

# “Q T(h)ree”

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Q3 2014 analyst and investor presentation  
Conference call  
6 November 2014



# “Q T(h)ree”, Agenda

2

A. Introduction

Bart Morselt, IR

B. The 7 main dynamics in the quarter

Urs Schaeppi, CEO

C. Group results & Outlook

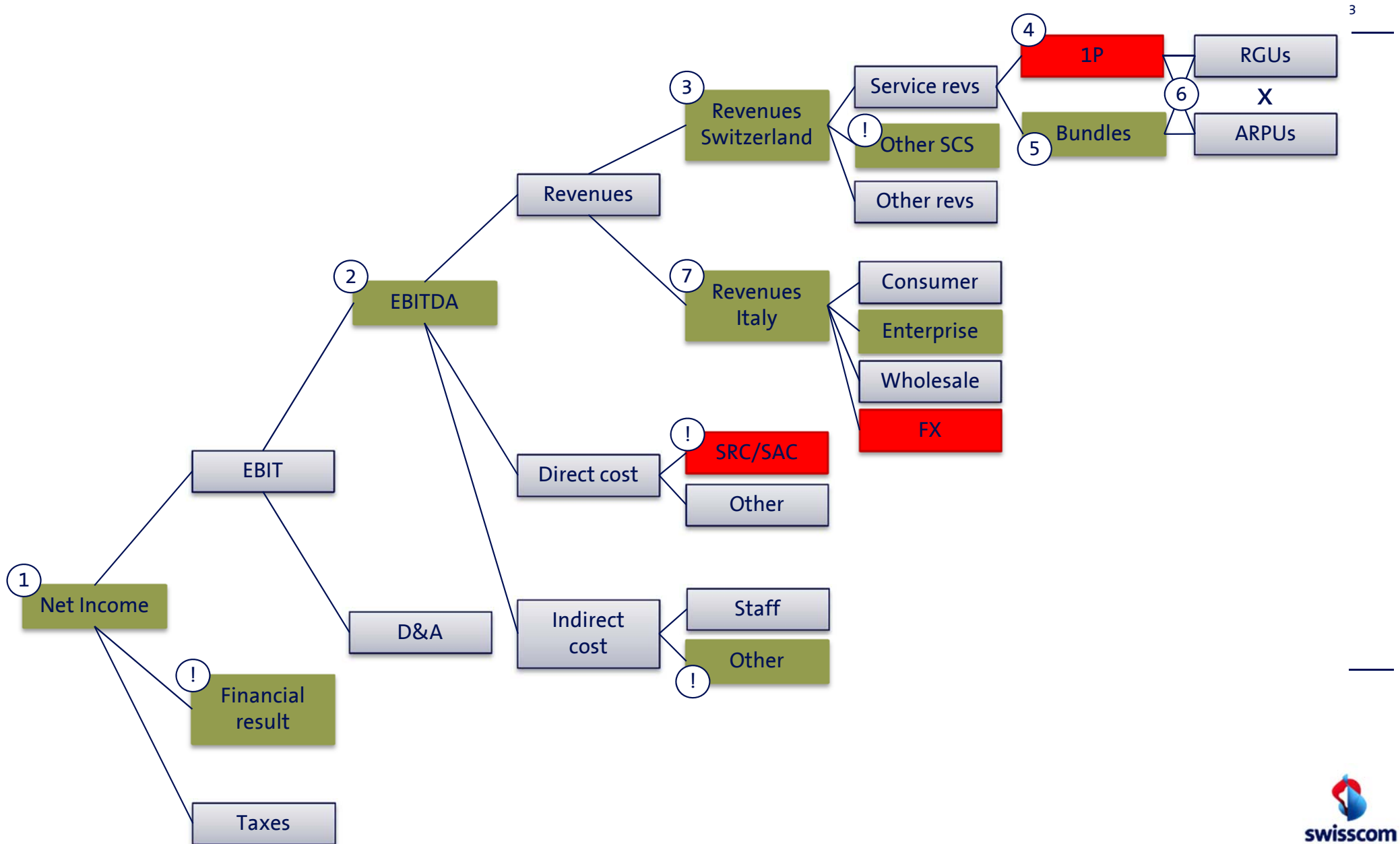
Mario Rossi, CFO

D. Q&A

All

Backup slides

# “Q T(h)ree”. Logic behind the ⑦ main dynamics during the third quarter

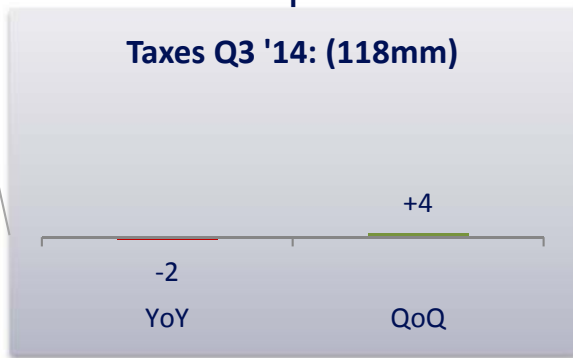
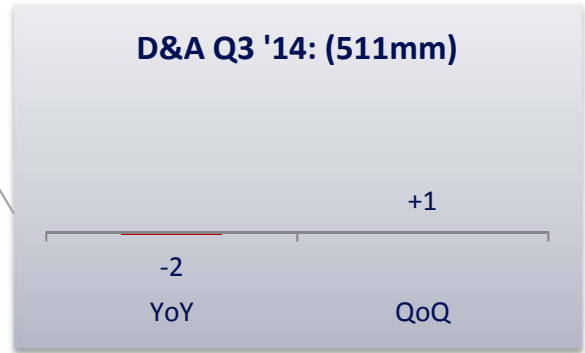
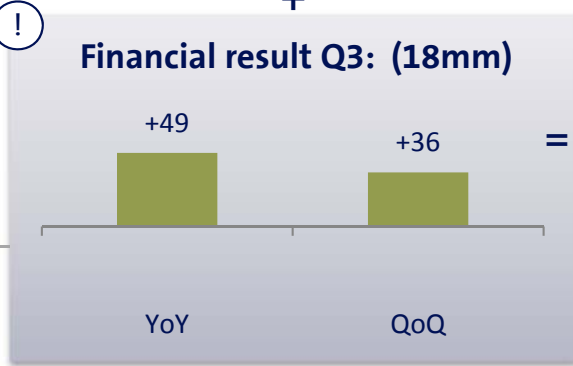
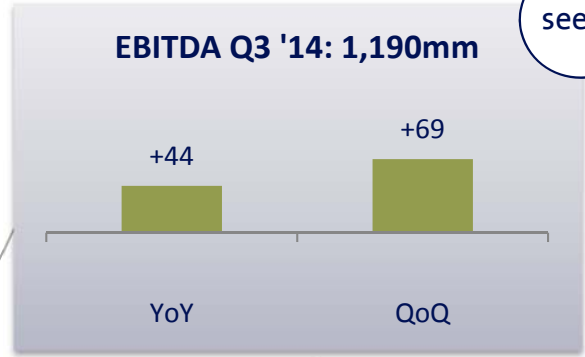
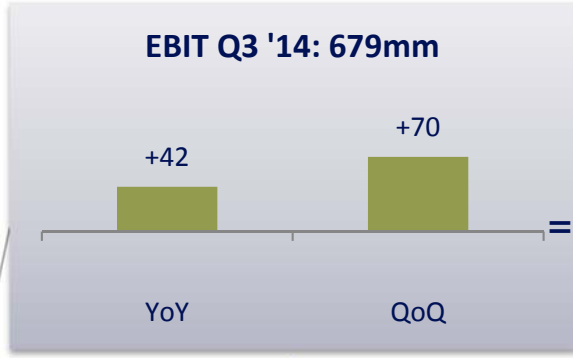
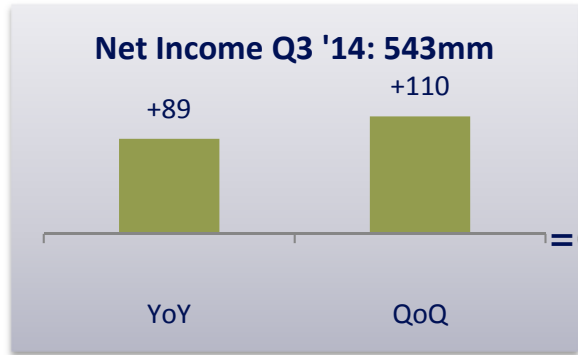


1

# Net Income - driven both by operational and extraordinary income

see 2

Q T(h)ree, change in CHF mm:  
 YoY = Q3 2014 vs Q3 2013  
 QoQ = Q3 2014 vs Q2 2014



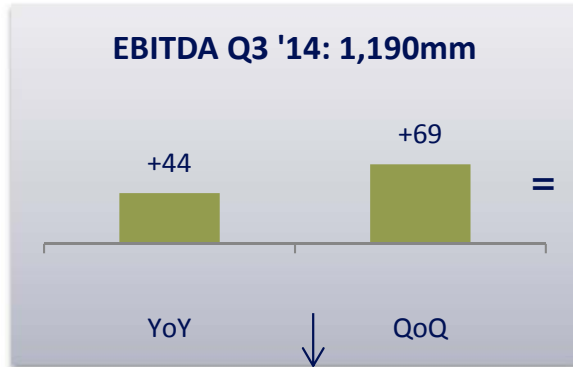
- LTV revaluation gain: +82 mm YoY
- Early termination of a financial lease (technical building): -33 mm YoY
- Result interest rate swap: -10 mm YoY
- Other financial result: +10 mm YoY
- Tax rate in Q3 2014 : 17.9%

- Net income growing strongly, with EBIT and exceptional income contributing equally
- Tax rate comparatively low, leading to high conversion of gross into net income for the quarter

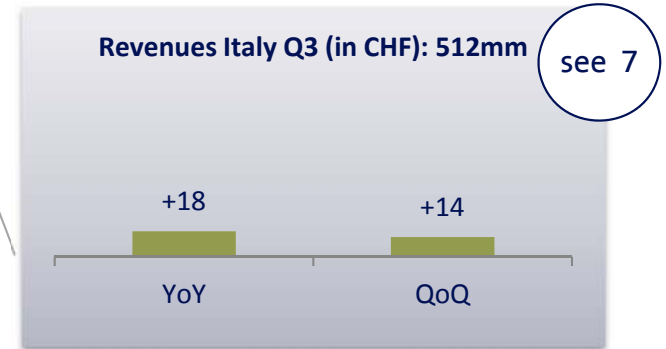
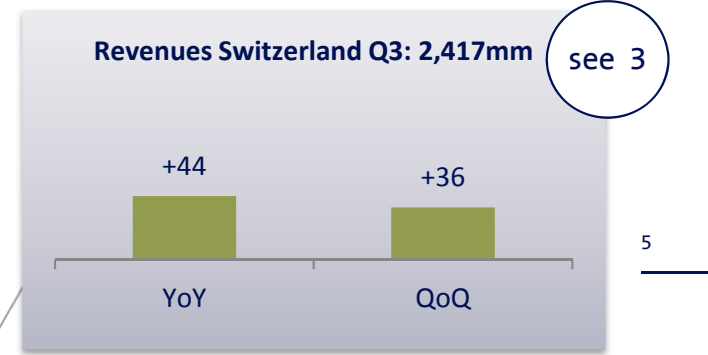
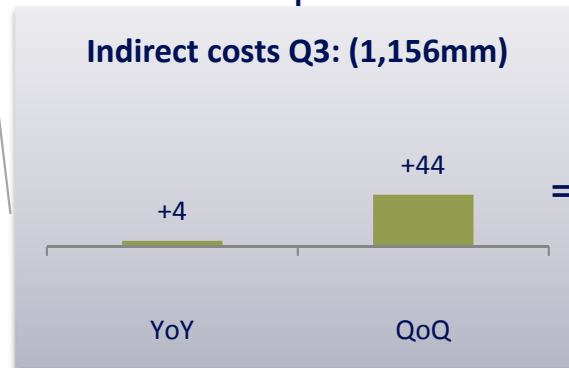
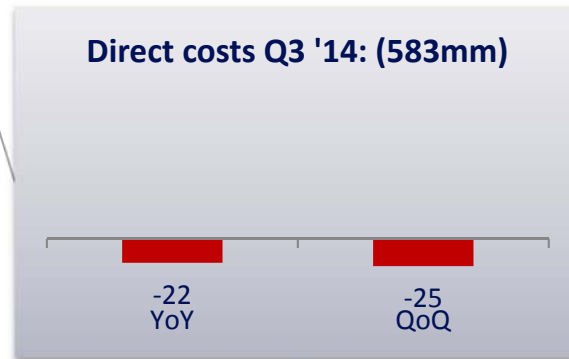
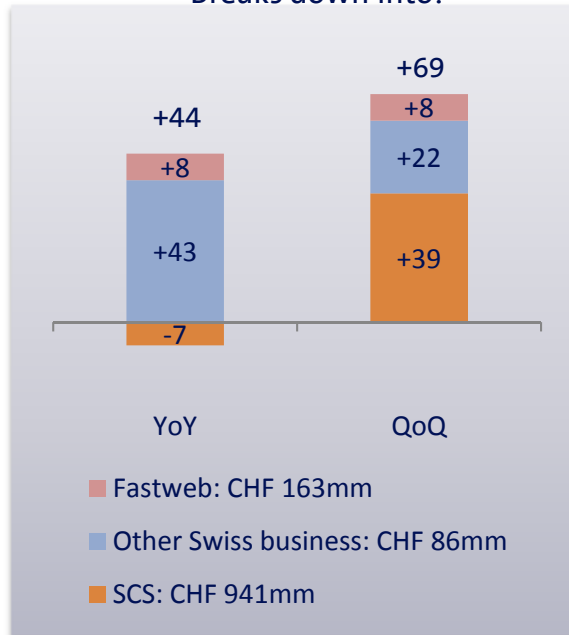
2

# EBITDA - strong performance despite higher SAC/SRC and goods purchased

Q T(h)ree , change in CHF mm:  
 YoY = Q3 2014 vs Q3 2013  
 QoQ = Q3 2014 vs Q2 2014



Breaks down into:



SRC/SAC at SCS: **-17mm YoY**

All other: **-5mm YoY**

Staff cost (+881 FTE): **-17mm YoY**  
 (o/w +735 thru acquisition Publigroupe)

Gain sale real estate: **+39mm YoY**

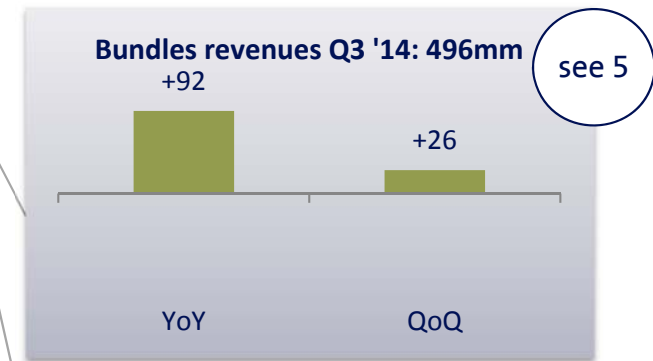
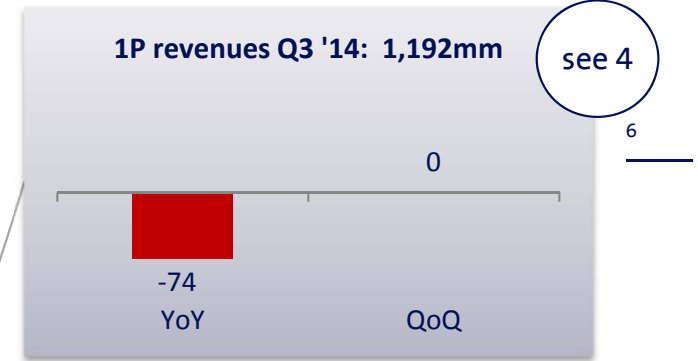
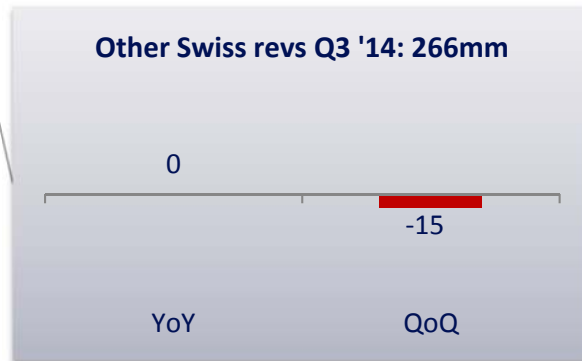
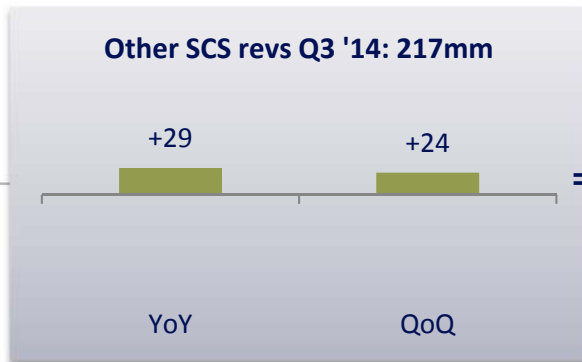
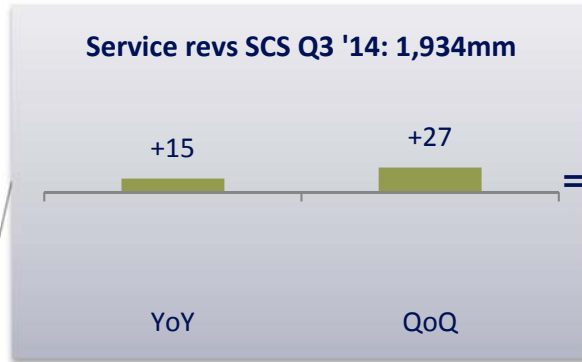
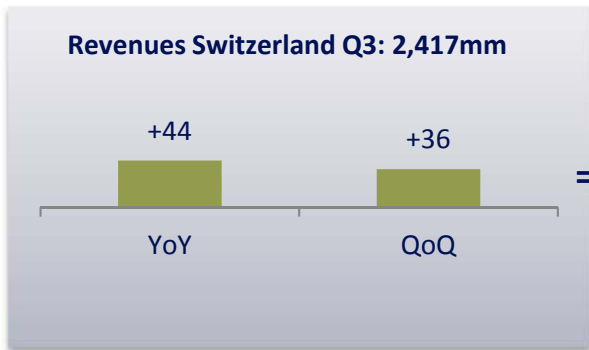
Other: **-18mm YoY**  
 (-6 bad debt, -6 call center cost, -6 other)

Lower indirect cost esp. through one-off gain on real estate (39mm) helps Q3 EBITDA



# Revenues Switzerland - success of bundles is the key

Q T(h)ree, change in CHF mm:  
 YoY = Q3 2014 vs Q3 2013  
 QoQ = Q3 2014 vs Q2 2014



- Other service revenue **-3mm YoY**
- Acquired (PG+DL): **+12mm YoY**
- All other: **+17mm YoY**

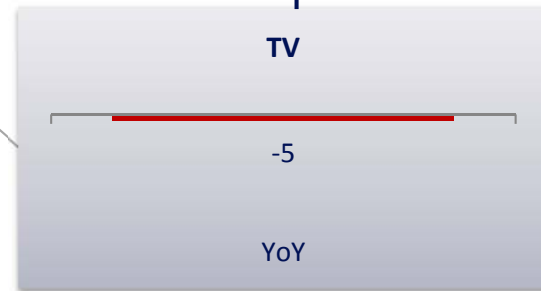
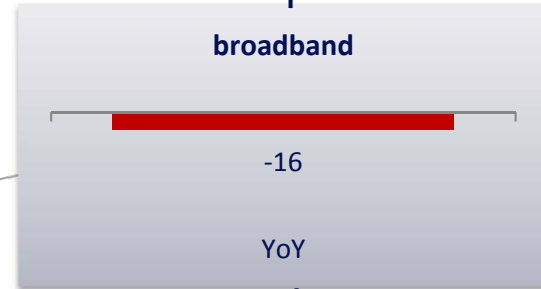
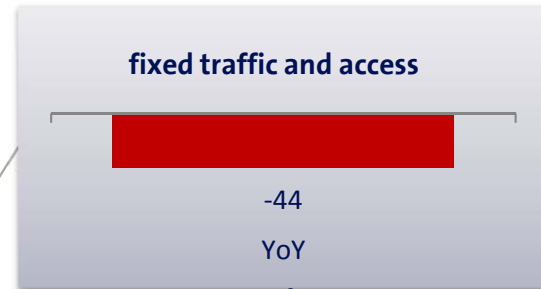
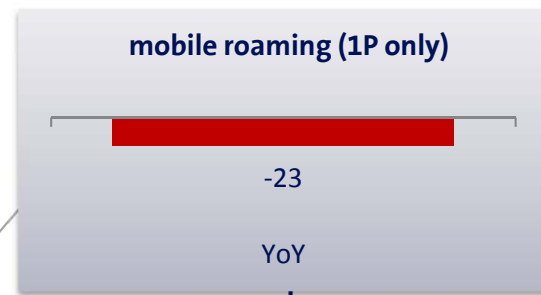
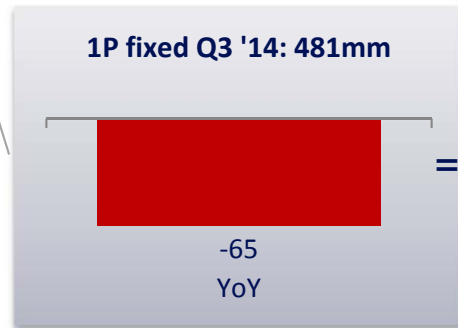
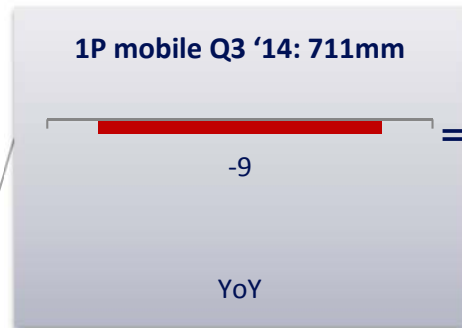
- 1P decline overcompensated by Bundle growth
- 29 mm YoY growth in Other SCS splits in 17mm organic and 12 mm acquired growth

see 4

see 5

# 1P Revenues Switzerland - decline not worsening

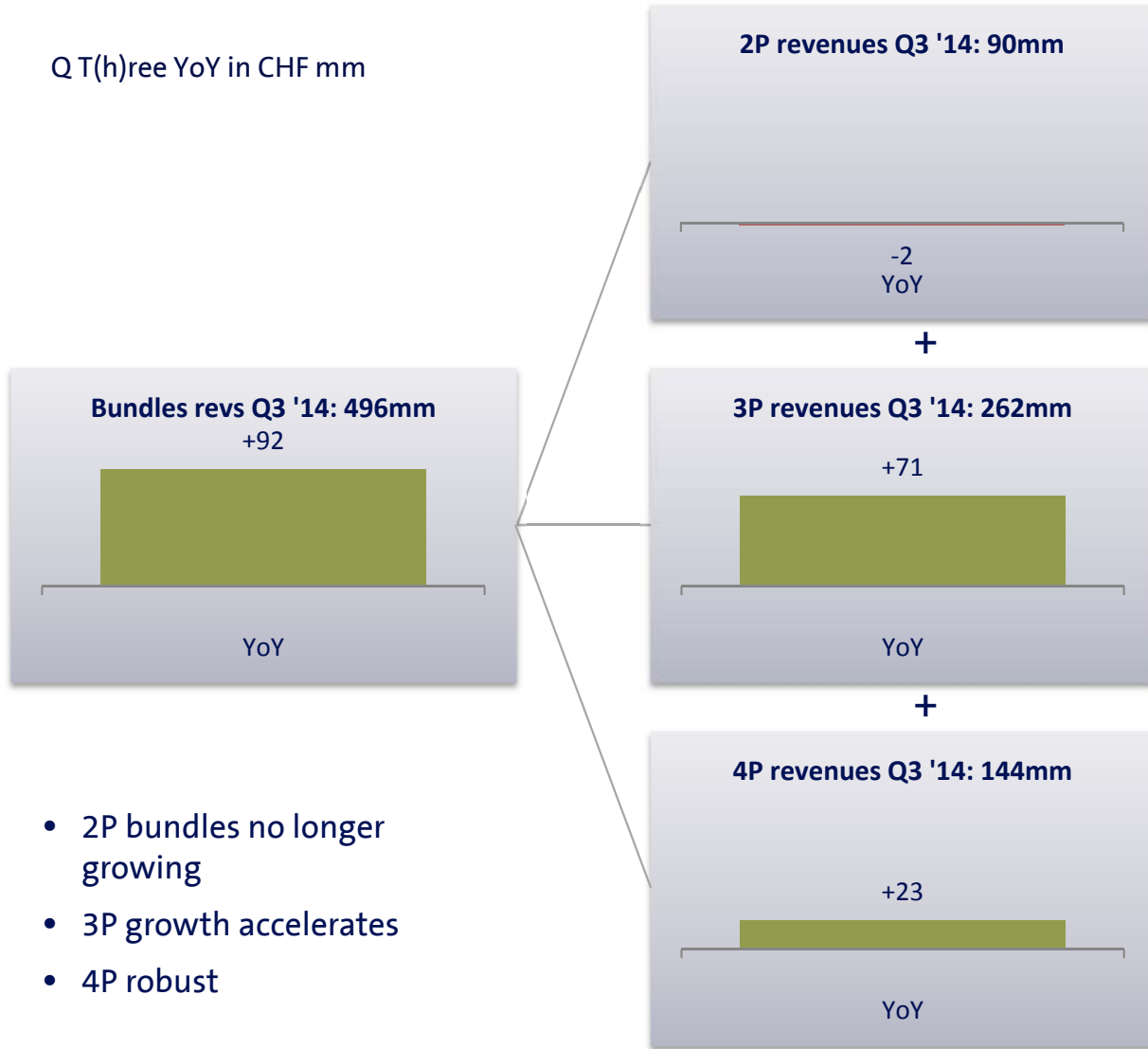
Q T(h)ree YoY in CHF mm



- 1P decline largely driven by fixed line loss
- Decline in single voice lines slows down – yet still being replaced by mobile and bundles
- Mobile without this quarter's price reduction on roaming delivered growth of 14mm YoY

# Bundles Revenues Switzerland - growth continues

Q T(h)ree YoY in CHF mm



- 2P bundles no longer growing
- 3P growth accelerates
- 4P robust

Key driver of growth are the new offers launched with Vivo range:

- Light, XS, S, M, L, XL
- Combining speed with TV bouquet (light, basic, plus)
- Speeds ranging 2-300 Mbps (optional 1 Gbps in FTTH footprint)
- Pricing ranging from CHF 69 to CHF 169 per month (+80 CHF for 1Gbps)
- Opting out available for fixed voice (at - 15 CHF/month)
- Range attracted 150,000 customers already, with vast bulk on Vivo M

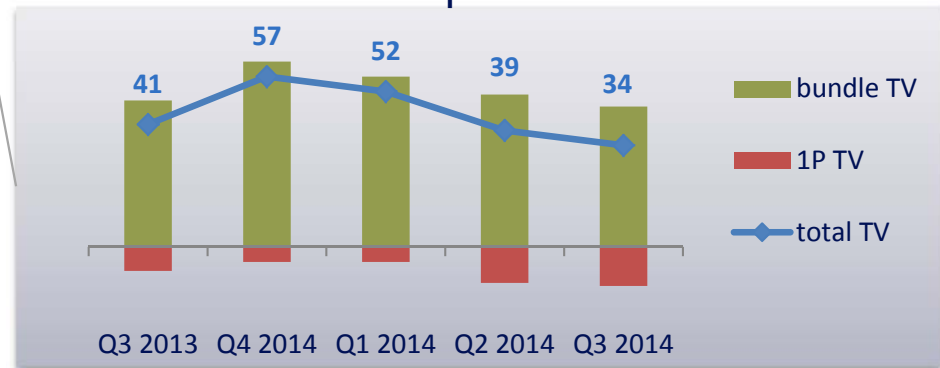
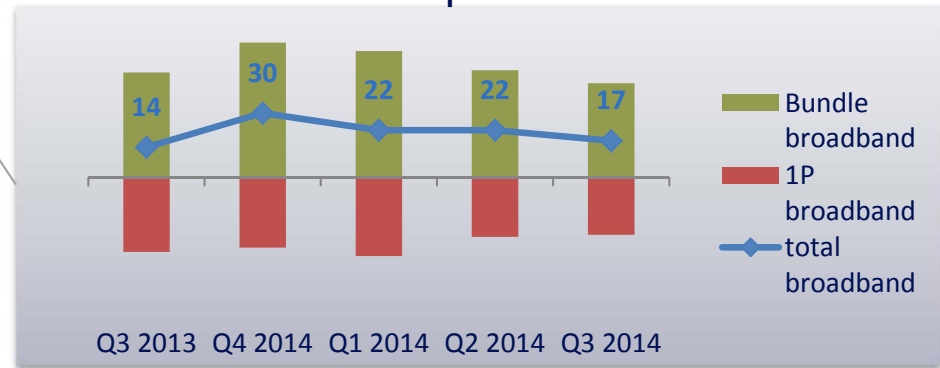
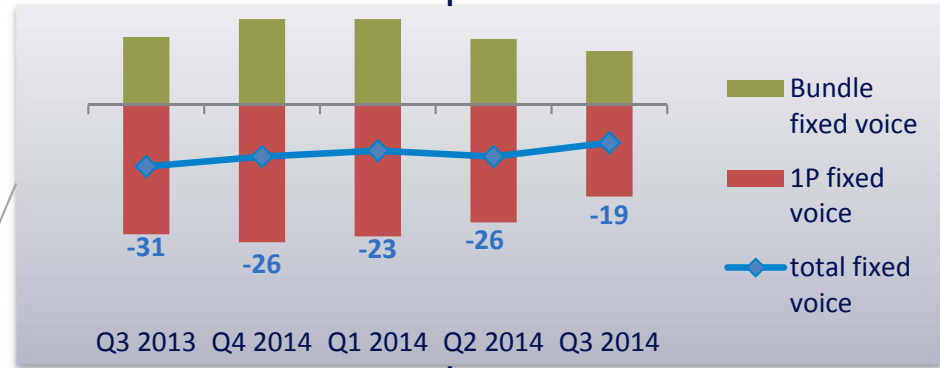
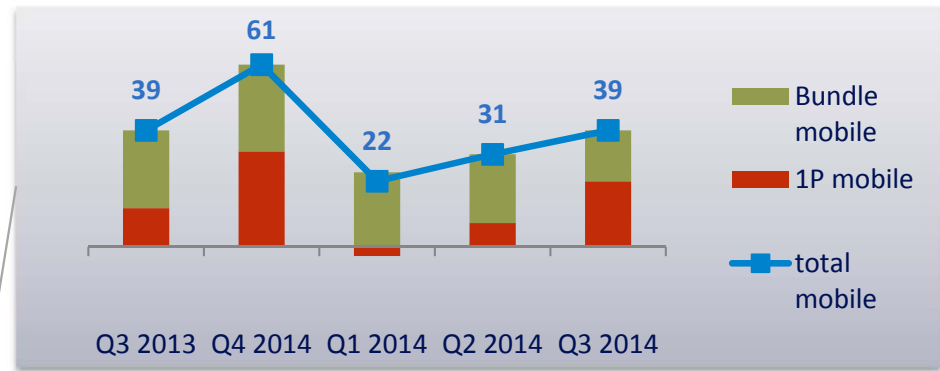
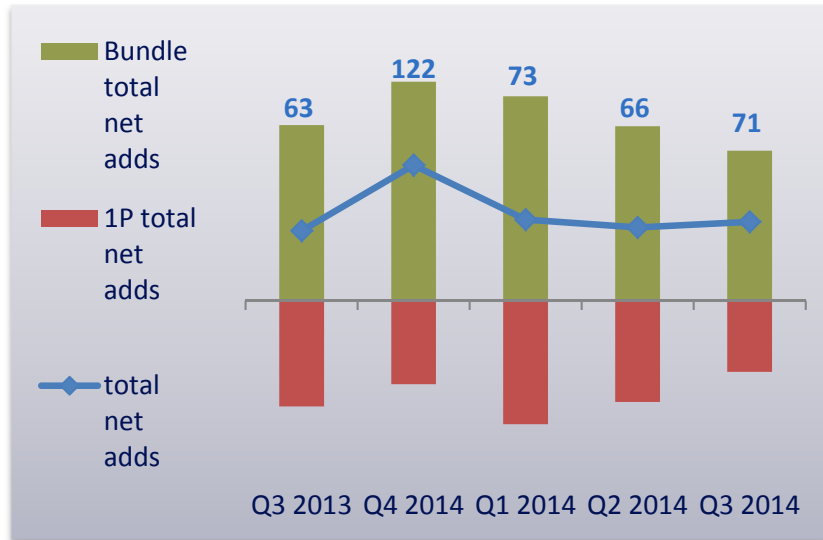
Optional to add mobile subscription to 3P Vivo range, bringing customer to 4P package

Strategy to move 1P customers into higher bundles is successful



# RGUs - stable growth overall

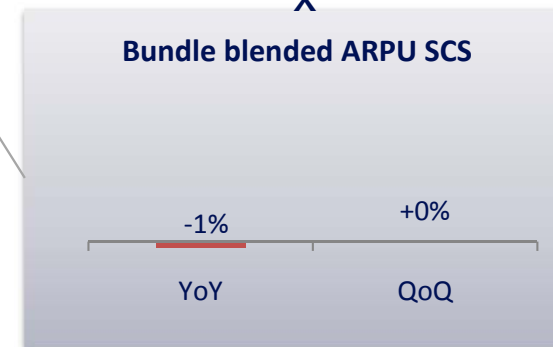
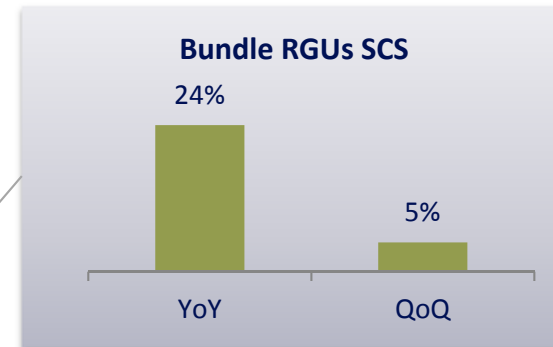
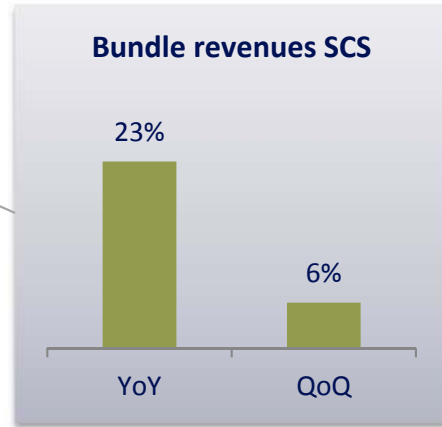
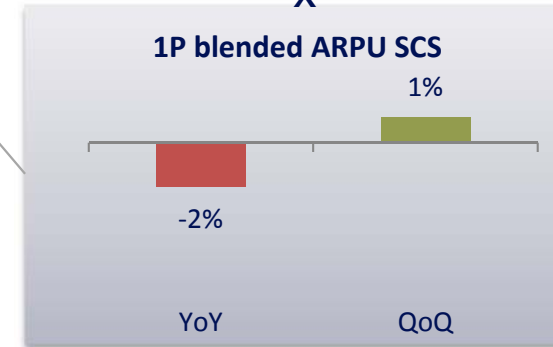
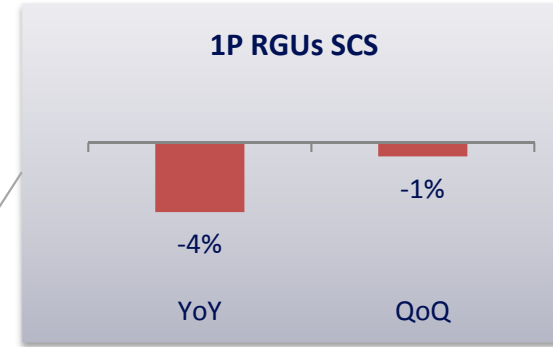
Quarterly net adds (000)



- Mobile growth robust
- 1P fixed voice decline improves
- Net adds results Q3 suggest that market shares in Q3 will not have changed in a meaningful way

# Revenues Switzerland: RGUs x ARPU

Q T(h)ree , change in %:  
 YoY = Q3 2014 vs Q3 2013  
 QoQ = Q3 2014 vs Q2 2014



Other service revenue : -1% YoY

- ARPUs relatively stable
- RGU growth of bundles is the key driver for service revenue growth

Further details in backup slides

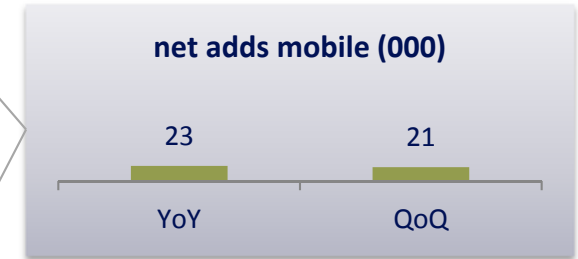
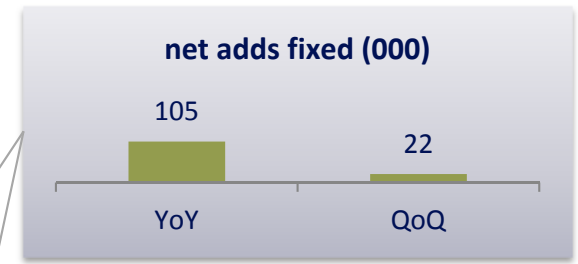
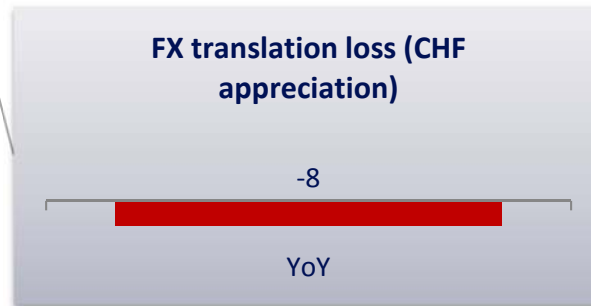
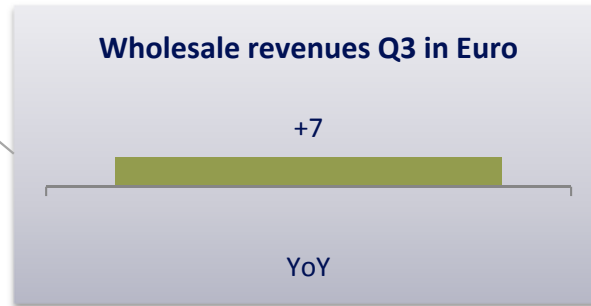
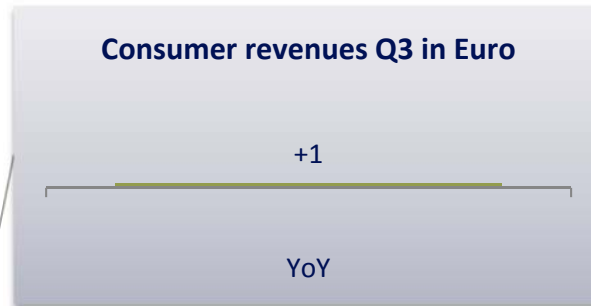
Further details in backup slides

# “Q T(h)ree” - Fastweb

Q T(h)ree, change in CHF mm:  
 YoY = Q3 2014 vs Q3 2013  
 QoQ = Q3 2014 vs Q2 2014



- Fastweb revenues in € grew 5.4% YoY
- Enterprise and Wholesale without hubbing the key contributors
- FX appreciation of Swiss Franc wipes out 30% of revenue growth upon consolidation



Hardware +6mm YoY

Core services, not hardware +8mm YoY

Hubbing -2mm YoY

Core services +9mm YoY

CHF/€ at:

- 1.23 for Q3 2013
- 1.21 for Q3 2014
- Appreciation of nearly 2% causing lower CHF growth

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Mario Rossi, CFO

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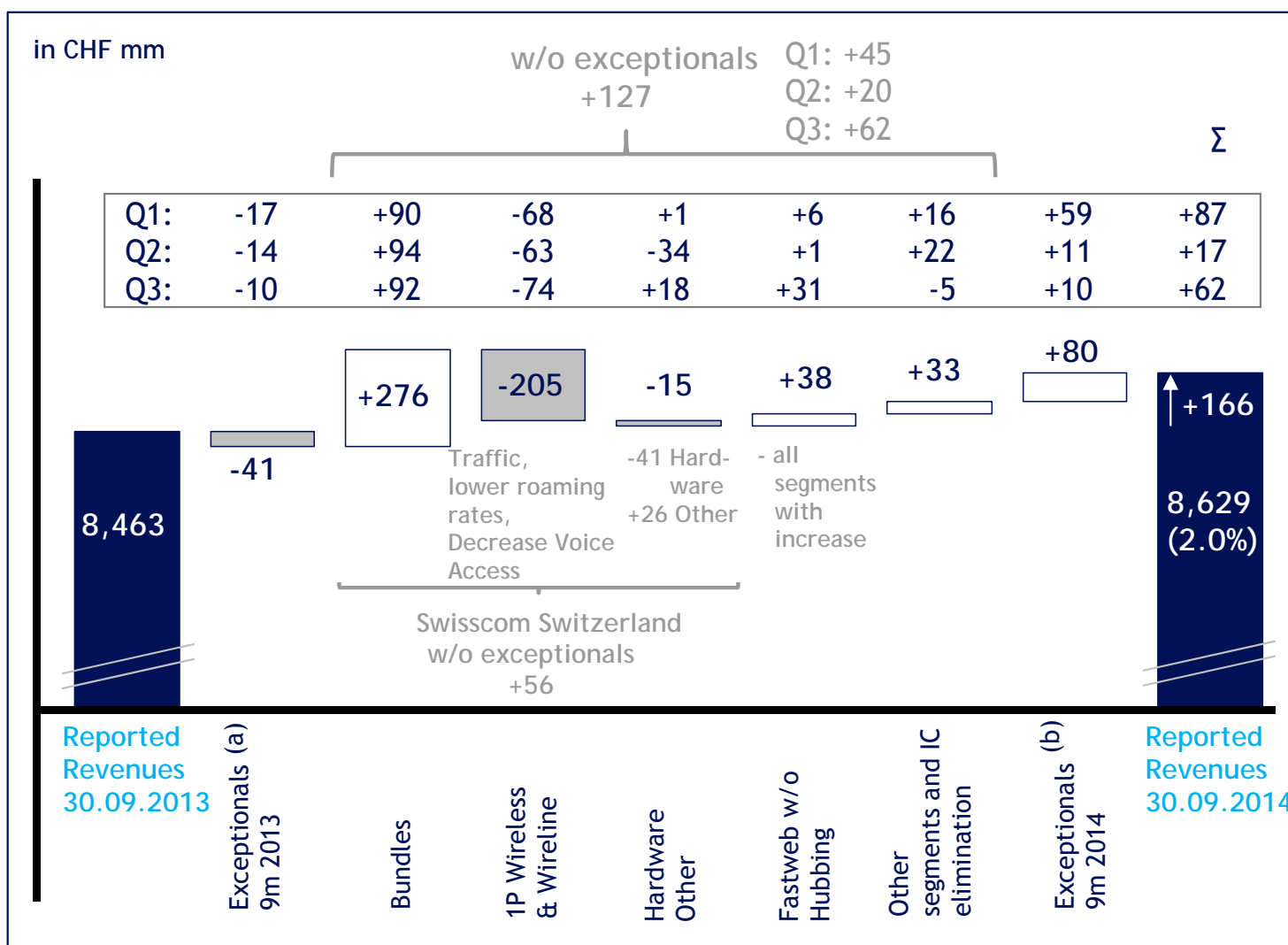
Backup slides

# Group results

## Revenue breakdown

Without FX, hubbing and M&A effects, revenue went up CHF 127mm YOY (1.5%).

Underlying top-line of Fastweb went up by CHF 38mm YOY, all segments with increase.



(a) Hubbing Fastweb (CHF -41mm)

(b) Acquisitions (CHF +72mm), Hubbing Fastweb (CHF +24mm), change exchange rate (CHF -16mm, weakening of Euro against Swiss Franc of 1.1%)

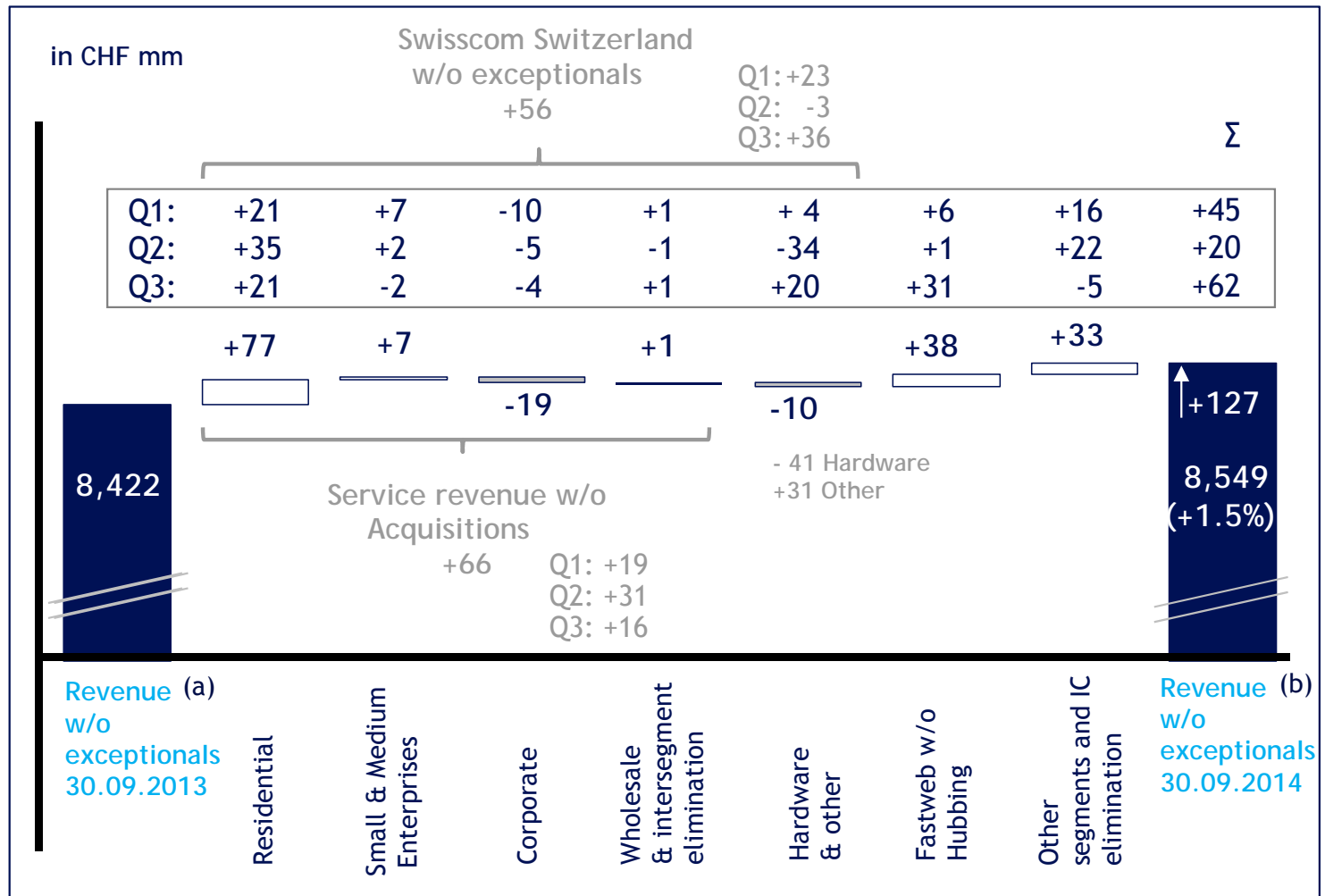
# Group results

## Revenue breakdown by segments

14

*Underlying Service Revenue of Swisscom Switzerland up CHF 66mm. Another roaming price decrease in Q3 impacting Service Revenue.*

*Fastweb underlying revenue up CHF 38mm.*



(a) Without Hubbing Fastweb (CHF -41mm)

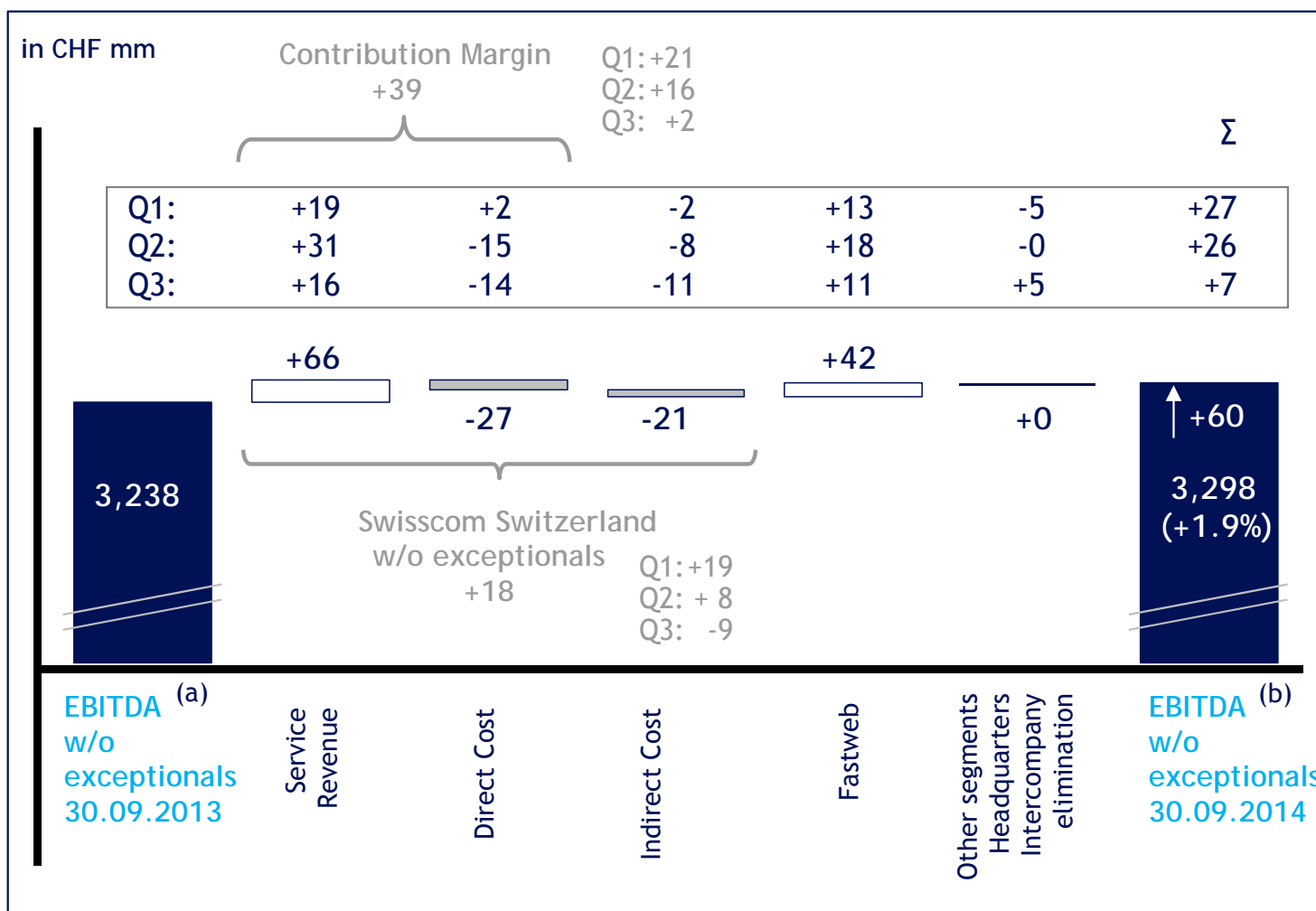
(b) Without Acquisitions (CHF -72mm), Hubbing Fastweb (CHF -24mm), change exchange rate (CHF 16mm, weakening of Euro against Swiss Franc of 1.1%)

# Group results

## EBITDA breakdown

*EBITDA w/o  
exceptionals up  
CHF 60mm YOY.*

*EBITDA of Swisscom  
Switzerland w/o  
exceptionals  
up CHF 18mm.*



(a) Without release of provisions restructuring (CHF +10mm)

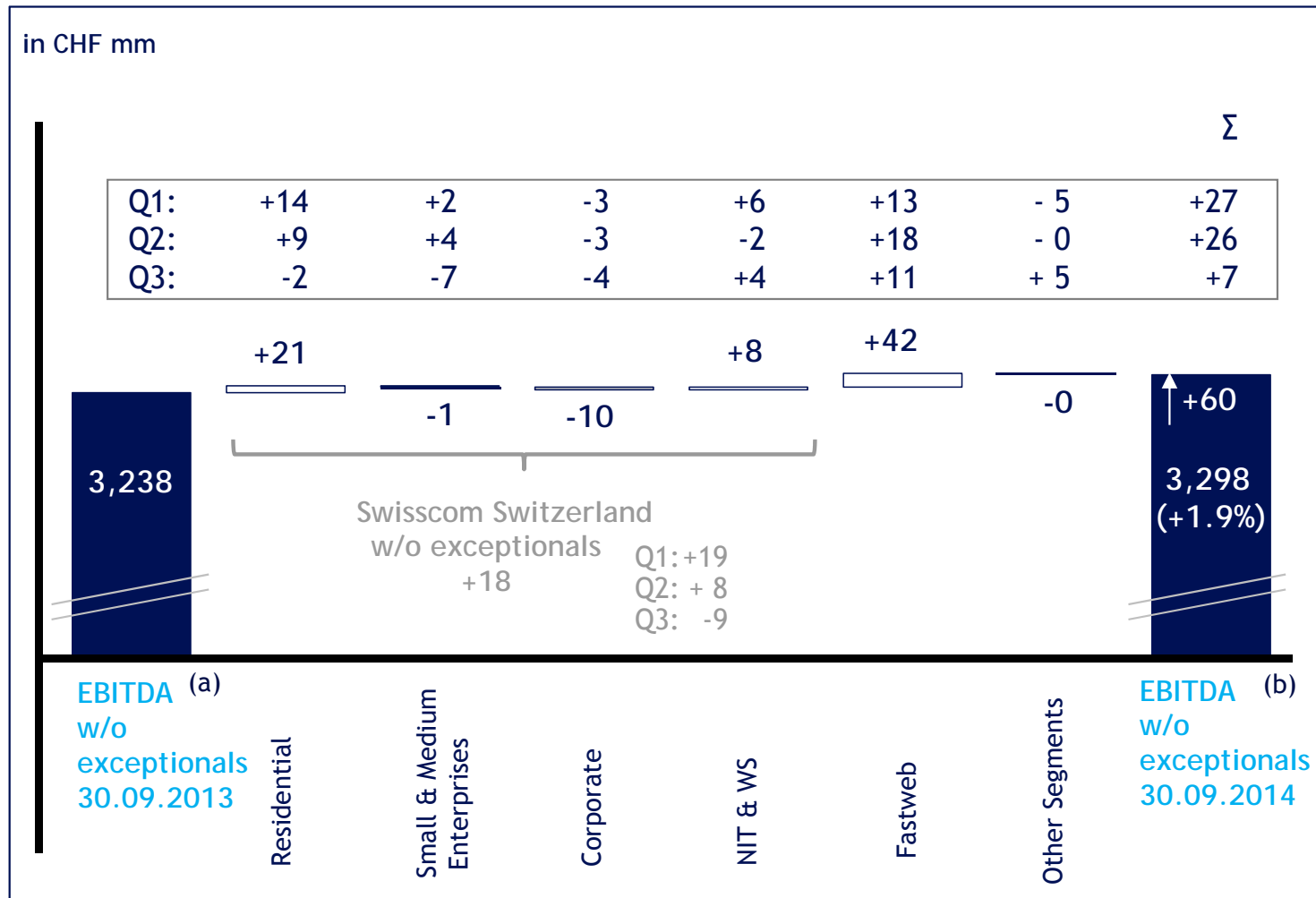
(b) Without M&A (+15mm), additional gain on sale of real estate (+50mm), lower pension cost (+14mm), change exchange rate (CHF -5mm, weakening of Euro against Swiss Franc of 1.1%)

# Group results

## EBITDA breakdown by segments

EBITDA of Swisscom Switzerland w/o exceptionals up CHF 18mm.

EBITDA of Fastweb up CHF 42mm.



(a) Without release of provisions restructuring (CHF +10mm)

(b) Without M&A (+15mm), additional gain on sale of real estate (+50mm), lower pension cost (+14mm), change exchange rate (CHF -5mm, weakening of Euro against Swiss Franc of 1.1%)

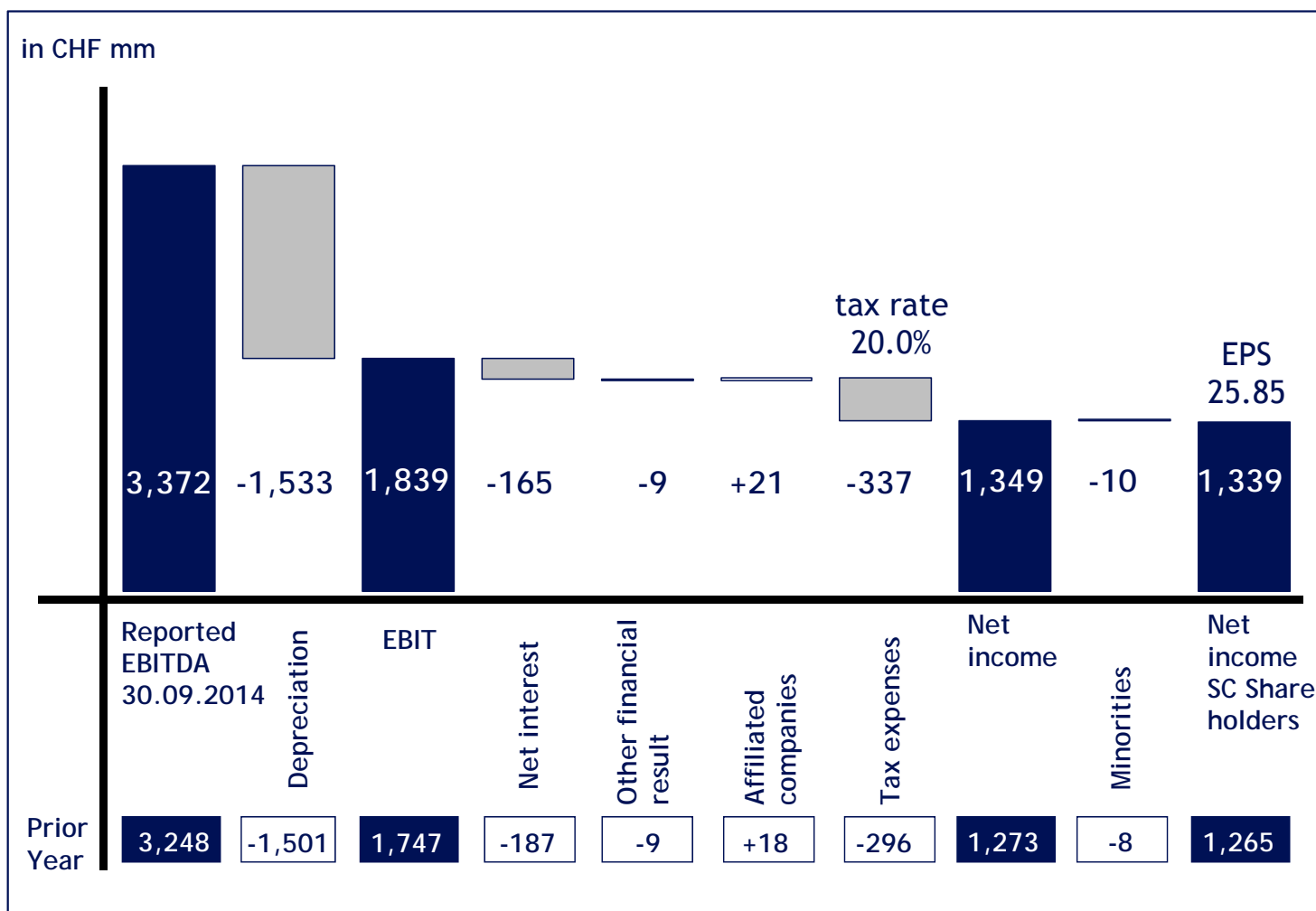


# Group results

## Net Result

*In the first nine months 2014, net income of the group amounts to CHF 1,349 mm.*

*Earnings per share equals to CHF 25.85.*

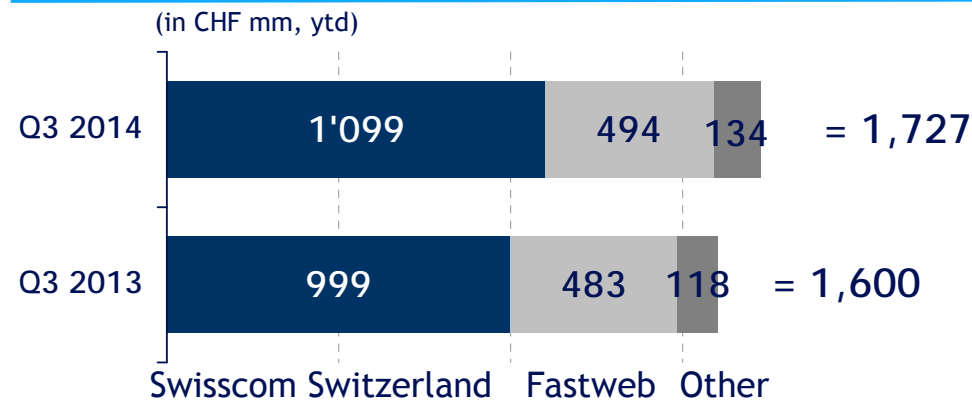


# Group results

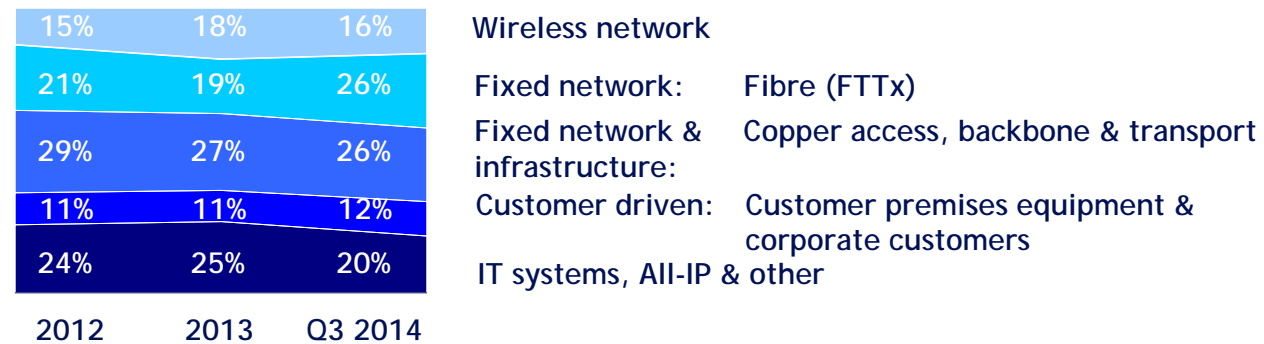
## CAPEX

*Ongoing rollout of fibre optic network leads to higher CAPEX at Swisscom Switzerland.*

### Increase YoY (CHF +127mm) driven by expansion of swiss fibre network



### Swisscom Switzerland with increasing capex in fibre network

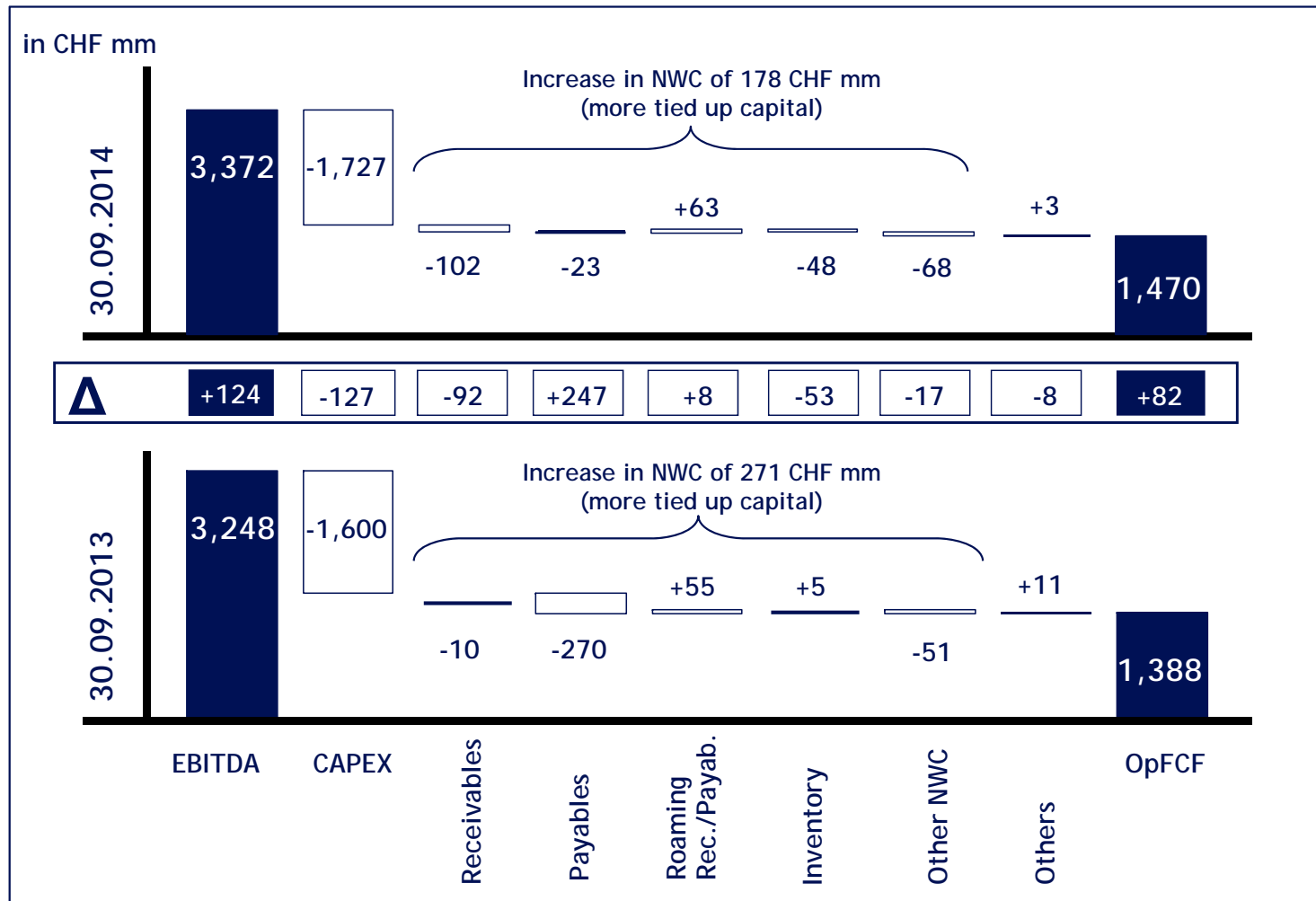


# Group results

## OpFCF

Higher EBITDA and positive contribution in change of NWC led to a higher OpFCF of CHF +82 mm.

Higher capital expenditures of CHF -127 million mainly for the swiss fibre-optic network.



# Outlook 2014

## Outlook statement after Half Year results 2014:

## Confirmation after Q3 results:

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

<u>2013 Actual</u> CHF 4.3 bln	➔	<u>2014 Guidance</u> CHF 4.35 bln	➔	<u>2014 Revisited</u> CHF > 4.4 bln
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- In 1HY 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 2HY, 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) ”

**Guidance confirmed**

- Revenues of 11.5 bln
- EBITDA at least 4.4 bln
- Capex 2.4 bln
- Out of 40-60mm expected EBITDA growth in 2HY, 45mm was realized in Q3.
- Out of CHF 45 mm EBITDA growth in Q3, 39mm related to the gain on the sale of real estate (exceptional)
- For Q4, currently no other exceptional EBITDA is expected, however Fastweb will have lower Q4 EBITDA YoY due to booking of € 28mm in Q4 2013 for the full year 2013 of lower ULL fees

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- C. Group results & Outlook Mario Rossi, CFO

D. Q&A	All
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Backup slides

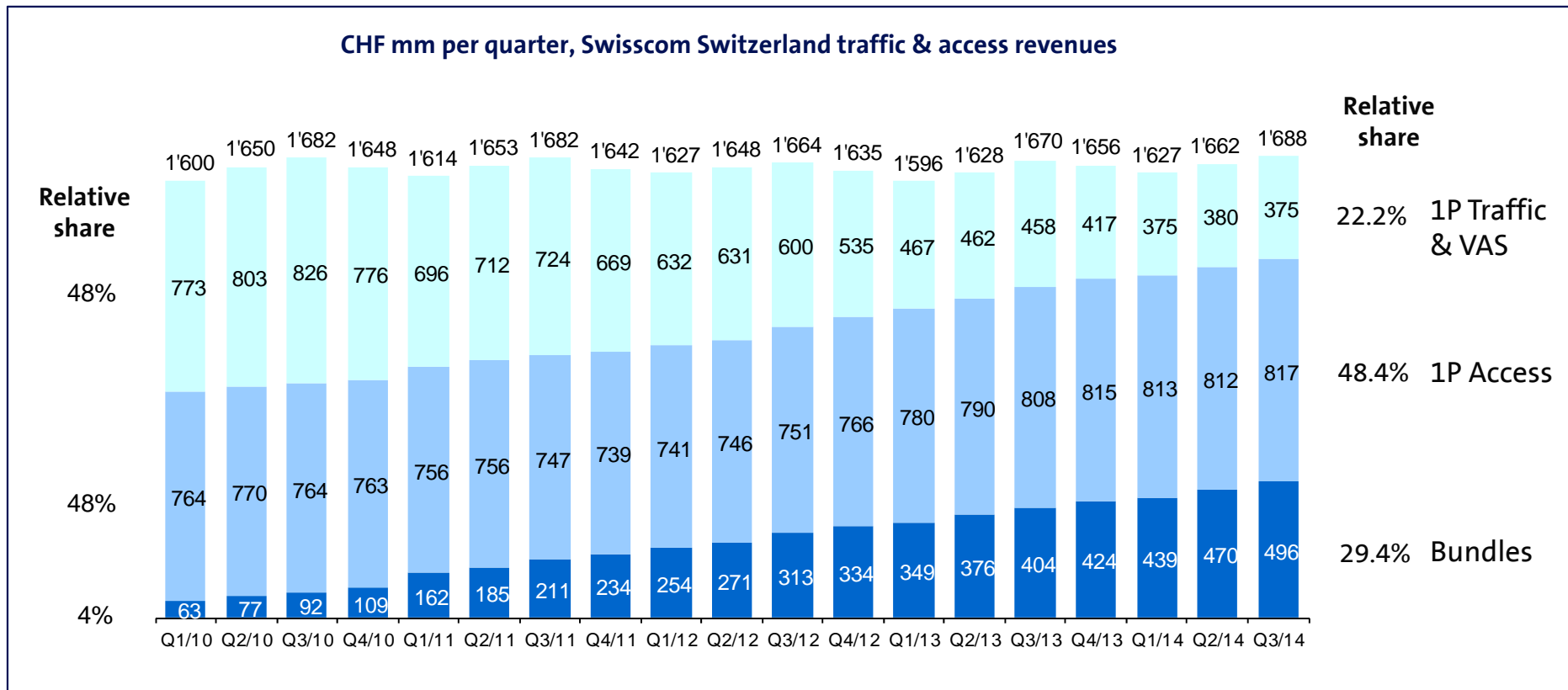
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Backup slides

# Bundles replacing 1P

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

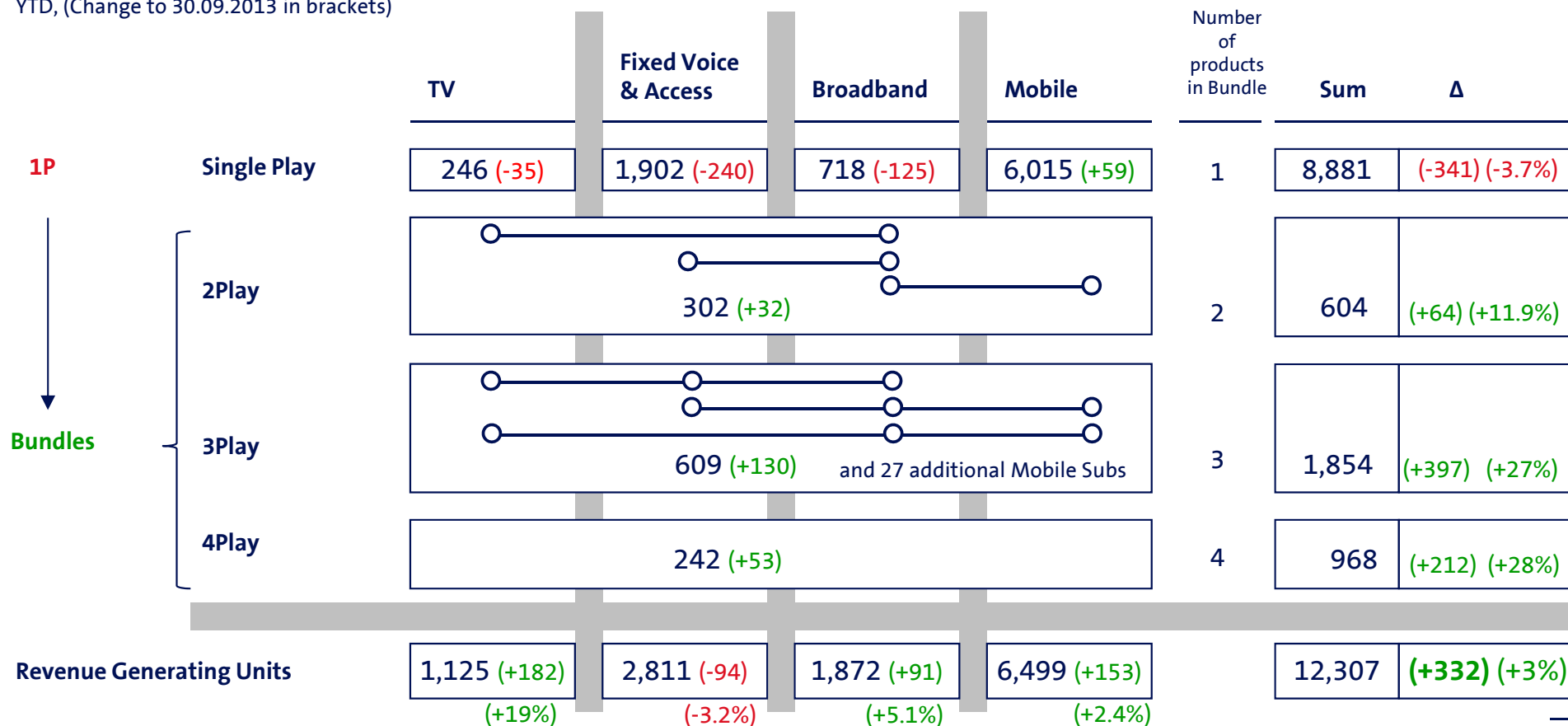


Bundles & Access revenues now represent 78% of revenues compared to 52% 4 years ago.

# RGU's

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

YTD, (Change to 30.09.2013 in brackets)

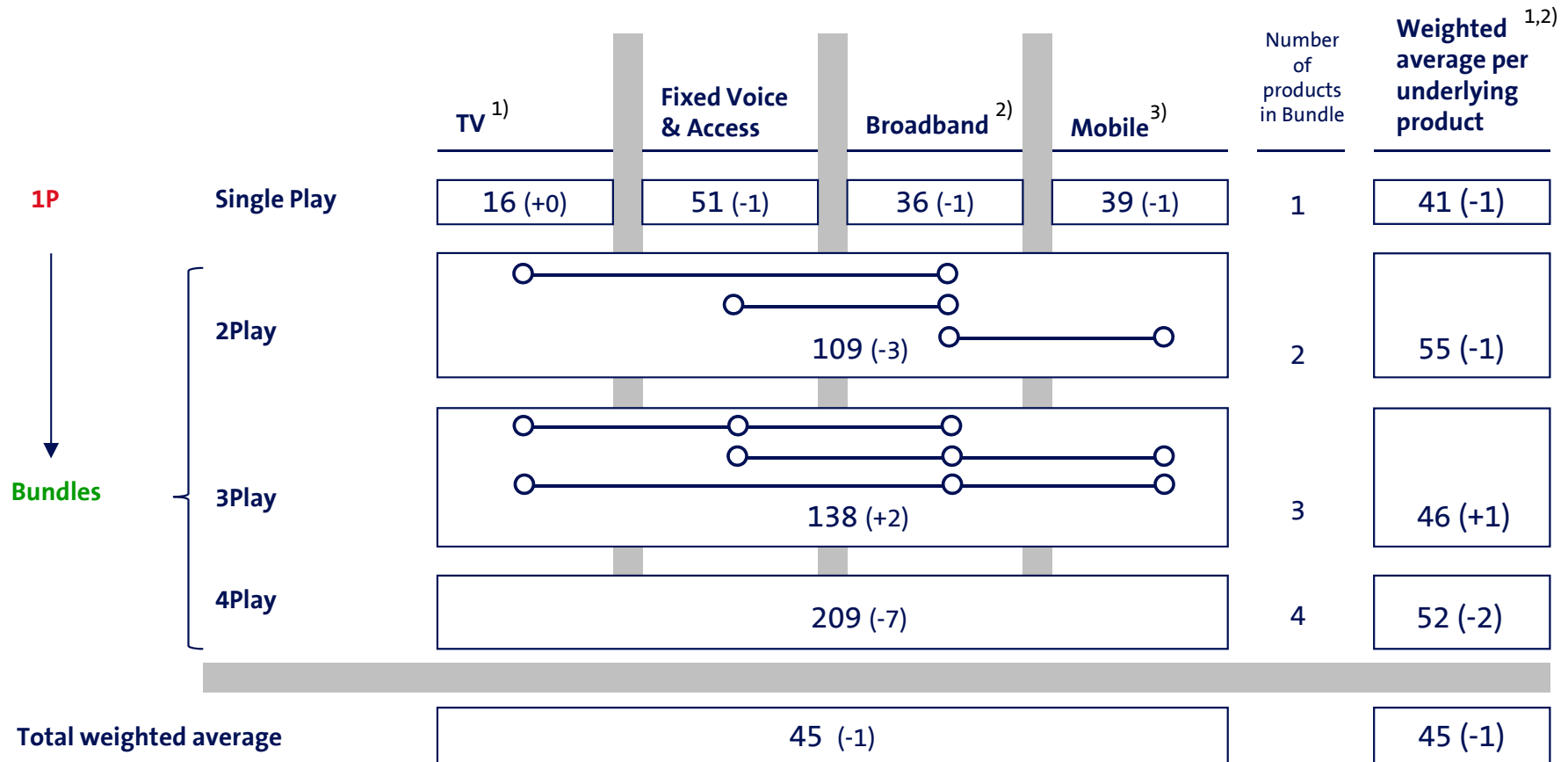


Number of revenue generating units up by +2.8% YOY.



# ARPU

YTD, (Change to 30.09.2013 in brackets)



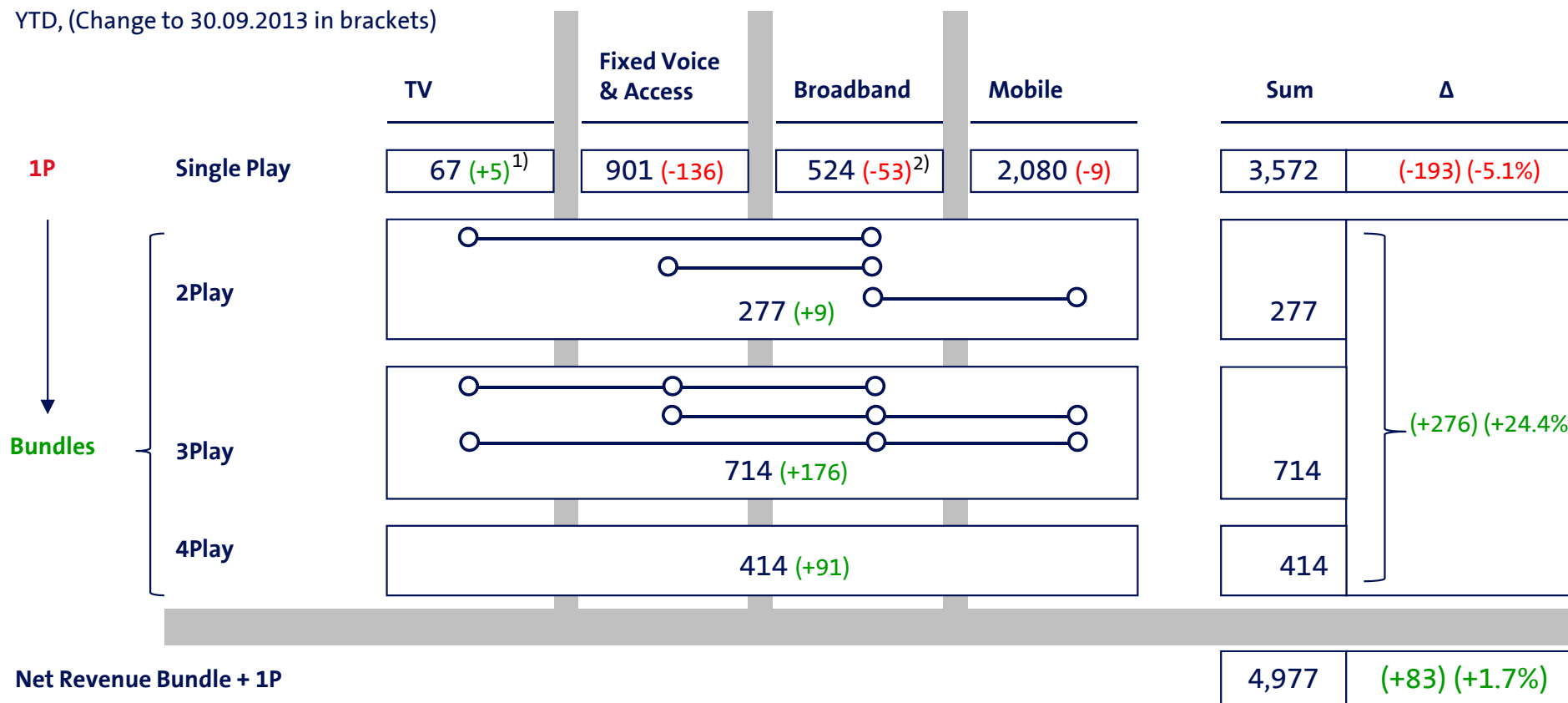
Move to bundles implies up-scaling to higher ARPUs

- 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 30.09.2013 in brackets)



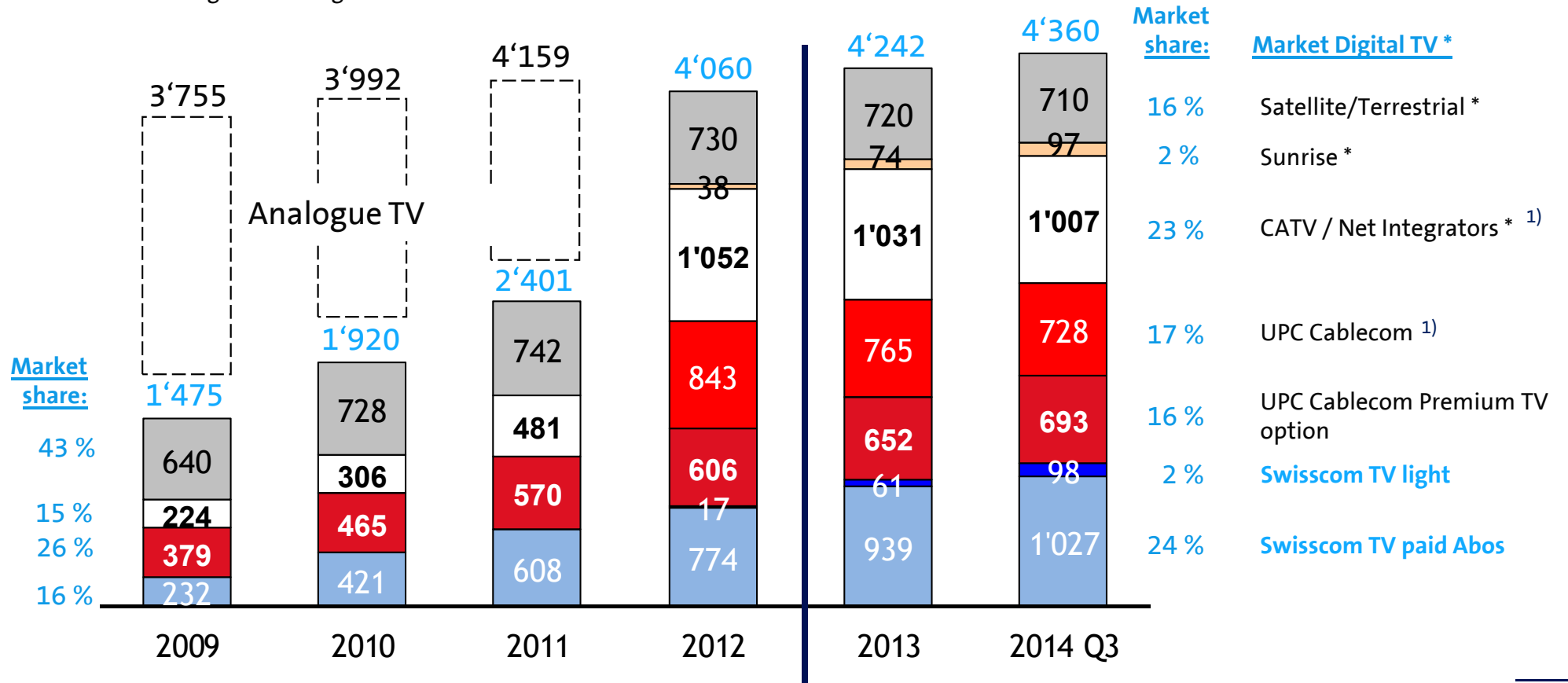
1) includes impact from acquisition Cinetrade.

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

# TV market Switzerland

## Market volumes (000) digital TV

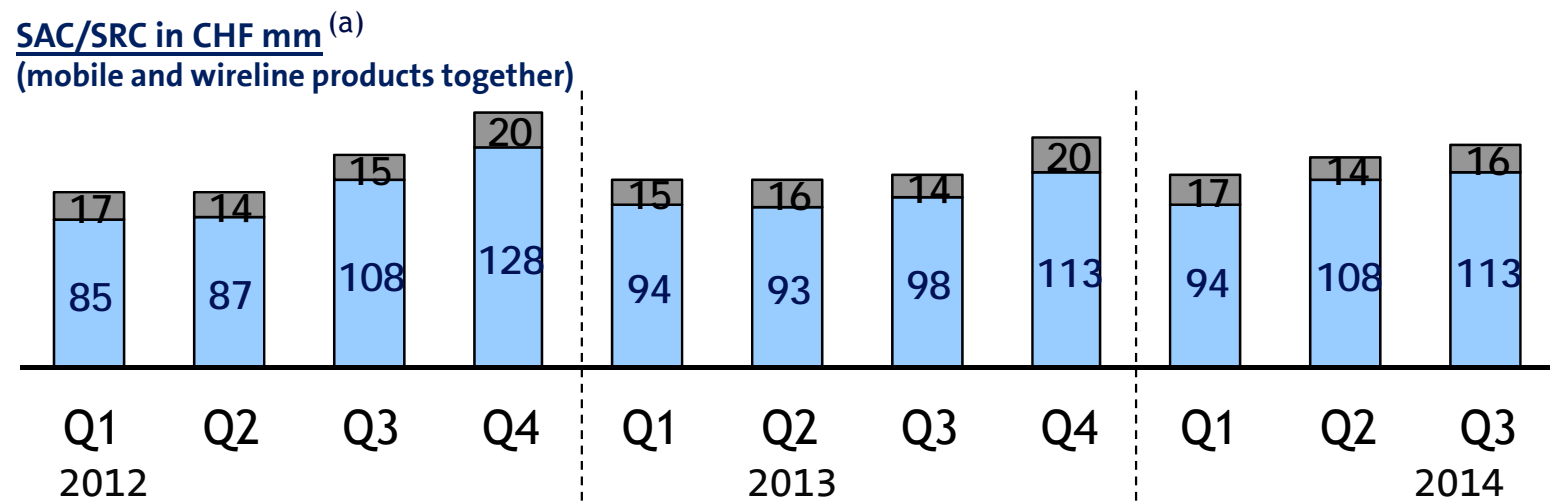
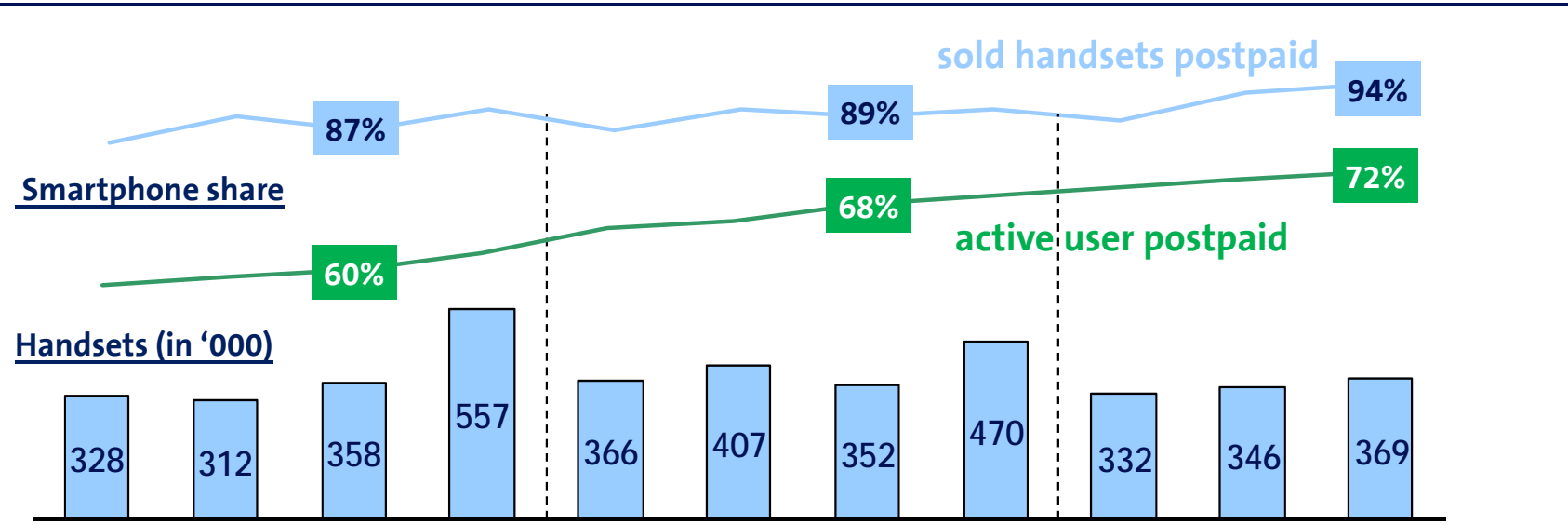
Market digital + analogue



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 Q3 2014

# Handsets & SACs



Active Postpaid User with a steady increase of its smartphone share.

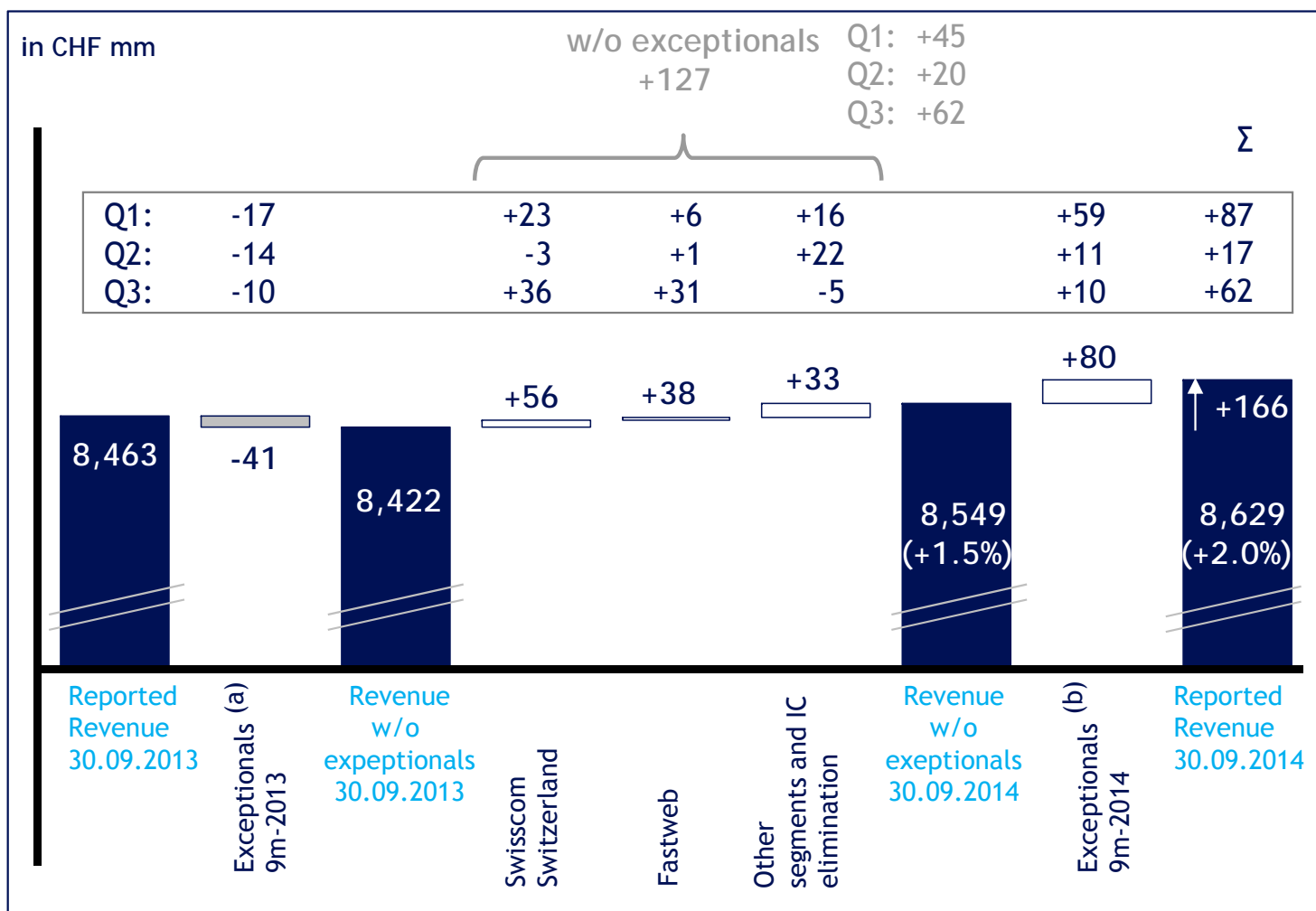
(a) excluding intercompany SAC/SRC

# Group results

## Revenues, exceptionals

Without M&A, hubbing and FX effects, revenue went up CHF 127mm YOY (+1.5%).

Underlying top-line of Fastweb (w/o hubbing and FX) went up by CHF 38 mm YOY. All segments with increase.



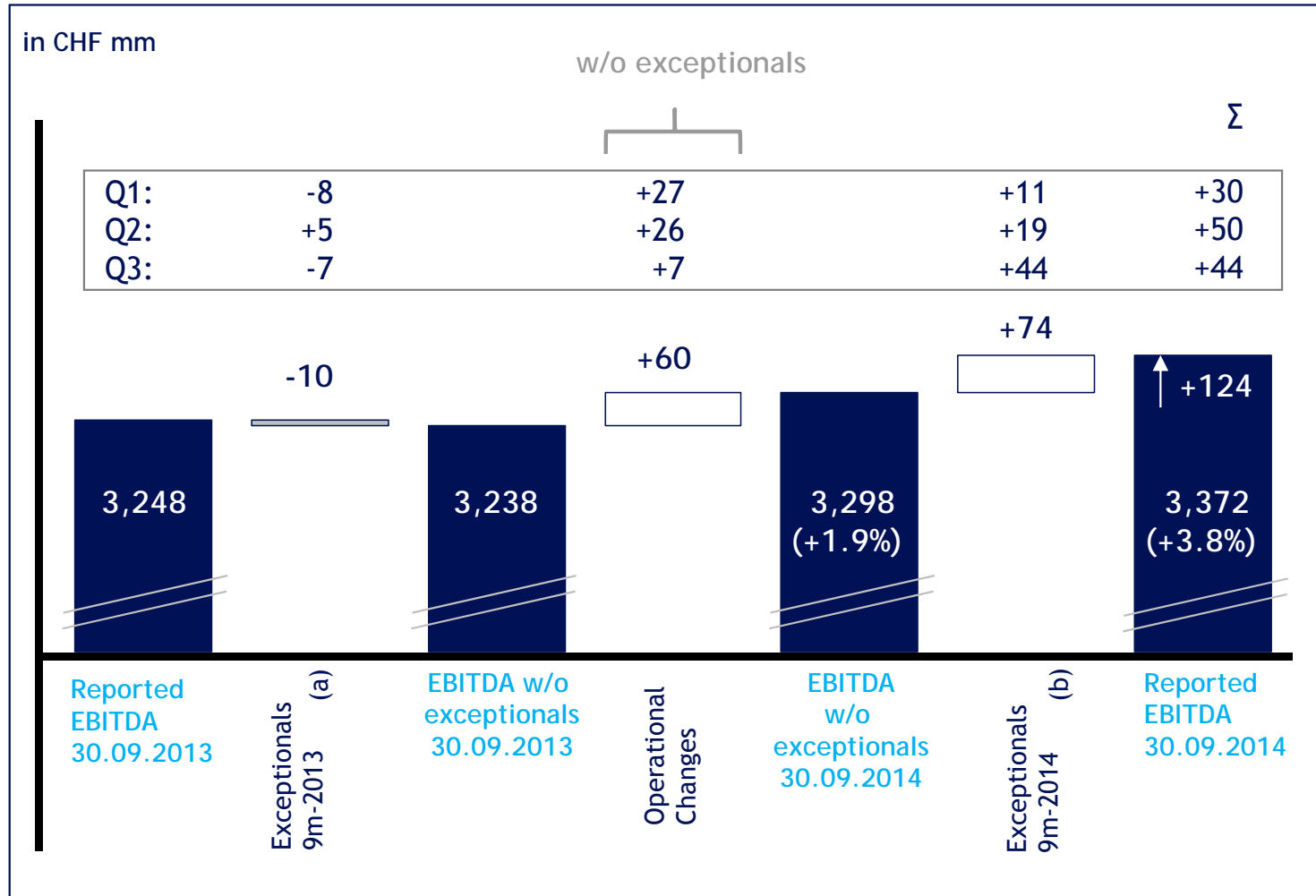
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(b) Acquisitions (CHF +72mm), Hubbing Fastweb (CHF +24mm), change exchange rate (CHF -16mm), weakening of Euro against Swiss Franc of 1.1%)

# Group results

## EBITDA, exceptionals

*EBITDA w/o exceptionals up CHF 60mm YOY.*



(a) Release of provisions restructuring (CHF -10mm)

(b) M&A (CHF +15mm), additional gain on sale of real estate (+50mm), lower Pension cost (+14mm), change exchange rate (CHF -5mm), weakening of Euro against Swiss Franc of 1.1%)

# Reported vs normalised EBITDA

<b>EBITDA development YoY (in CHF mm)</b>				
	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>9m</b>
Swisscom Switzerland	17	14	-7	24
Fastweb	13	16	8	37
<i>o/w effect of lower regulated costs</i>	8	9	8	25
All other	0	20	43	63
<b>Reported EBITDA</b>	<b>30</b>	<b>50</b>	<b>44</b>	<b>124</b>
<i>o/w</i>				
M&A impact	9	2	4	15
Real estate gain	0	11	39	50
Currency effect	0	-2	-3	-5
Pension & restructuring cost	-6	13	-3	4
<b>Normalised EBITDA</b>	<b>27</b>	<b>26</b>	<b>7</b>	<b>60</b>
i.e. exceptional income YoY	3	24	37	64

# Segment 'Residential'

*Top line impacted by one off effect (acquisitions). Higher service revenue partly compensated by lower handset sales.*

*CM 2 increased by 1.5%, driven by higher margin (due to service revenue) and one-off (acquisitions).*

*FTE increased 10.8%, adjusted +0.6% YOY*

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

	Q3/14	Q3oQ3	30.09.2014	YoY
Net revenue in MCHF <sup>1)</sup>	1'336	3.3%	3'907	2.5%
Direct costs in MCHF	-333	9.5%	-955	1.9%
Indirect costs in MCHF <sup>2)</sup>	-241	4.8%	-718	6.2%
Contribution margin 2 in MCHF	762	0.4%	2'234	1.5%
<i>Contribution margin 2 in %</i>	<i>57.0%</i>		<i>57.2%</i>	
CAPEX in MCHF	39	-17.0%	117	-10.0%
FTE's	+519		5'309	10.8%
Voice lines in '000 <sup>3)</sup>	-28		2'046	-4.6%
BB lines in '000 <sup>3)</sup>	+14		1'609	4.8%
Wireless customers prepaid in '000	+0		2'165	-0.4%
Wireless customers postpaid in '000 <sup>3)</sup>	+18		2'592	3.6%
Blended wireless ARPU MO in CHF	36	0.0%	35	2.9%
TV subs in '000 <sup>3)</sup>	+33		1'087	19.2%

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



# Segment 'Small & Medium Enterprises'

*Net revenue up by 0.8% driven by higher bundle revenues.*

*Roaming price decrease impacting Q3.*

*Contribution margin 2 on previous year level.*

*BB lines up by 7.1%.*

	Q3/14	Q3oQ3	30.09.2014	YoY
Net revenue in MCHF <sup>1)</sup>	289	-0.7%	867	0.8%
Direct costs in MCHF	-40	11.1%	-113	1.8%
Indirect costs in MCHF <sup>2)</sup>	-34	3.0%	-104	6.1%
Contribution margin 2 in MCHF	215	-3.2%	650	-0.2%
<i>Contribution margin 2 in %</i>	<i>74.4%</i>		<i>75.0%</i>	
CAPEX in MCHF	6	50.0%	17	70.0%
FTE's	-1		764	1.5%
Voice lines in '000 <sup>3)</sup>	-2		511	-1.2%
BB lines in '000 <sup>3)</sup>	+3		225	7.1%
Wireless customers in '000 <sup>3)</sup>	+2		593	2.8%
Blended wireless ARPU MO in CHF	70	-5.4%	71	-2.7%

1) incl. intersegment revenues

2) incl. capitalised costs and other income

3) sum of single play and bundles

# Segment 'Corporate'

*Ongoing price erosion could be compensated by a wireless data volume increase and other items.*

*# of wireless subs up by 5.0% YOY*

	Q3/14	Q3oQ3	30.09.2014	YoY
Net revenue in MCHF <sup>1)</sup>	449	1.4%	1'325	0.0%
Direct costs in MCHF	-100	2.0%	-293	1.0%
Indirect costs in MCHF <sup>2)</sup>	-122	7.0%	-365	2.0%
Contribution margin 2 in MCHF	227	-1.7%	667	-1.5%
<i>Contribution margin 2 in %</i>	<i>50.6%</i>		<i>50.3%</i>	
CAPEX in MCHF	20	-13.0%	57	-10.9%
FTE's	+17		2'472	1.6%
Voice lines in '000	+11		254	4.1%
BB lines in '000	+0		38	5.6%
Wireless customers in '000	+19		1'149	5.0%
Blended wireless ARPU MO in CHF	40	-9.1%	40	-11.1%
1) incl. intersegment revenues				
2) incl. capitalised costs and other income				

# Segment 'Wholesale'

*Revenue from external customers down 3.4% driven by lower termination and inbound roaming rates.*

	Q3/14	Q3oQ3	30.09.2014	YoY
Revenue from external customers in MCHF	144	-2.7%	428	-3.4%
Intersegment revenue in MCHF	95	-3.1%	268	-5.6%
Net revenue in MCHF	239	-2.8%	696	-4.3%
Direct costs in MCHF	-136	-5.6%	-397	-6.6%
Indirect costs in MCHF <sup>1)</sup>	-5	0.0%	-14	7.7%
Contribution margin 2 in MCHF	98	1.0%	285	-1.4%
<i>Contribution margin 2 in %</i>	<i>41.0%</i>		<i>40.9%</i>	
CAPEX in MCHF	-	nm	-	nm
FTE's	+0		110	0.9%
Full access lines in '000	-24		204	-23.9%
BB (wholesale) lines in '000	+17		241	15.9%
1) incl. capitalised costs and other income				

# Segment 'Networks and support functions'

*Overall, CM2 nearly on prior year level.*

*CAPEX of CHF 907mm up 14.1% YOY, due to further rollout of broadband networks.*

	Q3/14	Q3oQ3	30.09.2014	YoY
Personnel expenses in MCHF	-171	4.3%	-537	2.5%
Rent in MCHF	-46	0.0%	-138	0.0%
Maintenance in MCHF	-49	-2.0%	-140	-1.4%
IT expenses in MCHF	-77	-2.5%	-231	0.0%
Other OPEX in MCHF	-66	-5.7%	-194	-5.8%
Indirect costs in MCHF	-409	0.0%	-1'240	-0.1%
Capitalised costs and other income in MCHF	48	4.3%	141	3.7%
Contribution margin 2 in MCHF	-361	-0.6%	-1'099	-0.5%
Depreciation, amortisation and impairment in MCHF	-246	7.0%	-724	5.7%
<b>Segment result in MCHF</b>	<b>-607</b>	<b>2.4%</b>	<b>-1'823</b>	<b>1.8%</b>
<b>CAPEX in MCHF</b>	<b>355</b>	<b>23.7%</b>	<b>907</b>	<b>14.1%</b>
<b>FTE's</b>	<b>+58</b>		<b>4'560</b>	<b>3.1%</b>

# Segment 'Fastweb'

*W/o low margin  
wholesale hubbing net  
revenues increased  
2.5% YOY.*

*All segments report an  
increase in revenue.*

*EBITDA of EUR 370  
million up 10.1% YOY.*

*# of BB customers up  
by 5.5% YOY surpassing  
the threshold of 2  
million customers.*

	Q3/14	Q3oQ3	30.09.2014	YoY
Consumer revenue in MEUR	187	0.5%	563	0.9%
Enterprise revenue in MEUR	202	7.4%	567	1.4%
Wholesale revenue in MEUR <sup>1)</sup>	35	20.7%	100	4.2%
Net revenue in MEUR <sup>1)</sup>	424	5.2%	1'230	1.4%
of which net revenue excl. hubbing in MEUR	417	5.8%	1'209	2.5%
OPEX in MEUR <sup>2)</sup>	-290	4.7%	-860	-1.9%
EBITDA in MEUR	134	6.3%	370	10.1%
EBITDA margin in %	31.6%		30.1%	
CAPEX in MEUR	122	-10.9%	406	3.3%
OpFCF Proxy in MEUR	12	n.m.	-36	-36.8%
FTE's	+5		2'378	0.3%
BB customers in '000	+22		2'016	5.5%
<b>In consolidated Swisscom accounts</b>				
EBITDA in MCHF	163	5.2%	450	9.0%
CAPEX in MCHF	148	-11.9%	494	2.3%

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).*

*OPEX up by 1.7% mainly driven by one off (acquisition) at Swisscom IT Services partly compensated by an additional gain on sale of real estate, mainly in Q3.*

*EBITDA up by 23.2% YOY driven by an additional gain on sale of real estate.*

	Q3/14	Q3oQ3	30.09.2014	YoY
Swisscom IT Services in MCHF	156	0.0%	489	10.4%
Group Related Business in MCHF	86	-1.1%	245	2.1%
Hospitality Services in MCHF	14	0.0%	50	22.0%
Other in MCHF	9	0.0%	26	0.0%
External revenue in MCHF	265	-0.4%	810	8.0%
Net revenue in MCHF <sup>1)</sup>	474	3.0%	1'400	5.6%
OPEX in MCHF <sup>2)</sup>	-348	-8.9%	-1'108	1.7%
EBITDA in MCHF	126	61.5%	292	23.2%
EBITDA margin in %	26.6%		20.9%	
CAPEX in MCHF	49	-12.5%	155	17.4%
FTE's	+247		5'164	3.5%

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.

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