“Swiss-common Sense”

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## Agenda “Swiss-common Sense”

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Topic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overview</td>
<td>The big picture</td>
</tr>
<tr>
<td>1</td>
<td>Customer – demanding more and better interconnected communication services</td>
</tr>
<tr>
<td>2</td>
<td>Competition – changing playing field</td>
</tr>
<tr>
<td>3</td>
<td>Technology &amp; Infrastructure – shifting focus</td>
</tr>
<tr>
<td>4</td>
<td>Business model for telcos</td>
</tr>
<tr>
<td>Outcome</td>
<td>Results &amp; Outlook</td>
</tr>
<tr>
<td>Q&amp;A</td>
<td></td>
</tr>
</tbody>
</table>

2
Swiss-common Sense - Big Picture

1. Customer demand
   - < 2010: Single unconnected services (1P)
   - Now: Multiple interconnected services, always-on (bundles)

2. Competition
   - Local
   - Global

3. Technology & Infrastructure
   - < 2010: Switched
   - Now: 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
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

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

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

Switched (separate) TDM platforms

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

< 2010 now > 2018

PSTN ISDN ADSL VPN
4. Swiss-common Sense - Business model continues to focus on market share!

**Logic**

1. Telecom is a fixed cost business. Networks by definition built 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....
Usage based TELCO services
Mostly sold separately and paid for by variable p. min/SMS/MB charges

Subscription based telco and ICT services
Mostly sold in packages/bundles for "all-in" fixed monthly prices

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.
4b. Swiss-common Sense - Business model migrates

Usage based, mostly for 1P services

Subscription based, increasingly for bundles

„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
4c. Swiss-common Sense - Business model moves

Usage (traffic) based, mostly 1P

- Prices/unit – bound to fall to “zero” ultimately

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

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

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)

Bundling reduces churn – halving avg. churn means doubling the customer life time value
5. Swiss-common Sense - Outcome & Outlook

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

2014 Group expectations (Δ % YoY):
- 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
Cautionary statement
regarding forward-looking statements

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