

Swisscom's Value(s) Approach

A discussion of value aspects at Swisscom
Ueli Dietiker, CFO

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Aspects of Value ...

Value perspectives can differ...

Investors' perspective ...

- looking at "value" as an investment style
- judging attractiveness of this "value" style against other investment styles (eg "growth" or "GARP")
- attractiveness of any style depends on ability to select stocks that are either undervalued or have significant growth potential ahead

Swisscom's perspective ...

- recognises that company has to take value beyond the investors' perspective
- to create shareholder value requires that a company takes other "values" seriously:
 - customers
 - society
 - regulator
 - employees

this presentation focuses on Value Aspects from Swisscom's perspective

Aspects of Value – overview

Value	Implication:
1... sustainability	▪ top of class organisation and governance
2... protection	▪ cherish today's business - every day
3... @risk	▪ systematic identification and management of risks
4... yield	▪ run for cash and capital efficiency
5... growth	▪ weigh acquisitions against share buybacks: growth of absolute value, versus growth per share
6... relative to peers	▪ comparing to, and positioning against peers
7... outside in	▪ understanding stakeholders' view on the company

Aspects of Value ...

1 ... *sustainability*

Corporate values: "Swisscommons", a framework for how we deal with others and among each other: respectful, integer and transparent

Corporate Governance

Supervisory Board:

- principle: " nose (deep) in, hands out ": at least 10 full-day meetings p.a.
- chairman spends half of his time on the company
- 9 independent members, 2 of which foreign, appointed for 2 years with maximum of 4 terms
- split in 4 committees: finance, audit, staff & organisation, compensation & nomination (latter on ad-hoc basis)
- assisted by internal audit and risk mngt department

Swisscom Group:

- independent, P&L responsible companies, businesses in their own right

Corporate Communications

Corporate and Investor communication:

openness and transparency beyond legal requirements:

- extensive external reporting
- detailed segmental reporting, facts & figures on operational performance
- no new reporting structures without restatement of past year
- shareholder letters covering our Beliefs & Strategy
- openness on remuneration and share option programs
- clear tracking of Sarbanes-Oxley Act

"... Swisscom scored well above the industry average ...

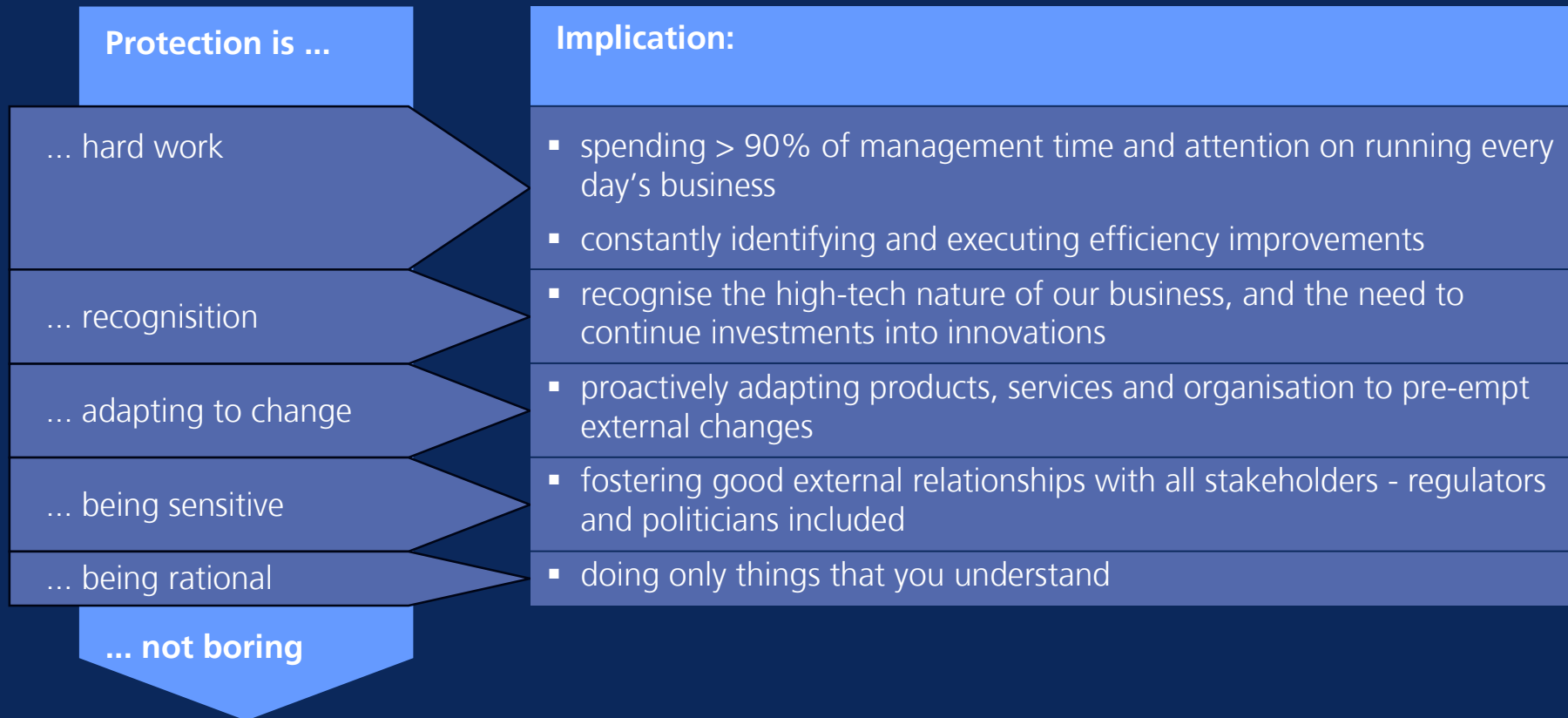


... with a clear outperformance in Corporate Governance ..."

Aspects of Value ...

2 ... *protection*

Guiding principle: "growth starts by not losing what you already have"



Aspects of Value ...

3 ... @risk

Risk management ..

... starts with identification and monitoring of key risks:

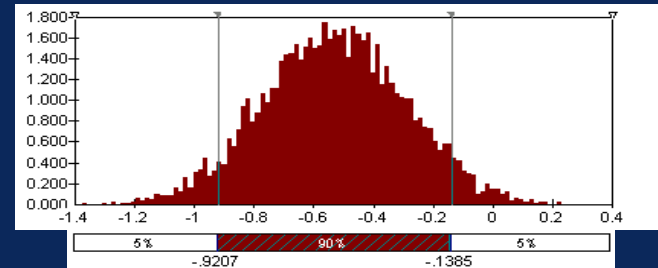
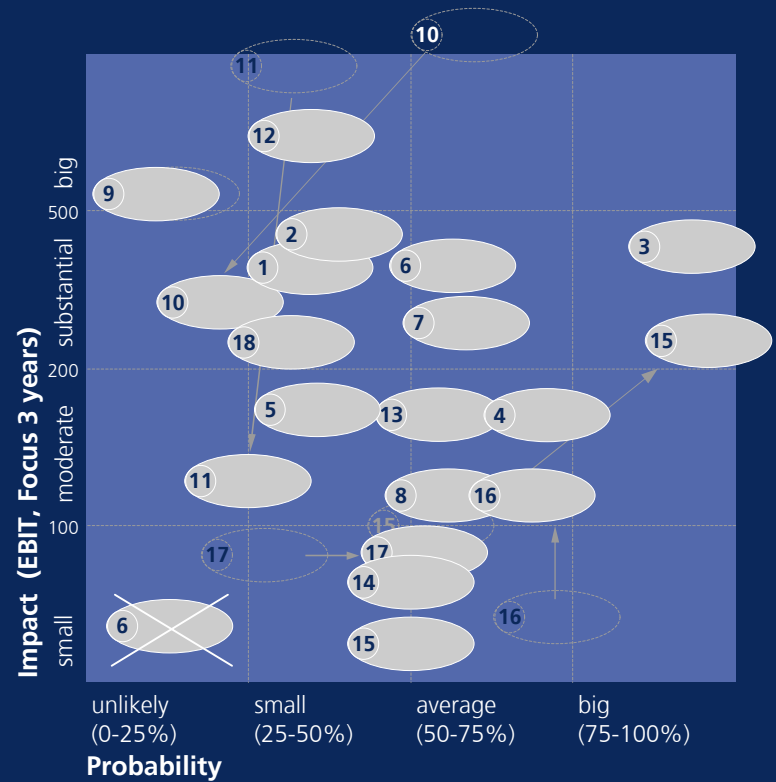
- potential EBIT impact
- probability
- development/dynamics

... based on appropriate risk assessment and cause analysis:

- appoint risk owners
- set up action plan
- embed in organisation and processes

... is an essential tool to protect value!

Top Risks	
Governance	1
	2
	3
	4
	5
	6
Core business ch	7
	8
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related bus.	15
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Aspects of Value ...

4 ... *yield*

- yield for investors starts with customer satisfaction!
- customer satisfaction is in the targetset of each senior manager
- yield for investors is not only:
 - dividend (ordinary, special, par value reductions)
 - other ways to return cash (share buy backs)
 - stock appreciationbut also: predictability and sustainability of this yield
- Swisscom's yield "philosophy":
 - Swisscom's own (equity) free cash flow yield is our benchmark
 - for "idle funds" to be invested sensibly, they need to create a better yield than our own yield, and higher than our cost of capital
 - if this cannot be done, we create better value by returning funds to shareholders - thus enhancing per share performance

Aspects of Value ...

5 ... *growth*

Growth alternatives

High yield acquisitions

- improving the company's total Free Cash Flow yield, without substantially changing its risk profile
- creating growing cash flows and absolute value enhancement
- ... but not an instrument that can be applied without rigorous investment-criteria

Continued share buy backs

- enhancing per share performance
- optimising capital structure
- creating attractive yields for shareholders and relative value enhancement
- ... but not an instrument to grow absolute cash flows

"Swisscom's Way" is to pick the best alternative - or even combine

Aspects of Value ...

5 ... *growth (cont'd)*

stringent investment/acquisition criteria to protect against value destruction:

Sustainability

- Focus on cash generating ability of business model

Strategic fit

- Focus on uniqueness of opportunity, (path to) control, potential synergies or development options

Management

- Good management in place that is an asset to the Swisscom group

Price

- DCF based valuation on current and possible cash flows

Size

- Transactions should not put our existing business at risk; should leave the risk profile of the group largely unchanged

Aspects of Value ...

6 ... *relative to peers*

Swisscom compared to its peers (European telco's)

From investors' perspective

Swisscom:

- is considered to be a safe haven
- has a strong balance sheet
- enjoys low volatility / Beta
- offers high dividend yield
- generates high free cash flow yield (compared to both other telco's and to Swiss bond yield)
-"but is not set for high growth...."

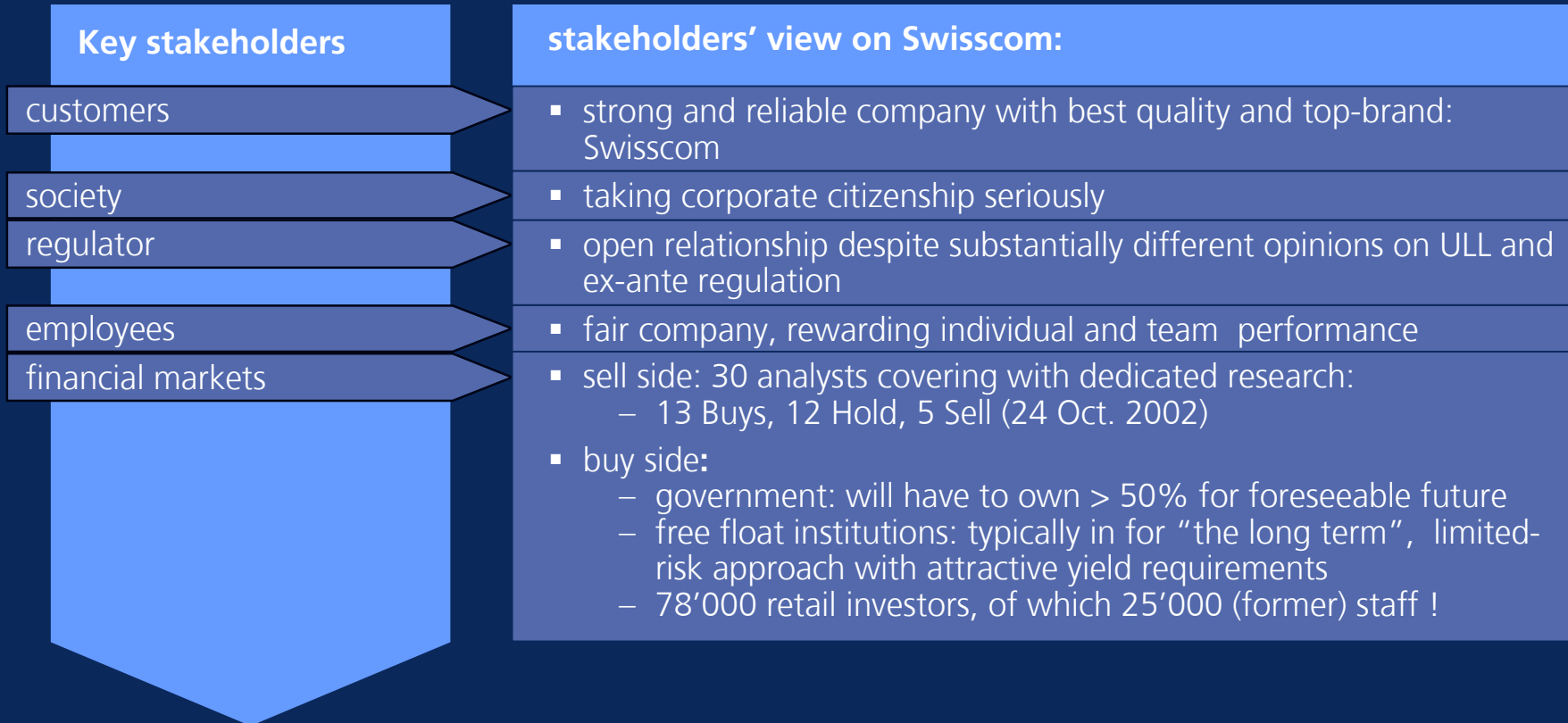
From company's perspective

- Rational and pragmatic approach: "first see, then believe"
- if no accretive investment opportunities can be identified, then return cash to shareholders
- a share buy back is not a defeat!
- ... growth gap will diminish as:
 - peers' growth profile flattening with the most obvious cash driving measures implemented
 - peers start admitting that there aren't that many growth opportunities

Swisscom's wants its stock to be attractive for realistic investors

Aspects of Value ...

7 ... *outside-in*



Swisscom's wants to create value for all its stakeholders - sustainable

Thank you for your attention

For further information, please contact:
Swisscom - Investor Relations
ph. +41 31 342 2538
fax +41 31 342 6411
or visit our homepage: www.swisscom.com/ir