



Second Analysts' Meeting

Zurich, 20 August 1998



# Introduction

Tony Reis  
CEO

# Swisscom is outperforming

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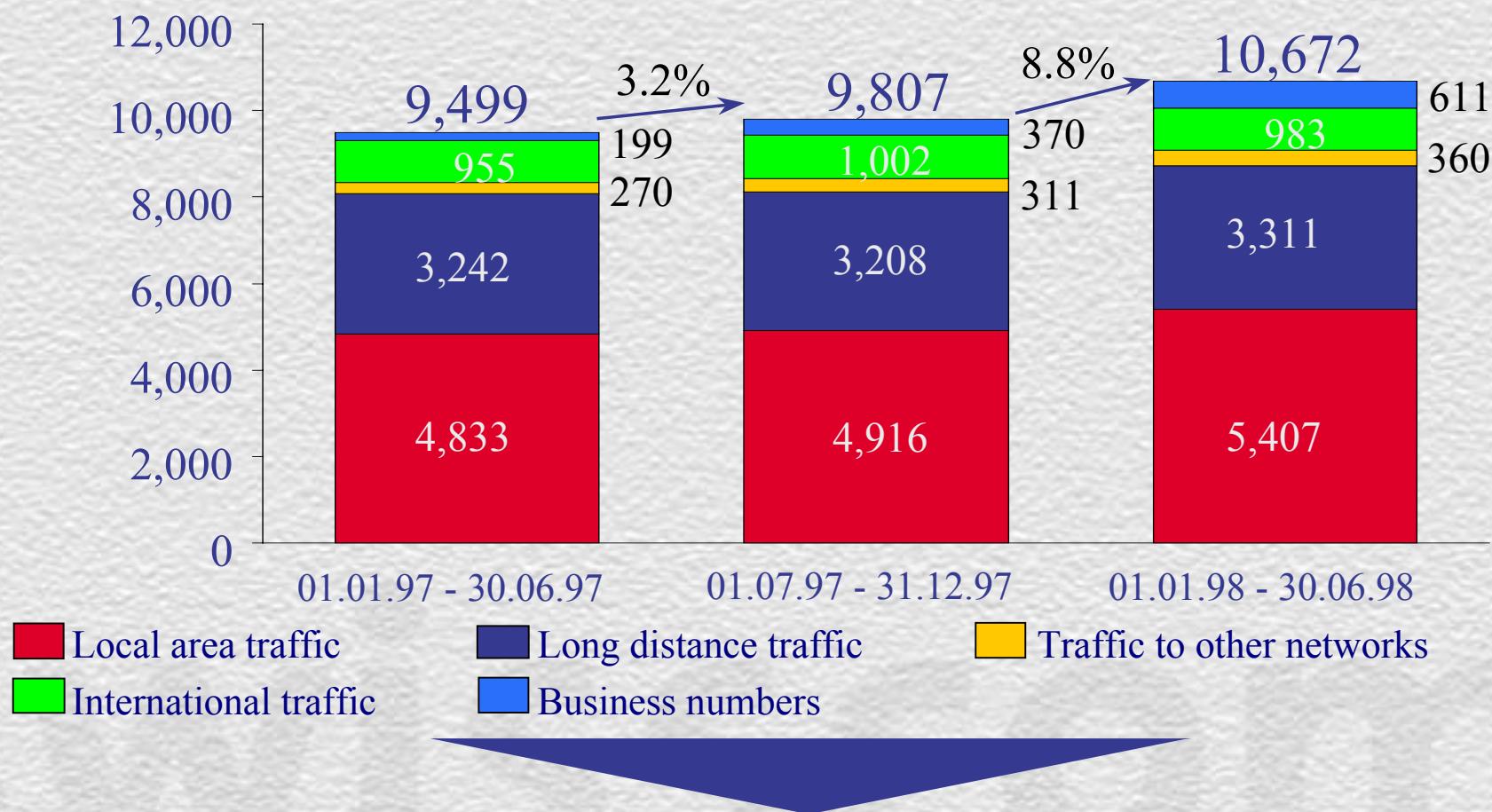
- Market stimulation through increased marketing by Swisscom and competitors
- Retention of market share - delayed impact of competition
- Limited revenue impact from new pricing plans
- Cost and capex reductions well on track - high weighting of projects in second half



The turnaround is being realised

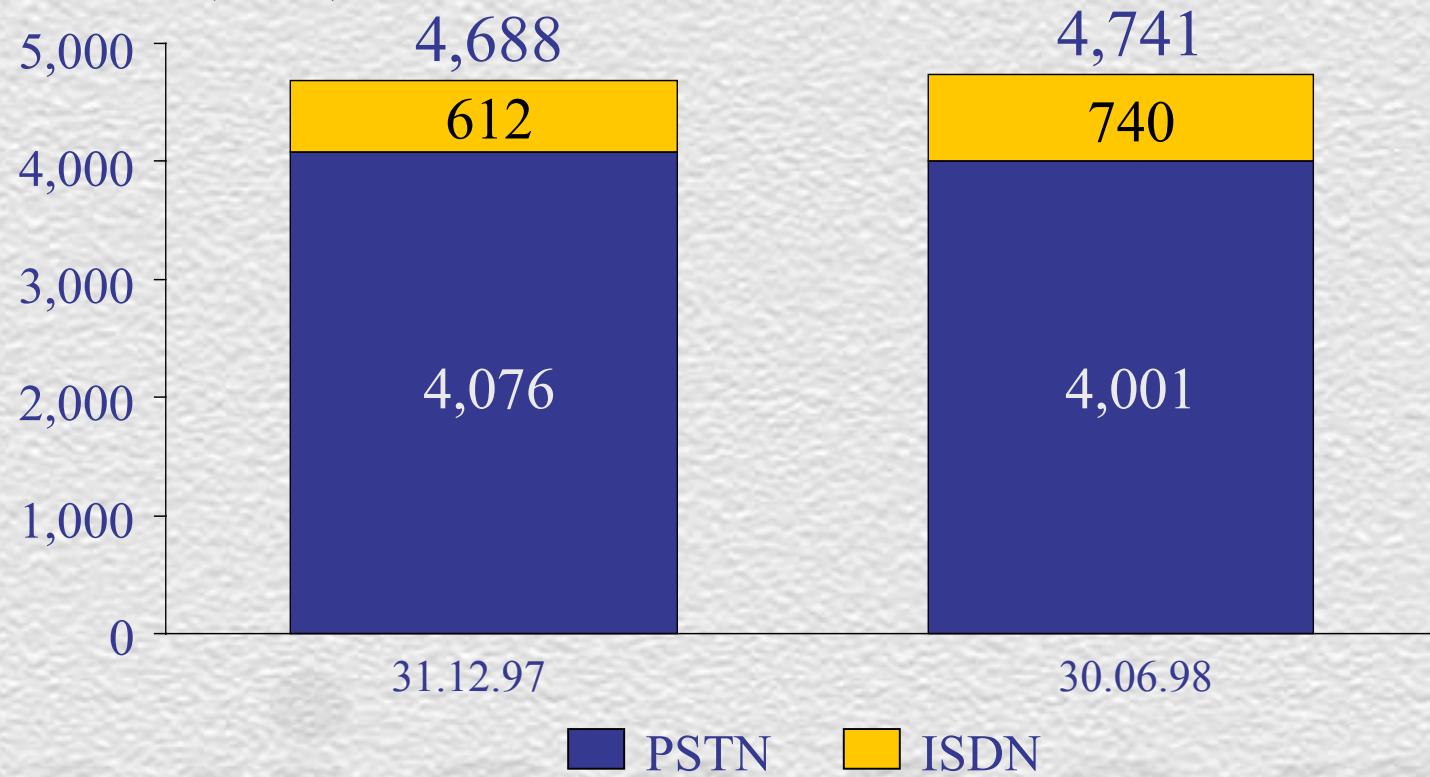
# Price cuts and increasing marketing have led to volume growth

Total minutes (m)



# ISDN continues to expand into the residential market

Total channels (000's)



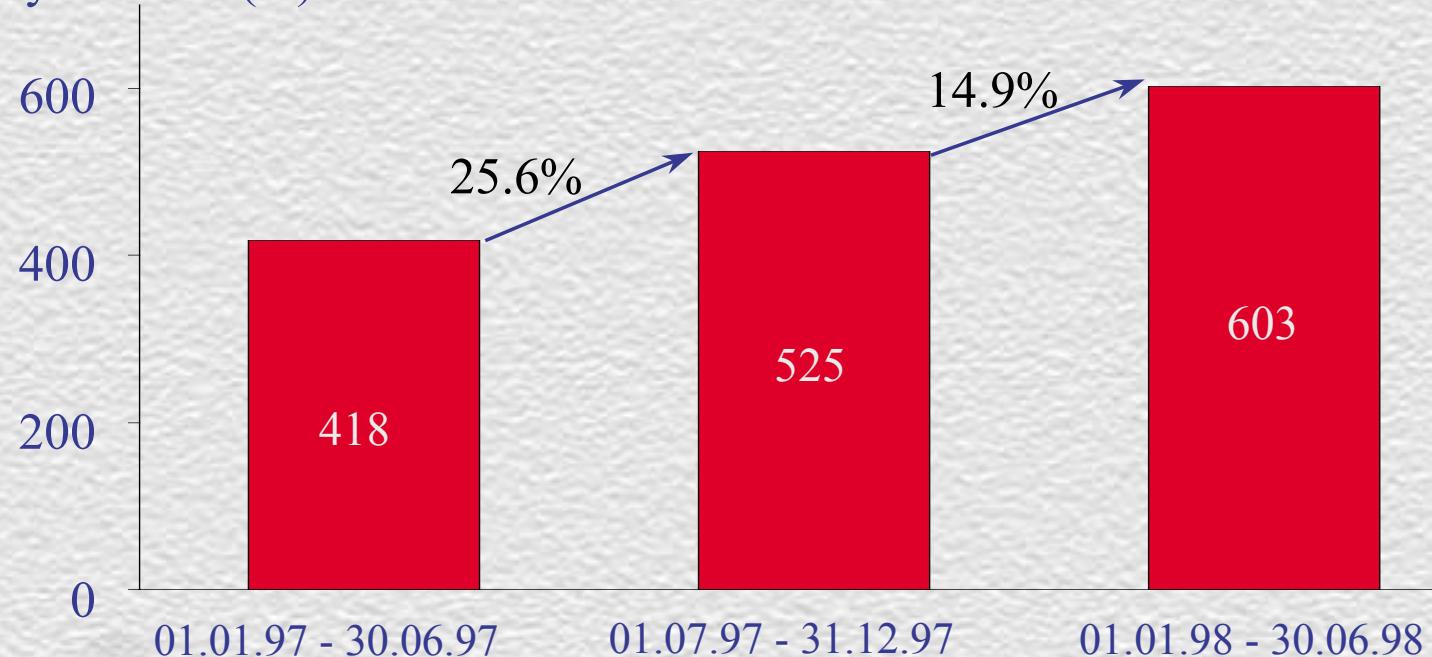
Penetration (%)

PSTN lines	57.3	56.0
ISDN channels	8.6	10.4
<b>Total</b>	<b>65.9</b>	<b>66.4<sup>(1)</sup></b>

Note: (1) Based on population of 7.1m

# Mobile traffic continues to increase rapidly

Total outbound mobile telephony minutes (m)



Average monthly minutes of use <sup>(1)</sup>

Per mobile telephony customer - excluding Natel Easy	95	94	86
	101	107	107

Note: (1) Management estimates. Excludes traffic minutes generated by customers

# Swisscom is confident of retaining its MNC customer base

- The recently announced BT/AT&T venture does not endanger Swisscom's ability to provide global services to its MNCs
- AUCS is only one of several options available to provide Swiss MNCs with global services
- Infonet is well placed to offer global data services to Swisscom's MNC customer base
- AUCS agreements in place until 1 July 2000
- Our HME and Hot Spot strategy enhances our ability to serve our MNCs



Swisscom remains the leading telecoms service provider for Swiss MNCs and is well placed to distribute global services in Switzerland



# Half year results

David Schnell  
CFO

# Swisscom - historic performance

According to IAS (all numbers in CHF except employees)

(CHFm)	1995	1996	1997	CAGR
Net revenues	9,515	9,532	9,842	1.7%
Total operating expenses	6,813	7,345	8,079 <sup>(1)</sup>	8.9%
EBITDA	4,798	4,232	3,779 <sup>(1)</sup>	(11.2%)
Net income	2,415	1,830	1,311 <sup>(1)</sup>	(26.3%)
Capital expenditure	2,173	2,278	2,374	4.5%
Employees (end of year)	20,557	21,951	22,170	3.9%



Need for turnaround

Note: (1) Excludes restructuring charge of CHF 1.7bn

# Swisscom - first half performance

According to IAS (all numbers in CHF except employees)

(CHFm)	Six months ended June 30		% change
	1997	1998	
Net revenues	4,859	5,106	5.1%
Total operating expenses	3,695	3,703 <sup>(1)</sup>	0.2%
EBITDA	2,166	2,294	5.9%
Net income	995	1,133	13.9%
Capital expenditure	1,098	393	(64.2%)
Employees (end of period)	22,129	21,806	(1.5%)

Achieving the turnaround

Note: (1) Including one-off incorporation tax charge of CHF 260m

## Net revenues - breakdown by source

(CHFm)	Six months ended June 30		% change
	1997	1998	
Voice	3,406 <sup>(1)</sup>	3,303	(3.0%)
Mobile	610	823	34.9%
Data and multimedia	383	433	13.1%
Carrier services	354	400	13.0%
Total telephony revenues	4,753	4,959	4.3%
Other revenues	106	147	38.7%
Total net revenues	4,859	5,106	5.1%

Strong overall revenue growth as full impact of competition not yet felt

# Voice revenues have benefited from increased marketing activities stimulating the telecoms market

(CHFm)	Six months ended June 30		
	1997	1998	% change
Access	640	668	4.4%
National calling	1,365	1,217	(10.8%)
Local	508	322	(36.6%)
National long distance	774	816	5.4%
Payphones	83	79	(4.8%)
Outgoing international calling	675	707	4.7%
VAS	217	228	5.1%
Voice value added	136	148	8.8%
Information services	81	80	(1.2%)
CPS/CPE/CS	509	483	(5.1%)
Total fixed-line voice telephony	3,406	3,303	(3.0%)

Uptake of residential ISDN

Decline due to August 1997 tariff decline

# Data revenues

(CHFm)	Six months ended June 30		
	1997	1998	% change
Leased lines	235	232	(1.3%)
Data transmission	102	94	(7.8%)
X25, Frame Relay, ATM	77	83	7.8%
Telex and other	25	11	(56%)
Corporate communications solutions	26	48	84.6%
Multimedia and content	20	59	195.0%
<b>Total data revenues</b>	<b>383</b>	<b>433</b>	<b>13.1%</b>

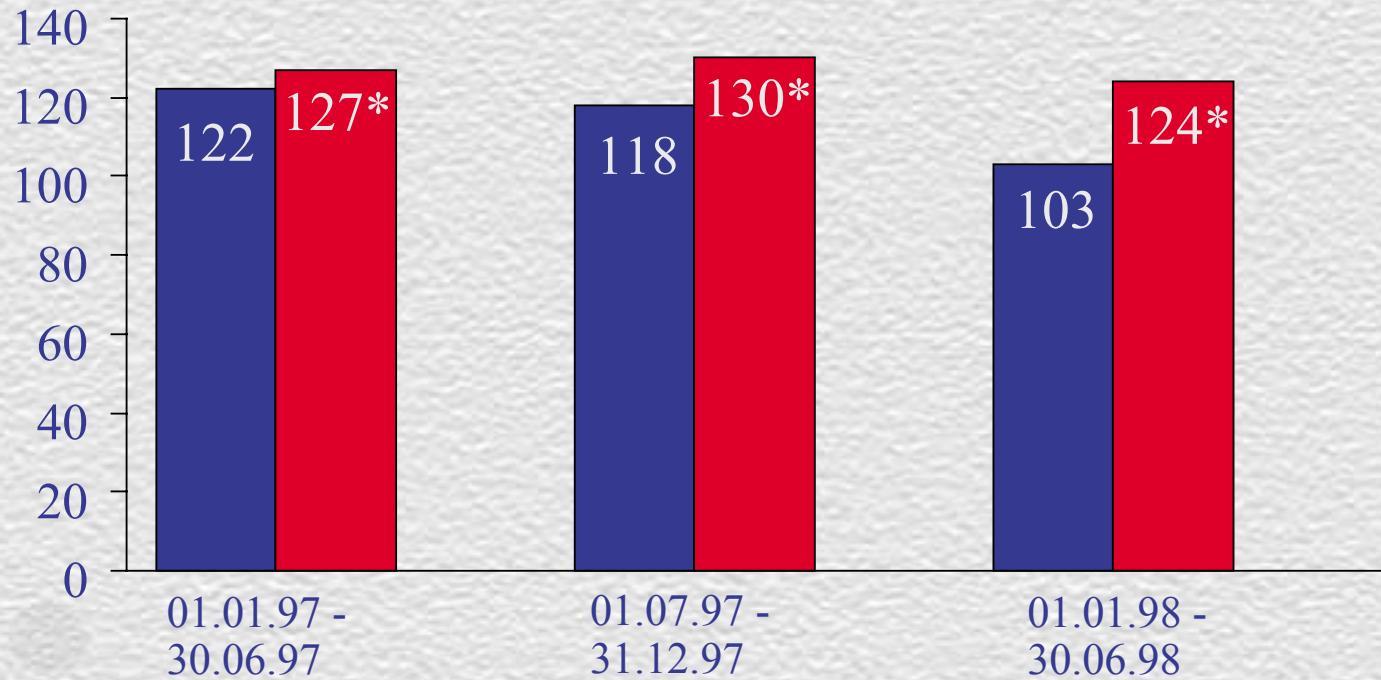
Decline in X25  
offset by growth  
in Frame Relay  
and ATM

Includes CHF 30m  
revenue from  
directories

Recently introduced services have contributed significantly to growth

# Mobile revenues

Monthly outgoing revenue  
per subscriber (CHF)<sup>(1)</sup>



Mobile revenues  
(CHFm)

610

761

823

\* Excluding Natel Easy

Note: (1) Excludes revenue generated from customers of other mobile operators roaming

# Carrier services revenue

(CHFm)	Six months ended June 30		
	1997	1998	% change
National interconnection	-	12	n/a
International carriers' carrier services	243	281	15.6%
Mandated services	111	107	(3.6%)
Total carrier services revenue	354	400	13.0%

Competition slow in commencing

Unusually strong growth in hubbing revenues

# Margin analysis

(CHFm)	Six months ended June 30		
	1997	1998	% change
Net revenues	4,859	5,106	5.1%
Capitalised cost and change in inventories	144	96	(33.3%)
<b>Total</b>	<b>5,003</b>	<b>5,202</b>	4.0%
Goods and services purchased	838	750	(10.5%)
Personnel expenses	1,274	1,175	(7.8%)
Other operating expenses	725	723	(0.3%)
Depreciation and amortisation	858	795	(7.3%)
<b>Total operating expenses</b>	<b>3,695</b>	<b>3,443</b>	(6.8%)
<b>Incorporation tax</b>	<b>-</b>	<b>260</b>	n/a
<b>EBIT</b>	<b>1,308</b>	<b>1,499</b>	14.6%
<b>EBIT margin</b>	<b>26.9%</b>	<b>29.4%</b>	
<b>EBITDA margin</b>	<b>44.6%</b>	<b>44.9%</b>	
<b>EBITDA margin excl. incorporation tax</b>	<b>-</b>	<b>50.0%</b>	

Significantly above full  
year expectations

# Personnel expenses

(CHFm)	Six months ended June 30		
	1997	1998	% change
Salaries and wages	949	975	2.7%
Social security expenses	78	66	(15.4%)
Pension cost	134	84	(37.3%)
Other personnel expenses	113	50	(55.8%)
Total personnel expenses	1,274	1,175	(7.8%)
<i>as % of net revenues</i>	<i>26.2%</i>	<i>23.0%</i>	
Period end FTEs	22,129	21,806	(1.5%)
Weighted average FTEs	22,154	21,928	(1.0%)

Lower pension cost following contribution of CHF 2.1bn in 1997

Cost relating to former early retirement programme fell away

Note: Severance payments for voluntary redundancies would not be shown as personnel

# Goods and services purchased

(CHFm)	Six months ended June 30		
	1997	1998	% change
Raw material and supplies	94	45	(52.1%)
Customer premises equipment for resale	241	193	(24.9%)
International traffic fees	339	346	2.1%
Services purchased	164	166	1.2%
<b>Total</b>	<b>838</b>	<b>750</b>	<b>(10.5%)</b>
<i>as % of net revenues</i>	<i>17.2%</i>	<i>14.7%</i>	

Reduced construction projects and restrictive procurement

Includes one-off inventory write down of CHF 30m

# Other operating expenses

(CHFm)	Six months ended June 30		
	1997	1998	% change
Rent	52	54	3.8%
Repairs and maintenance	183	124	(32.2%)
Loss on disposal of fixed assets (net)	61	12	(80.3%)
Energy	37	31	(16.2%)
Insurance	14	24	71.4%
EDP	143	119	(16.8%)
Advertising and promotion	23	85	269.9%
General and administration	66	99	50.1%
Miscellaneous	146	175	19.9%
<b>Total</b>	<b>725</b>	<b>723</b>	<b>(0.3%)</b>
<i>as % of net revenues</i>	<i>14.9%</i>	<i>14.2%</i>	

Key cost drivers going forward

Other operating expenses relatively low due to deferrals to second half

Note: Excludes one-off incorporation tax charge of CHF 260m

# Capital expenditures and depreciation

(CHFm)	Six months ended June 30		
	1997	1998	% of 1998 budget
Depreciation	858	795	
Capital expenditure			
Fixed-line networks	597	208	21.8%
Mobile networks	96	42	10.1%
Buildings	147	27	14.2%
Other	258	116	22.7%
<b>Total</b>	<b>1,098</b>	<b>393</b>	<b>19.0%</b>
(CHFm)	31.12.97	30.06.98	
Net PP&E			
Land and buildings	2,376	2,358	
Technical equipment	8,347	8,007	
Vehicles and other	730	665	
<b>Total</b>	<b>11,453</b>	<b>11,030</b>	

Upgrade  
of mobile  
switching  
capacity in 2nd  
half 1998

# Swisscom net income

(CHFm)	Six months ended June 30		
	1997	1998	% change
EBITDA	2,166	2,294 <sup>(1)</sup>	5.9%
EBIT	1,308	1,499 <sup>(1)</sup>	14.6%
Interest expense	(204)	(189)	(7.4%)
Financial income	11	44	300%
EBT	1,115	1,354 <sup>(1)</sup>	21.4%
Income tax	1	103	n/a
Income before equity in net loss of affiliated companies	1,114	1,251	12.3%
Equity in net loss of affiliated companies	(119)	(118)	(1.0%)
Net income	995	1,133	13.9%
Net margin	20.5%	22.2%	Reflects low tax charge

Note: (1) After one-off incorporation tax charge of CHF 260m

# Tax calculation

(CHFm)	Six months ended June 30, 1998
Income before income taxes and equity in net loss of affiliated companies	1,354
Effective tax rate	25%
Income tax expense at effective tax rate	339
Reduction in income tax resulting from:	
Sale of securities available for sale	(6)
Deferred tax asset recorded on incorporation <sup>(1)</sup>	(230)
Income tax expense	103

Note: (1) Relating to IAS pension gap of CHF 920m at 1 January 1998

## First half result was exceptional

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- Strong operating margins in first half 1998 reflect:
  - lower impact of competition on revenues than expected
  - positive impact from restructuring measures taken in 1997
  - operating expenses biased towards second half
- Effective tax rate in first half of only 7.6%

# Investments in affiliated companies

<u>Balance Sheet (CHFm)</u>	<u>31 December 97</u>	<u>30 June 98</u>
<i>Net book value</i>		
Equity in affiliates	935	914
Goodwill	237	198
<b>Total investments in affiliates</b>	<b>1,172</b>	<b>1,112</b>
 <u>Profit and loss (CHFm)</u>		
<u>Six months ended June 30</u>		
	<u>1997</u>	<u>1998</u>
Share in net income/(loss)	(74)	(80)
Goodwill amortisation	(45)	(38)
<b>Equity in net loss from affiliates</b>	<b>(119)</b>	<b>(118)</b>

# Investments in affiliated companies: carrying values at 30 June 1998

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	<u>(CHFm)</u>
SPT	712
Mutiara	183
Sterling Cellular	122
Unisource	20
Others	75
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Total	1,112

# Swisscom balance sheet

Consolidated balance sheet	31 December 97	30 June 98
Cash, cash equivalents and securities	307	494
Other current assets	2,255	2,534
Property, plant and equipment	11,453	11,030
Investments	1,238	1,181
Other non-current assets	220	324
<b>Total assets</b>	<b>15,473</b>	<b>15,563</b>
Short term debt	1,178	1,786
Trade accounts payable and other current liabilities	3,102	2,254
Long-term debt and capital lease obligations	6,639	6,233
Accrued pension cost	2,277	1,880
<b>Accrued liabilities and other long-term liabilities</b>	<b>1,047</b>	<b>1,014</b>
<b>Total liabilities</b>	<b>14,243</b>	<b>13,167</b>
<b>Shareholders' equity</b>	<b>1,230</b>	<b>2,396</b>
<b>Working capital<sup>(1)</sup></b>	<b>(847)</b>	<b>280</b>

Note: (1) Other current assets less trade accounts payable and other current liabilities

# Financing structure

(CHFm)	31 December 97	30 June 98
Short-term debt	1,178	1,786
Long-term debt	6,200	5,700
Interest bearing debt	7,378	7,486
Finance leases	449	556
less: cash, cash equivalents and securities	307	494
Net debt excluding pension liability	7,520	7,548
Pension liability	2,277	1,880
Curtailment benefits	1,206	930
Pension liability under Swiss law	151	0
Pension liability under IAS	920	950

Payment  
of CHF 276m  
relating to early  
retirement  
programme

Payment  
of CHF 151m in  
March 1998

# Consolidated cash flow

(CHFm)	Six months ended June 30		
	1997	1998	% change
Net cash provided by operating activities	1,613	1,528	(5.3%)
Capital expenditures	(1,098)	(393)	
Purchases of investments in affiliates	(4)	(9)	
Other investing activities	(40)	128	
Net cash used in investing activities	(1,142)	(274)	(76%)
Free cash flow	471	1,254	166%
Net cash used in financing activities	(912)	(1,036)	
Net increase (decrease) in cash and cash equivalents	(441)	218	
Cash and cash equivalents at end of period	244	474	

After  
payments of  
CHF 151m and  
CHF 276m to  
Swiss pension  
fund

# Dividends and number of shares

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## DIVIDENDS

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Dividend for 1998 CHF 800m

Payment of 1998 dividend June 1999

Future target payout ratio Approximately 50%  
of net income

## NUMBER OF SHARES

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Number of shares pre-offering 66 million

Nominal value per share CHF 25

Expected capital increase  
through primary offering <sup>(1)</sup> CHF 2.8bn (gross)

Note: (1) All shares to rank for full year dividend



Tony Reis  
CEO

# Management is highly incentivised to deliver

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- Approximately 700 managers and board of directors eligible for Leveraged Executive Asset Plan (“LEAP”)
- Combination of shares and options
- No downside protection
- Substantial personal investments
- Executive board up to one years salary
- Long term commitment ensured

# Employees will be able to buy Swisscom shares at a discount and/or invest in SuperShares

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- Allowed to invest a maximum of CHF 4,000 and a minimum of CHF 1,000
- Employees will be offered shares at a 20% discount
- Discount will not be subject to Swiss federal income tax
- Employees must hold shares for a minimum of 4 years to realise tax benefits
- Employees eligible for SuperShares plan up to CHF 1,000

## Priority retail campaign

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- All priority retail subscribers guaranteed a share allocation
- Shares allocated equitably in line with one, transparent allocation policy
- Preference in allocation over general retail investors
- Slight discount to the definitive issue price

# Conclusion

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- Strong macroeconomic environment
- Turnaround is being achieved
- Outperforming mobile business
- Focused international strategy
- Low interest and tax rates



Swisscom is ready for increased competition

swisscom

## Net debt - key effects in second half 1998

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Net debt as of 30 June 1998 :	7,525
- less capital increase (net of IPO costs)	[ ]
+ less release of pension provision in second half 1998	+362
+ payment of incorporation tax payable	+260
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+ cashflow from operating activities	[ ]
- cashflow from investing activities <sup>(1)</sup>	[ ]
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	[ ]

Note: (1) Investment in UTA; only 20% of budgeted capex spent in first six months

# Shareholders' equity

	31.12.97	Charges	30.06.98	Charges	31.12.98
Share capital	1,650	-	1,650		1,650
- Share split pre-offering				From 33m shares at CHF50 to 66m at CHF25	
- Nominal capital increase for primary offering				[ # of new shares x CHF25]	[ ]
Retained earnings	(298)				
- Plus net income 1st half 1998		1,133	835		
- Plus capital increase of about CHF 2.8bn gross, less				2,800	
- Nominal capital increase				[ ]	
- IPO costs				[ ]	
- Plus net income 2nd half 1998				[ ]	
- Less dividends payable for 1998				-800	
Unrealised market value adjustment on securities	39	(24)	15	[ ]	
Cumulative transaction adjustment	(161)	57	(104)	[ ]	

# Pension provision

	31.12.97	Charges	30.06.98	Expected release of provision of CHF 930m
				Cash payment in period
				Remaining provision end of period
Curtailment benefits	1,206	(276)	930	2nd half 1998 362 568 1999 252 316 2000 316 0
IAS pension gap	920	30 (due to recalculation)	950	Broadly stable
Remaining Swiss pension liability	151	151 (paid in March 1998)	0	Fully funded under Swiss law
	<u>2,277</u>		<u>1,880</u>	

# Cash flow statement - one-off effects

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## First six months 1998

Profit distribution for 1997 paid to  
Swiss confederation of CHF 1,144m

Payment of CHF 151m remaining  
Swiss pension liability in March 1998

Release of curtailment benefits  
of CHF 276m

Increase in other current liabilities  
due to income tax payable and  
incorporation tax payable

## Second six months 1998

No dividend payment in 1998.  
First dividend expected to be paid  
in June 1998

Capital increase of about CHF 2.8bn (less  
IPO costs)

Payment of incorporation tax, currently  
estimated at CHF 260m

Release of curtailment benefits  
of CHF 362m

swisscom

# Timetable

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- Submission of draft research reports
  - Monday, 24 August 1998

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- Feedback from Joint Global Co-ordinators
  - Wednesday/Thursday, 26/27 August 1998

- Start of Blackout period

- Sunday, 30 August 1998

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