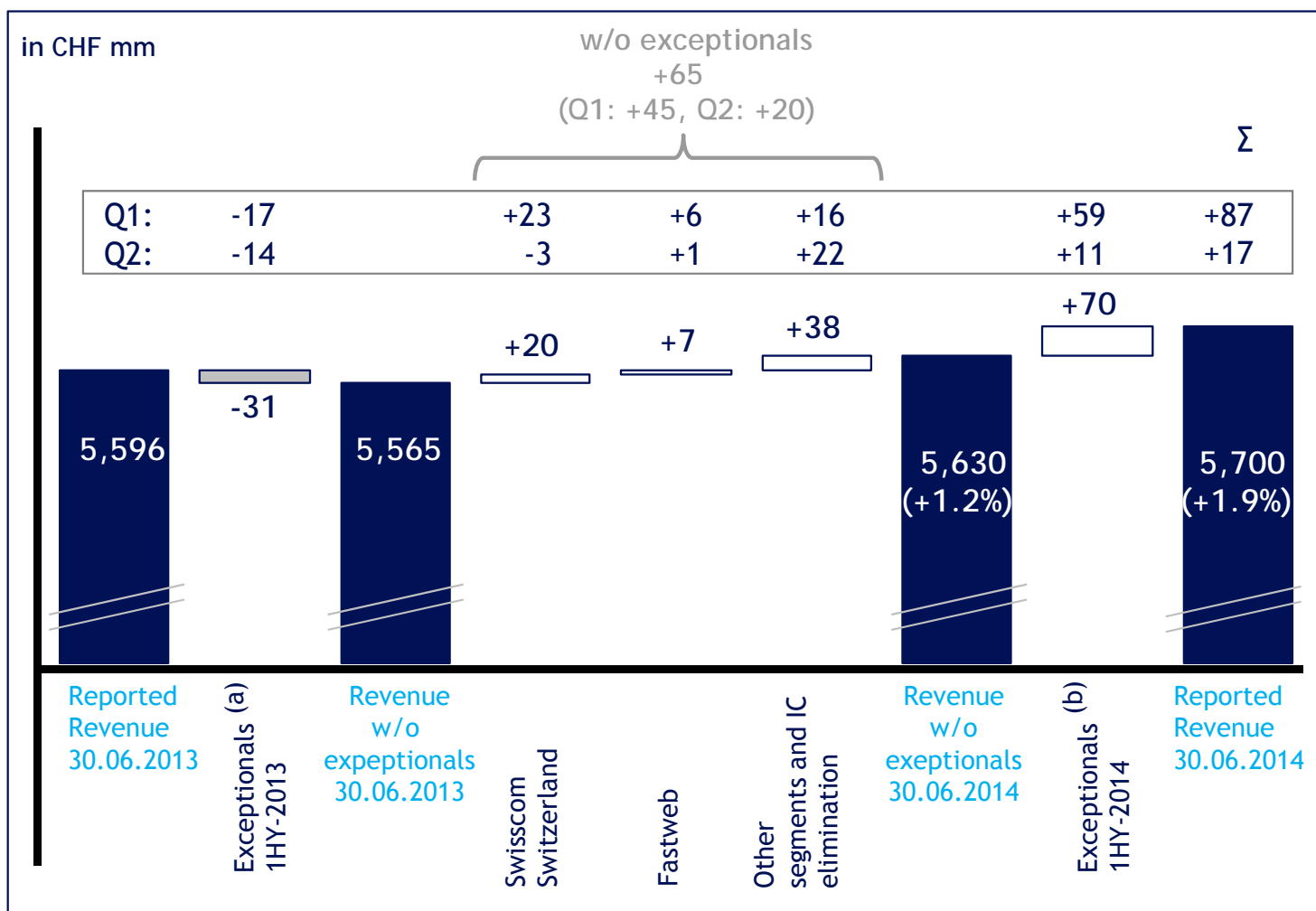


# Group results

## Revenues, exceptionals

Without M&A, hubbing and FX effects, revenue went up CHF 65 mm YOY (+1.2%).

Underlying top-line of Fastweb (w/o hubbing and FX) went up by CHF 7 mm YOY. Consumer and wholesale segment with increase, Enterprise with decrease.



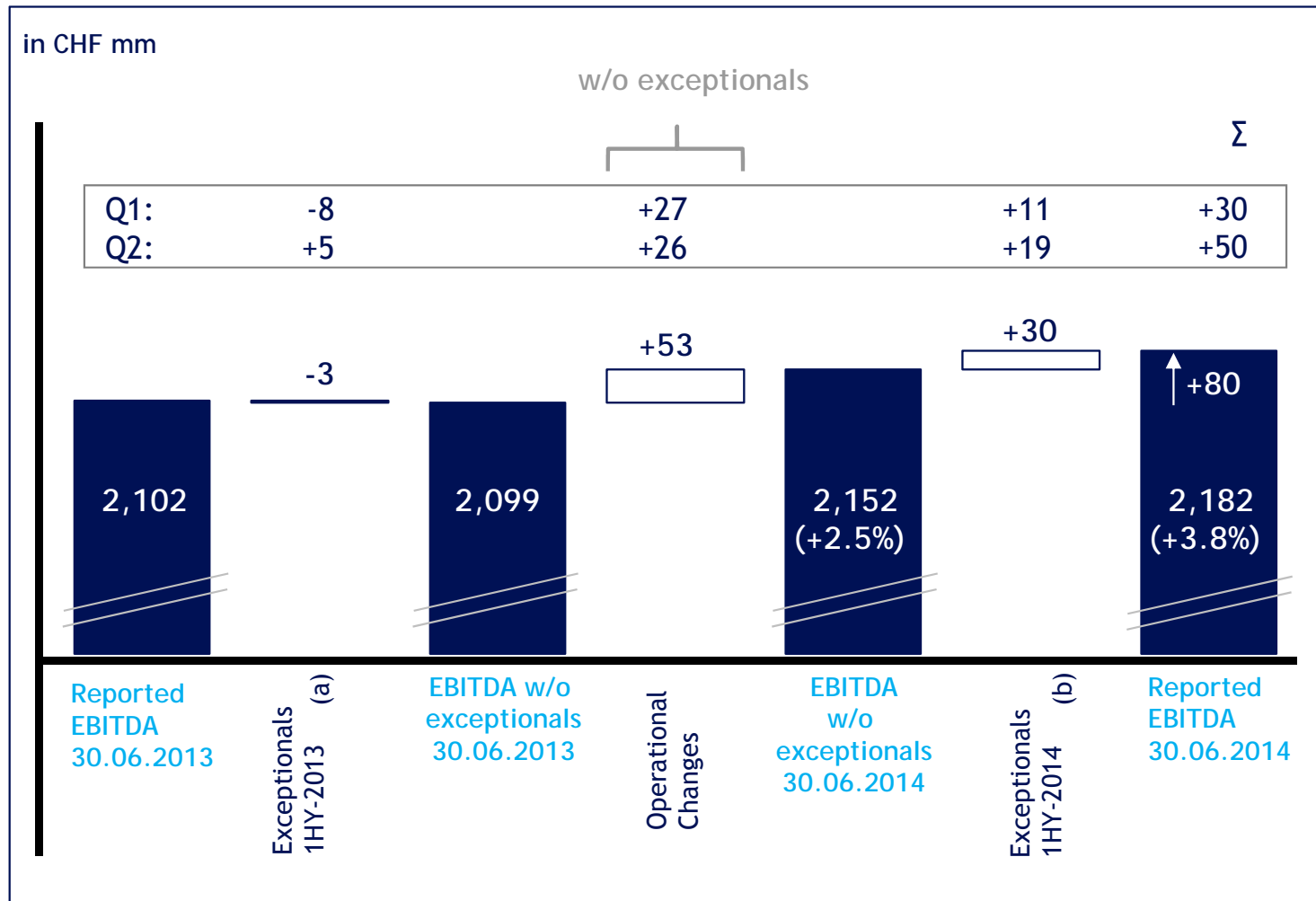
(a) Hubbing Fastweb (CHF -31mm)

(b) Acquisitions (CHF +60mm) , Hubbing Fastweb (CHF +18mm), change exchange rate (CHF -8mm), weakening of Euro against Swiss Franc of 0.8%)

# Group results

## EBITDA, exceptionals

*EBITDA w/o exceptionals up CHF 53mm YOY.*



(a) Release of Accruals (CHF -3mm)

(b) M&A (CHF +11mm), additional gain on sale of real estate (+11mm), lower Pension cost (+10mm), change exchange rate (CHF -2mm), weakening of Euro against Swiss Franc of 0.8%)

# Segment 'Residential'

Top line impacted by one off effect (acquisition).  
Adjusted, top line is +0.7% above prior year. Higher service revenue is partly compensated by lower handset sales.

CM 2 increase of 2.2%, driven by higher margin (due to service revenue) and one-off (acquisition).

Mobile postpaid subs increase alongside with the increase in infinity subs .

# of TV subs up by 20.7% YOY.

	Q2/14	Q2oQ2	30.06.2014	YoY
Net revenue in MCHF <sup>1)</sup>	1'297	0.6%	2'571	2.0%
Direct costs in MCHF	-316	-4.0%	-622	-1.7%
Indirect costs in MCHF <sup>2)</sup>	-239	4.4%	-477	7.0%
Contribution margin 2 in MCHF	742	1.5%	1'472	2.2%
Contribution margin 2 in %	57.2%		57.3%	
CAPEX in MCHF	41	0.0%	78	-6.0%
FTE's	+11		4'790	2.0%
Voice lines in '000 <sup>3)</sup>	-23		2'074	-4.6%
BB lines in '000 <sup>3)</sup>	+17		1'595	4.5%
Wireless customers prepaid in '000	-8		2'165	-0.7%
Wireless customers postpaid in '000 <sup>3)</sup>	+23		2'574	4.0%
Blended wireless ARPU MO in CHF	35	2.9%	34	3.0%
TV subs in '000 <sup>3)</sup>	+37		1'054	20.7%

1) incl. intersegment revenues  
2) incl. capitalised costs and other income  
3) sum of single play and bundles

# Segment 'Small & Medium Enterprises'

*The decrease of single play revenues (especially wireline telephony) was over-compensated by higher bundle revenues.*

*Growth in BB lines excellent.*

*Wireless ARPU decrease in Q2-2014.*

	Q2/14	Q2oQ2	30.06.2014	YoY
Net revenue in MCHF <sup>1)</sup>	291	0.7%	578	1.6%
Direct costs in MCHF	-36	-7.7%	-73	-2.7%
Indirect costs in MCHF <sup>2)</sup>	-35	2.9%	-70	7.7%
Contribution margin 2 in MCHF	220	1.9%	435	1.4%
Contribution margin 2 in %	75.6%		75.3%	
CAPEX in MCHF	6	50.0%	11	83.3%
FTE's	+4		765	4.1%
Voice lines in '000 <sup>3)</sup>	-2		513	-1.0%
BB lines in '000 <sup>3)</sup>	+4		222	8.3%
Wireless customers in '000 <sup>3)</sup>	+3		591	3.5%
Blended wireless ARPU MO in CHF	72	-2.7%	71	-1.4%

1) incl. intersegment revenues  
2) incl. capitalised costs and other income  
3) sum of single play and bundles

# Segment 'Corporate'

*Ongoing price erosion leads to lower top line of 0.7% YOY).*

*# of wireless subs up by 4.5% YOY*

	Q2/14	Q2oQ2	30.06.2014	YoY
Net revenue in MCHF <sup>1)</sup>	440	-0.7%	876	-0.7%
Direct costs in MCHF	-95	0.0%	-193	0.5%
Indirect costs in MCHF <sup>2)</sup>	-122	0.0%	-243	-0.4%
Contribution margin 2 in MCHF	223	-1.3%	440	-1.3%
<i>Contribution margin 2 in %</i>	<i>50.7%</i>		<i>50.2%</i>	
CAPEX in MCHF	20	-20.0%	37	-9.8%
FTE's	+31		2'455	2.1%
Voice lines in '000	-1		243	-0.8%
BB lines in '000	+1		38	5.6%
Wireless customers in '000	+13		1'130	4.5%
Blended wireless ARPU MO in CHF	41	-10.9%	41	-10.9%
1) incl. intersegment revenues				
2) incl. capitalised costs and other income				

# Segment 'Wholesale'

*Revenue from external customers down 3.7% driven by lower termination and inbound roaming rates.*

	Q2/14	Q2oQ2	30.06.2014	YoY
Revenue from external customers in MCHF	139	-4.8%	284	-3.7%
Intersegment revenue in MCHF	89	-9.2%	173	-7.0%
Net revenue in MCHF	228	-6.6%	457	-5.0%
Direct costs in MCHF	-133	-8.9%	-261	-7.1%
Indirect costs in MCHF <sup>1)</sup>	-3	50.0%	-9	12.5%
Contribution margin 2 in MCHF	92	-4.2%	187	-2.6%
<i>Contribution margin 2 in %</i>	<i>40.4%</i>		<i>40.9%</i>	
CAPEX in MCHF	-	nm	-	nm
FTE's	-1		110	-0.9%
Full access lines in '000	-13		228	-18.6%
BB (wholesale) lines in '000	+3		224	11.4%
1) incl. capitalised costs and other income				

# Segment 'Networks and support functions'

*Overall, CM2 improved by 0.5% YOY.*

*CAPEX of CHF 552mm up 8.7% YOY, due to further rollout of broadband networks.*

	Q2/14	Q2oQ2	30.06.2014	YoY
Personnel expenses in MCHF	-185	1.1%	-366	1.7%
Rent in MCHF	-46	0.0%	-92	0.0%
Maintenance in MCHF	-47	-6.0%	-91	-1.1%
IT expenses in MCHF	-79	1.3%	-154	1.3%
Other OPEX in MCHF	-63	-7.4%	-128	-5.9%
Indirect costs in MCHF	-420	-1.2%	-831	-0.1%
Capitalised costs and other income in MCHF	46	2.2%	93	3.3%
Contribution margin 2 in MCHF	-374	-1.6%	-738	-0.5%
Depreciation, amortisation and impairment in MCHF	-242	4.8%	-478	5.1%
<b>Segment result in MCHF</b>	<b>-616</b>	<b>0.8%</b>	<b>-1'216</b>	<b>1.6%</b>
CAPEX in MCHF	311	9.9%	552	8.7%
FTE's	+55		4'502	2.3%

# Segment 'Fastweb'

*W/o low margin  
wholesale hubbing net  
revenues increased  
0.9% YOY.*

*That revenue increase  
was driven by  
Consumer and  
Wholesale. Enterprise  
with decrease.*

*EBITDA of EUR 236  
million up 12.4% YOY*

*CAPEX increase due to  
FTTS roll out.*

*# of BB customers up  
by 5.7% YOY.*

	Q2/14	Q2oQ2	30.06.2014	YoY
Consumer revenue in MEUR	188	1.1%	376	1.1%
Enterprise revenue in MEUR	188	-2.6%	365	-1.6%
Wholesale revenue in MEUR <sup>1)</sup>	34	3.0%	65	-3.0%
Net revenue in MEUR <sup>1)</sup>	410	-0.5%	806	-0.5%
of which net revenue excl. hubbing in MEUR	403	0.5%	792	0.9%
OPEX in MEUR <sup>2)</sup>	-282	-5.7%	-570	-5.0%
EBITDA in MEUR	128	13.3%	236	12.4%
EBITDA margin in %	31.2%		29.3%	
CAPEX in MEUR	142	9.2%	284	10.9%
OpFCF Proxy in MEUR	-14	n.m.	-48	4.3%
FTE's	+11		2'373	-0.3%
BB customers in '000	+10		1'994	5.7%
<b>In consolidated Swisscom accounts</b>				
EBITDA in MCHF	155	11.5%	287	11.2%
CAPEX in MCHF	173	8.1%	346	9.8%

1) incl. revenues to Swisscom companies

2) incl. capitalised costs and other income



# Segment 'Other'

*Swisscom IT Services external revenue up due to one off (acquisition) and operational growth.*

*OPEX up by 7.5% mainly driven by one off (acquisition) at Swisscom IT Services.*

*EBITDA up by 4.4% YOY driven by additional gain on sale of real estate.*

	Q2/14	Q2oQ2	30.06.2014	YoY
Swisscom IT Services in MCHF	169	7.0%	333	16.0%
Group Related Business in MCHF	83	5.1%	159	3.9%
Hospitality Services in MCHF	20	25.0%	36	33.3%
Other in MCHF	9	12.5%	17	0.0%
External revenue in MCHF	281	7.7%	545	12.6%
Net revenue in MCHF <sup>1)</sup>	476	4.8%	926	6.9%
OPEX in MCHF <sup>2)</sup>	-378	2.7%	-760	7.5%
EBITDA in MCHF	98	14.0%	166	4.4%
EBITDA margin in %	20.6%		17.9%	
CAPEX in MCHF	54	42.1%	106	39.5%
FTE's	+34		4'917	2.4%

1) incl. intersegment revenues

2) incl. capitalised costs and other income

# Cautionary statement regarding forward-looking statements

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"This communication contains statements that constitute "forward-looking statements". In this communication, such forward-looking statements include, without limitation, statements relating to our financial condition, results of operations and business and certain of our strategic plans and objectives.

Because these forward-looking statements are subject to risks and uncertainties, actual future results may differ materially from those expressed in or implied by the statements. Many of these risks and uncertainties relate to factors which are beyond Swisscom's ability to control or estimate precisely, such as future market conditions, currency fluctuations, the behaviour of other market participants, the actions of governmental regulators and other risk factors detailed in Swisscom's and Fastweb's past and future filings and reports, including those filed with the U.S. Securities and Exchange Commission and in past and future filings, press releases, reports and other information posted on Swisscom Group Companies' websites.

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**For further information, please contact:**

phone: +41 58 221 6278 or +41 58 221 6279

[investor.relations@swisscom.com](mailto:investor.relations@swisscom.com)  
[www.swisscom.ch/investor](http://www.swisscom.ch/investor)