"Swiss-common Sense"

Presentation at Merrill Lynch TMT Conference
4 June 2014, London

Mario Rossi, CFO
Heinz Herren, CTO
Bart Morselt, IR

swisscom

Agenda “Swiss-common Sense”

Chapter	Topic
Overview	The big picture
1	Customer – demanding more and better interconnected communication services
2	Competition – changing playing field
3	Technology & Infrastructure – shifting focus
4	Business model for telcos
Outcome	Results & Outlook
	Q&A

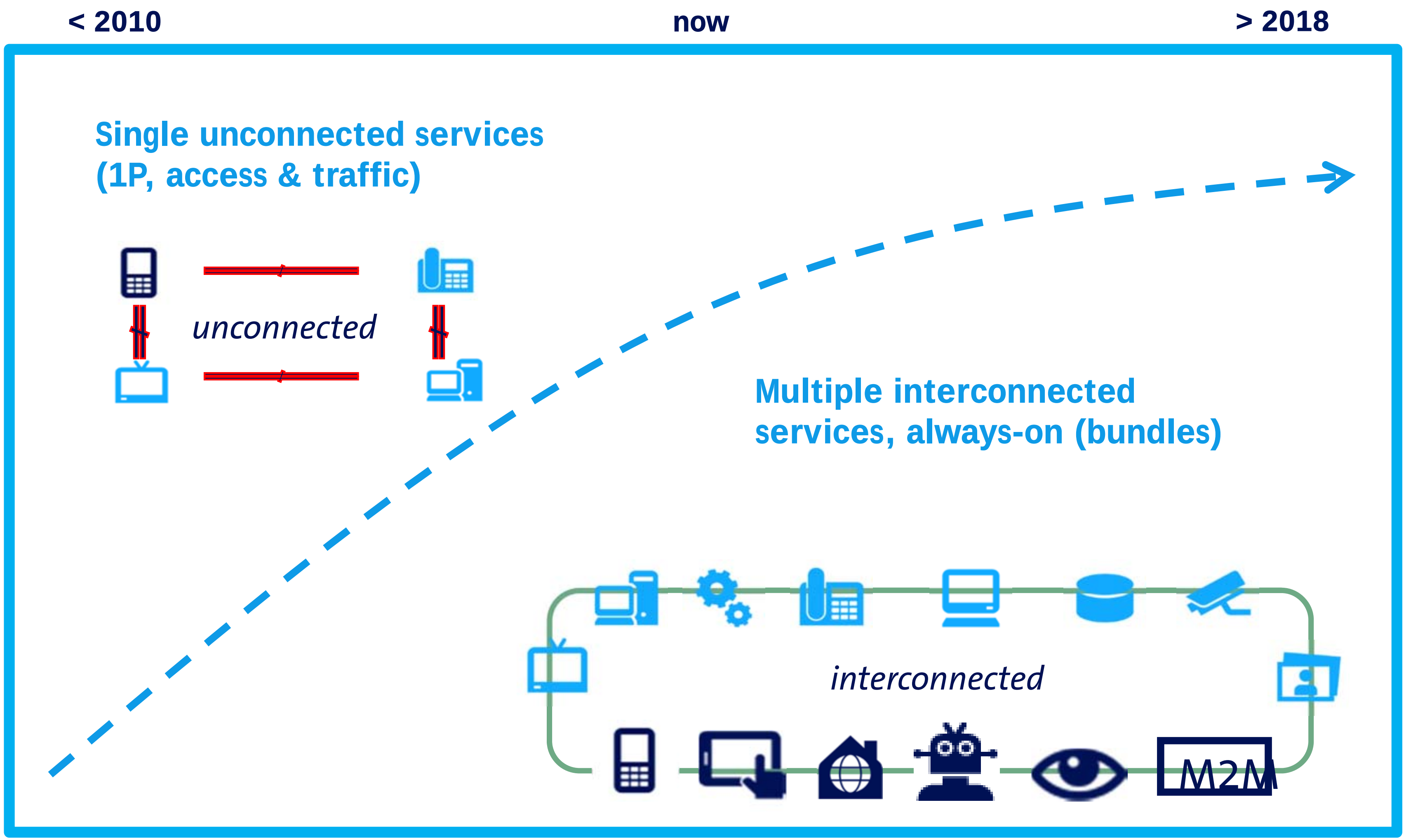
swisscom

Swiss-common Sense – Big Picture

	< 2010	now	> 2018
1. Customer demand	Single unconnected services (1P)		Multiple interconnected services, always-on (bundles)
2. Competition	Local		Global
3. Technology & Infrastructure	Switched		IP
4. Business Model	Market share will always stay crucial while business moves a. Telco b. Usage c. Single		a. ICT b. Subscription c. Bundle

swisscom

1. Swiss-common Sense – Customer trends



Customers increasingly desire "total connectivity": everywhere and always-on through multiple devices with no synch issues. Making customers' digital life easier is going to be a major business case

2. Swiss-common Sense – Competition

< 2010 | **now** | **> 2018**

Local

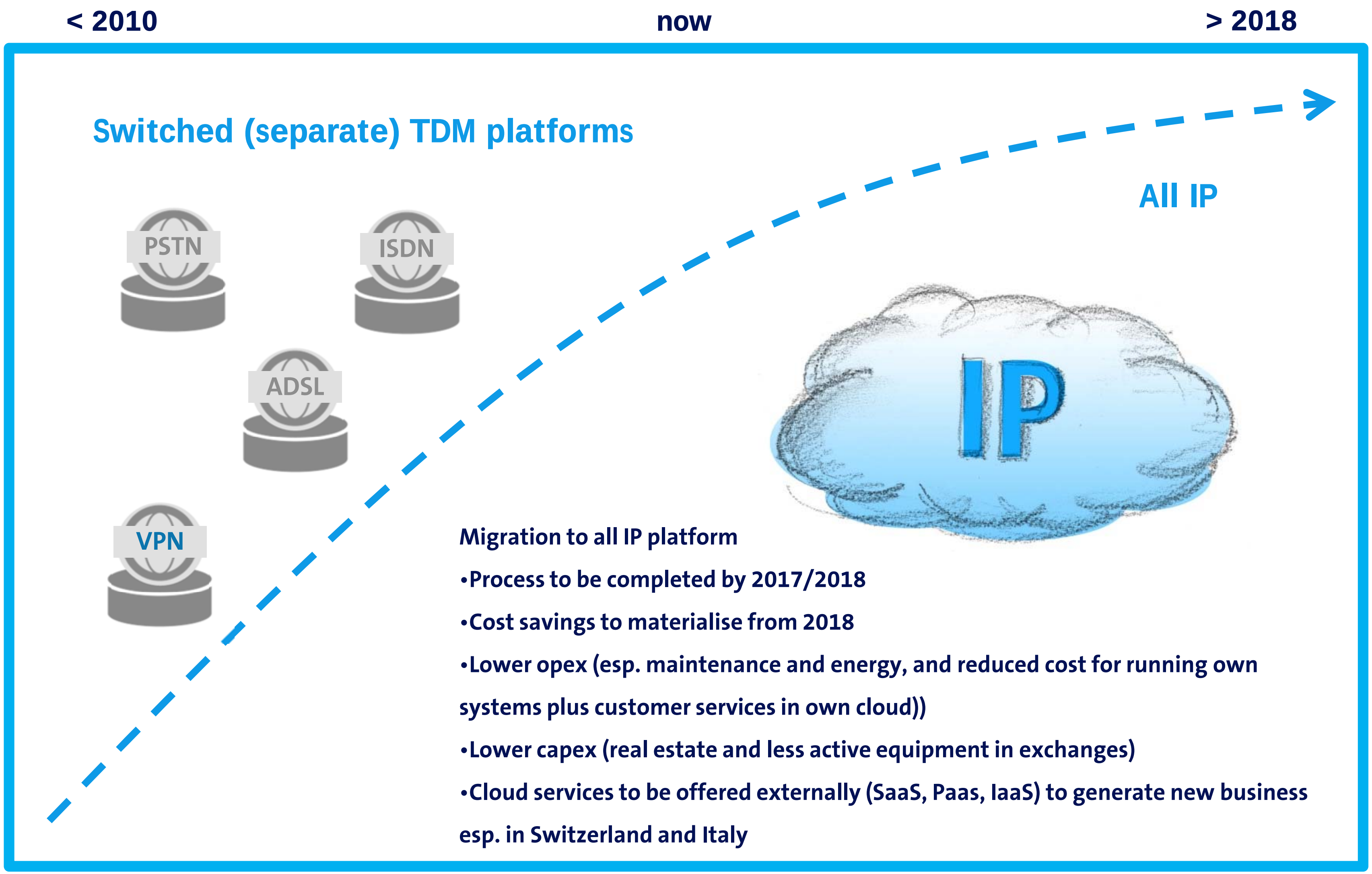
Local operators will always stay important as unique points of physical access to networks (internet). In terms of services offered, they will however get additional competition from asset-light OTT providers

Global

OTT's can quickly rise – and fall. A customer needs to rely on the quality of local access networks to access OTT services, which can easily be replaced by alternative services

IP makes competition global – "anyone" can compete by offering smart communication solutions ("apps") at virtually no cost by using the internet.

3. Swiss-common Sense – Technology & infrastructure



Migration to all IP platform

- Process to be completed by 2017/2018
- Cost savings to materialise from 2018
- Lower opex (esp. maintenance and energy, and reduced cost for running own systems plus customer services in own cloud))
- Lower capex (real estate and less active equipment in exchanges)
- Cloud services to be offered externally (SaaS, Paas, IaaS) to generate new business esp. in Switzerland and Italy

Shifting focus: moving from a switched to an all-IP world in the Cloud designed to improve service levels at lower costs.

swisscom

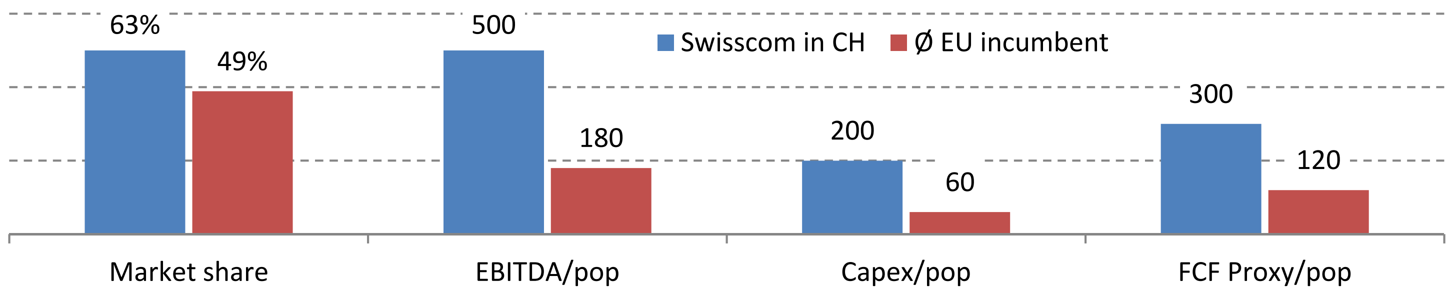
4. Swiss-common Sense – Business model continues to focus on market share!

Logic

1. Telecom is a fixed cost business. Networks by definition build for entire country/inhabitant
2. In a fixed cost business, market share is everything as…
3. … market share translates into EBITDA
4. To achieve market share in a quality conscious market, requires deep investments into superb networks and services
5. This focus results into superior FCF generation by keeping market share high

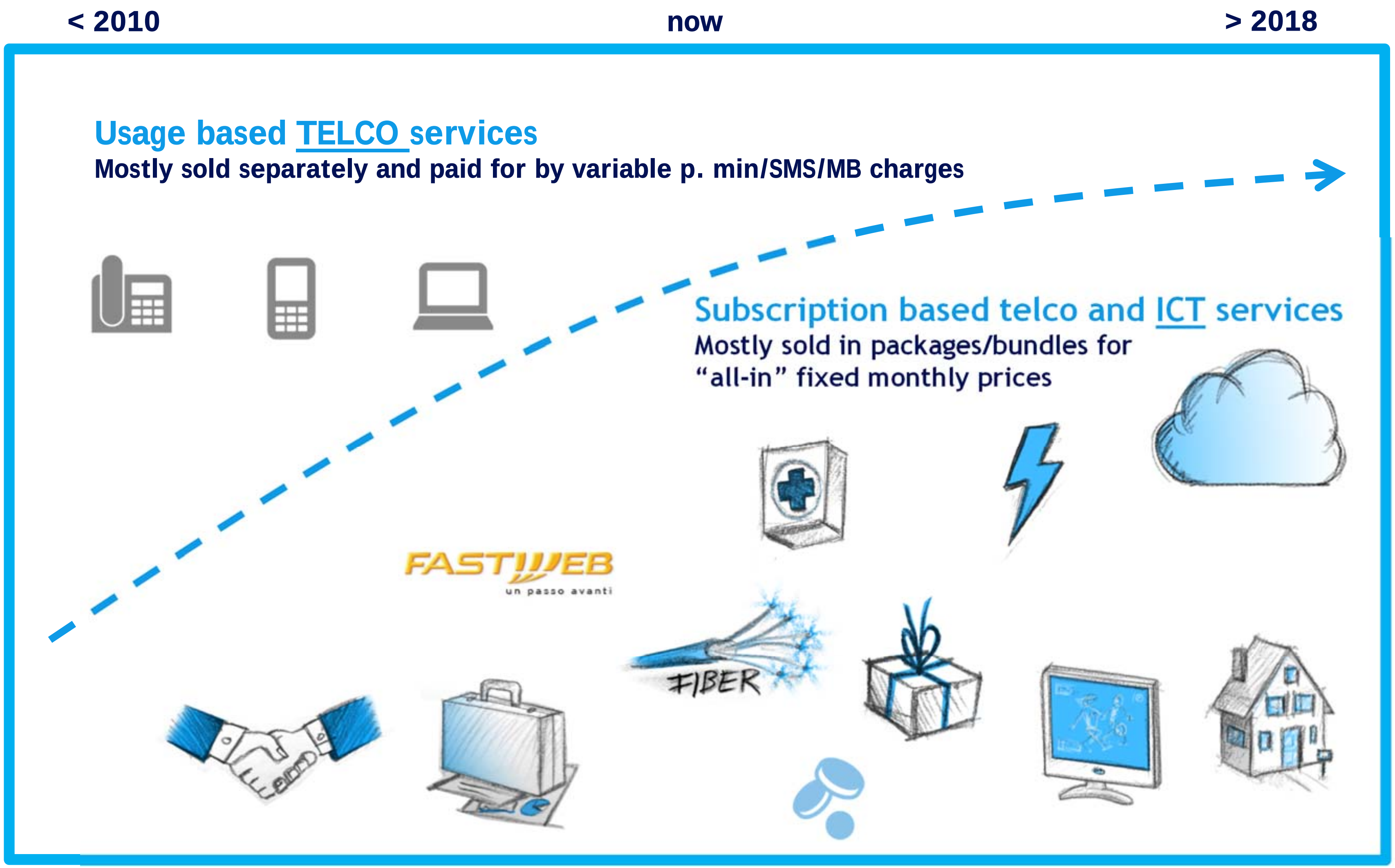
Illustration

1. >70% of cash-out (capex & opex) is fixed. Trend going up (e.g. roaming cost down, IP etc)
2. Swisscom has around 63% blended market share, 14pp higher than avg. EU incumbent
3. EBITDA of CHF 500/pop, 2.8x higher than EU incumbent (CHF 180)
4. Capex of CHF 200/pop, 3.3x higher than avg. EU incumbent (CHF 60)
5. FCF Proxy (EBITDA-Capex) of CHF 300/pop, 2.5x higher than avg. EU incumbent (120)



1% loss of market share translates into 2% bottom line lost. And vice versa….

4a. Swiss-common Sense – Business model extends



Moving from a few (pure TELCO) to multiple sources of (Telco and ICT) revenues is key to generate future growth.
Less need to charge by unit, as variable cost (e.g. roaming outpayments) evaporate

swisscom

4b. Swiss-common Sense – Business model migrates

< 2010 **now** **> 2018**

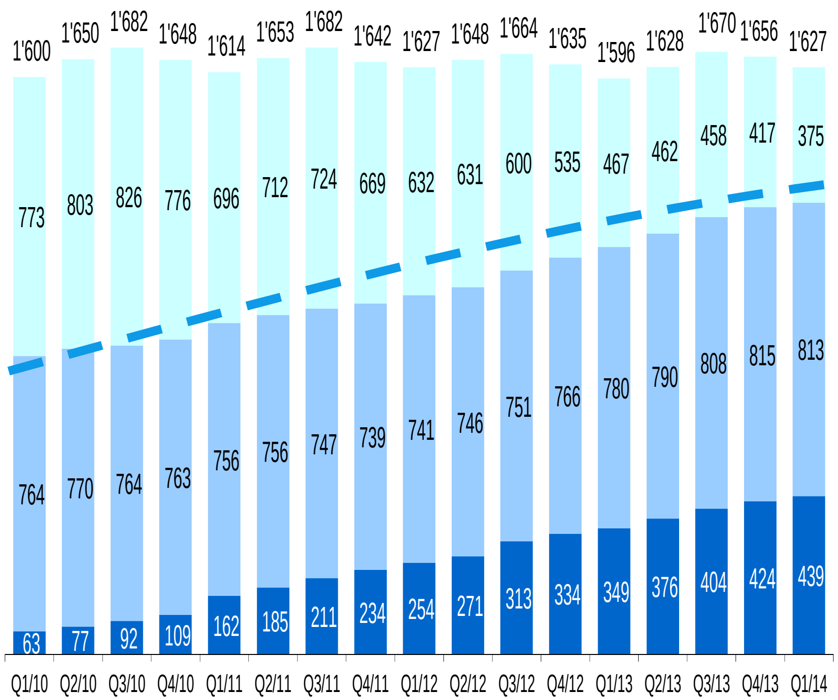
Usage based, mostly for 1P services

CHF mm per quarter, Swisscom Switzerland traffic & access revenues

Relative share

48%

52%



Relative share

23%

Usage revenues (1P Traffic & VAS) **10%?**

Subscription based, increasingly for bundles

77%

Subscription revenues (1P access + Bundles) **90%?**

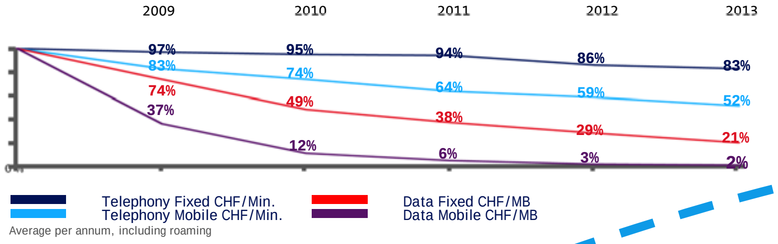
„10-year“ challenge: replacing over CHF 3 bln annual usage revenues (50% of total access & traffic in Switzerland) with at least the same in subscription revenues

swisscom

4c. Swiss-common Sense – Business model moves

< 2010 **now** **> 2018**

Usage (traffic) based, mostly 1P



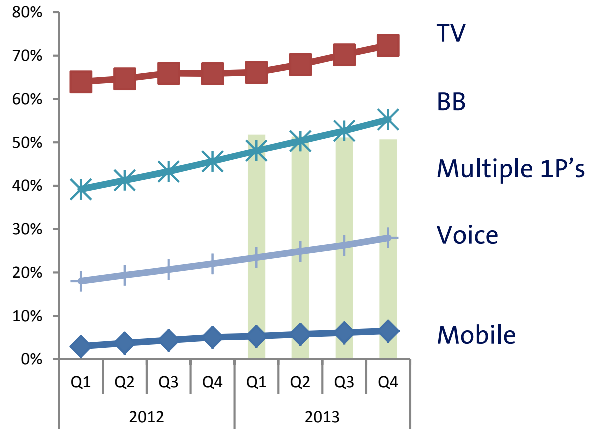
Prices/unit – bound to fall to "zero" ultimately

Subscription based (price/access or speed, both for 1P and bundles)

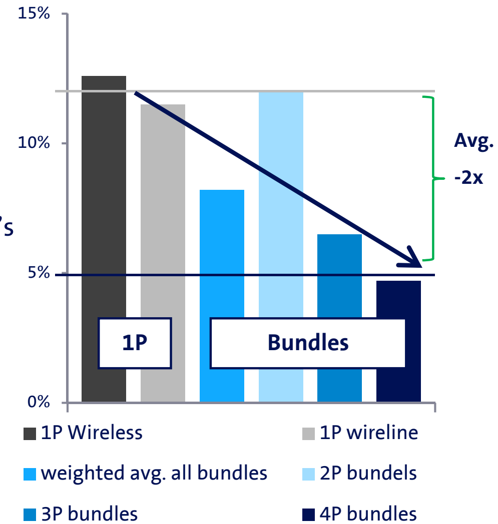
Mobile moves to all-in pricing

Infinity tariff program: pricing differentiating on speed only
- **55% of postpaid customers now on Infinity**
- **Changers to Infinity now generating CHF 9/month (10%) higher ARPU**
- **Best tool to beat competition (both local and global)**

Esp. wireline services move to bundling



Bundling reduces churn – halving avg. churn means doubling the customer life time value



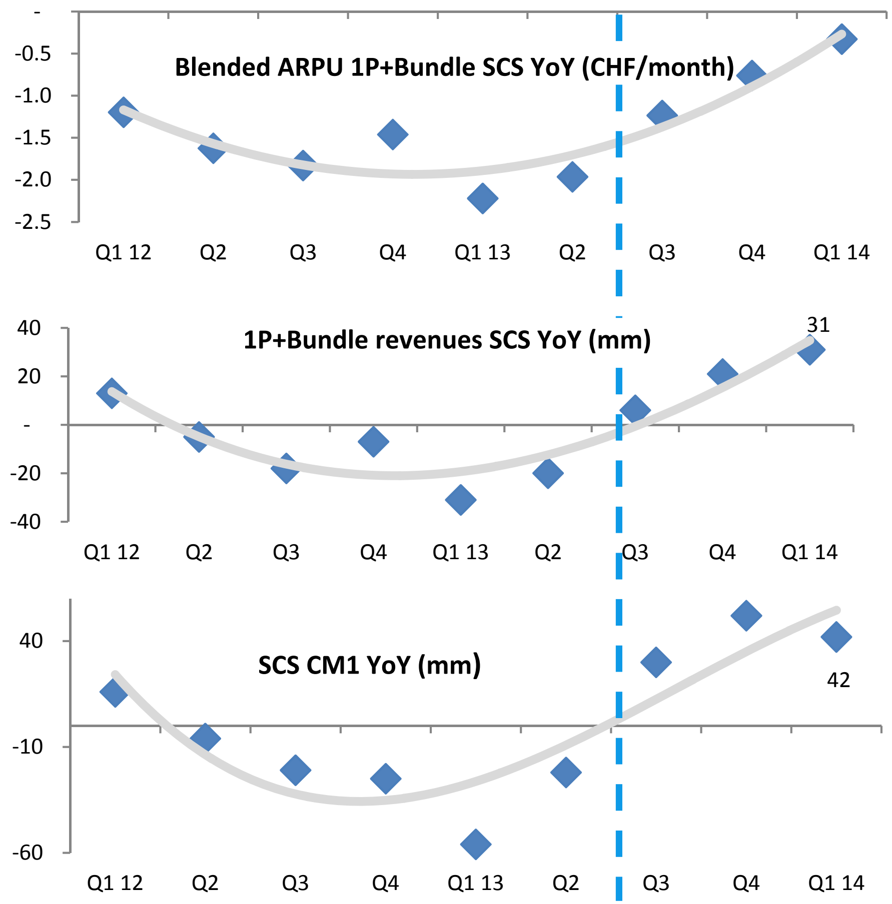
Introducing new pricing paradigms and attractive bundles to make the threat of free-to-use OTT apps irrelevant to telco operators while increasing contract value

swisscom

5. Swiss-common Sense – Outcome & Outlook

< 2010 now > 2018

Negative/low growth → **Moderate growth**



<u>2014 Group expectations (Δ % YoY)</u>:

- **Revenues CHF 11.5 bln (+0.6%)**
- **EBITDA CHF 4.35 bln (+0.8%)**
- **Capex CHF 2.4 bln (+0%)**
- **DPS CHF 22/share, representing still well over 4% yield)**

Both SCS and Fastweb are expected to grow modestly

Outcome of a "common-sense" strategy starts to become visible in results, with 2nd half of 2013 marking the turning point back to (moderate) growth

swisscom

Cautionary statement regarding forward-looking statements

”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.

Readers are cautioned not to put undue reliance on forward-looking statements, which speak only of the date of this communication.

Swisscom disclaims any intention or obligation to update and revise any forward-looking statements, whether as a result of new information, future events or otherwise.”

For further information, please contact:
phone: +41 58 221 6278 or +41 58 221 6279

investor.relations@swisscom.com
www.swisscom.ch/investor

swisscom