

# Swisscom's Value(s) Approach

A discussion of value aspects at Swisscom  
Ueli Dietiker, CFO

# 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 past and future filings and reports filed with the U.S. Security and Exchange Commission and posted on our 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.”

# 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:
company introduction	▪ focus on key cash generators at Swisscom
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 ...

## *company introduction*

Switzerland's incumbent telco operator offering full range of services, offering best value to all stakeholders. Monetary values created are dominated by the 2 largest units:

### Swisscom Fixnet

#### Full range of fixed line products

- annual revenues of > CHF 6 bln \*)
- EBITDA 2001 of almost CHF 2 bln

#### Key issues in 2002:

- regulation: ULL, ex-ante regulation
- renumbering, local CPS introduction, unified tariff
- ADSL roll out: wholesale and retail (Bluewin)
- size of market stagnating; substitution by mobile, cannibalisation ADSL
- restructuring continued to further improve efficiency and protect margins

### Swisscom Mobile

#### Full range of mobile communication products

- annual revenues of > CHF 4 bln \*)
- EBITDA 2001 of almost CHF 1.9 bln

#### Key issues in 2002:

- stabilise ARPU's
- control market share loss
- continue to optimise cash from business
- UMTS roll out plan
- continue positive cooperation with Vodafone

**Our core-businesses create over 90% of the Group's free cash flow. Every day.**

# Aspects of Value ...

## *company introduction*

### Some Values

▪ revenues

▪ EBITDA

▪ net income

▪ marketcapitalisation

▪ free cash flow yield

▪ capital expenditure

▪ leverage

▪ employees

### Magnitude:

▪ CHF 14.2 bln in 2001

▪ CHF 4.4 bln, or 31.1% of revenues

▪ CHF 5.0 bln in 2001, CHF 1.2 bln pre-exceptionals \*)

▪ CHF 28.6 bln as per 1.11.2002

▪ around 7% p.a. of current marketcap

▪ CHF 1.3-1.5 bln p.a.

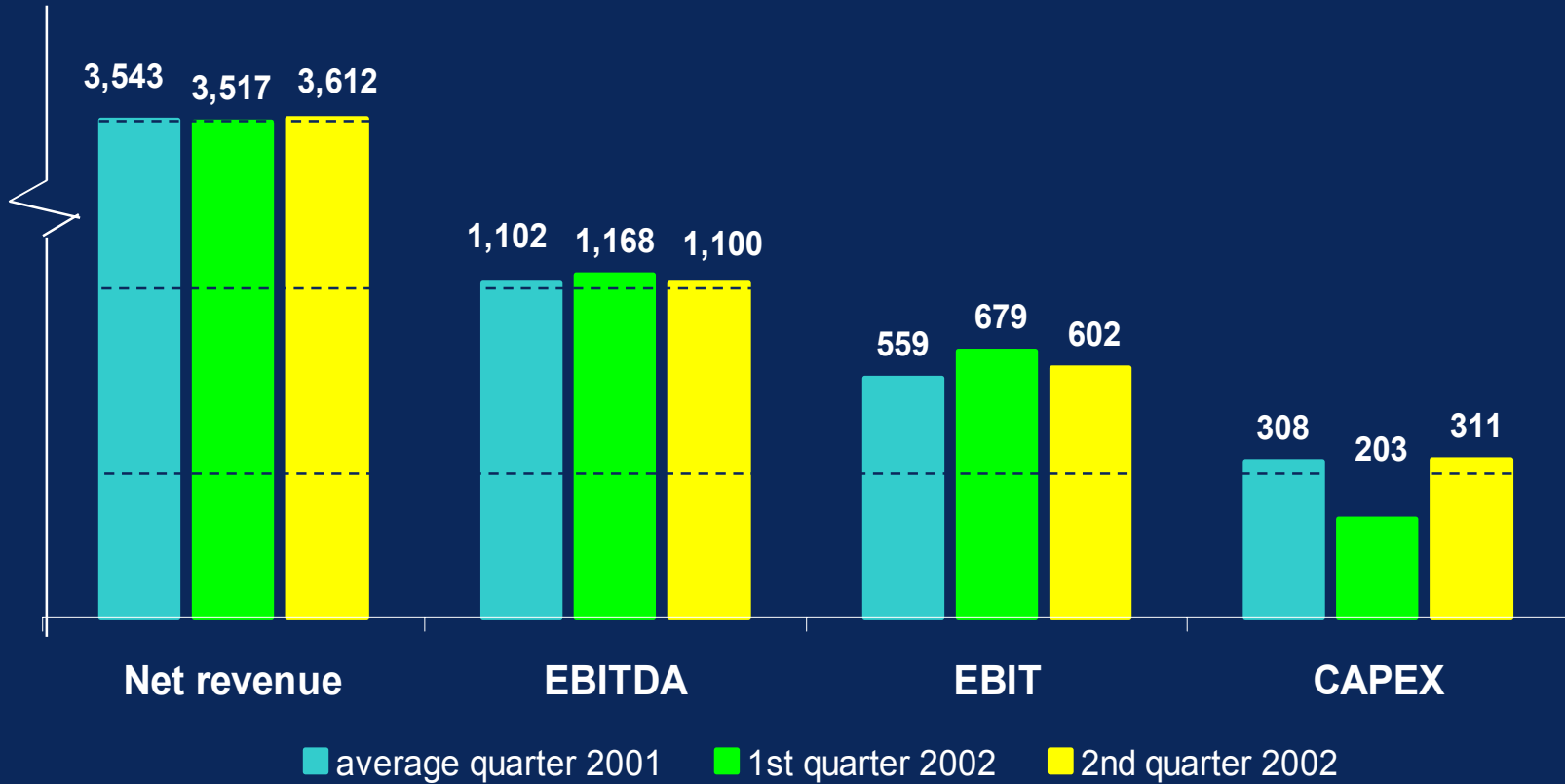
▪ 17% as per 30.6.2002 (net debt/equity)

▪ 21,342 FTE avg in H1 2002

\*) only substantial exceptionals, i.e. Vodafone transaction, sale of real estate and debitel impairment. All items net of tax

# Aspects of Value ...

*company introduction*



**“ Swisscom - solid as a rock ”**

# 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 ...



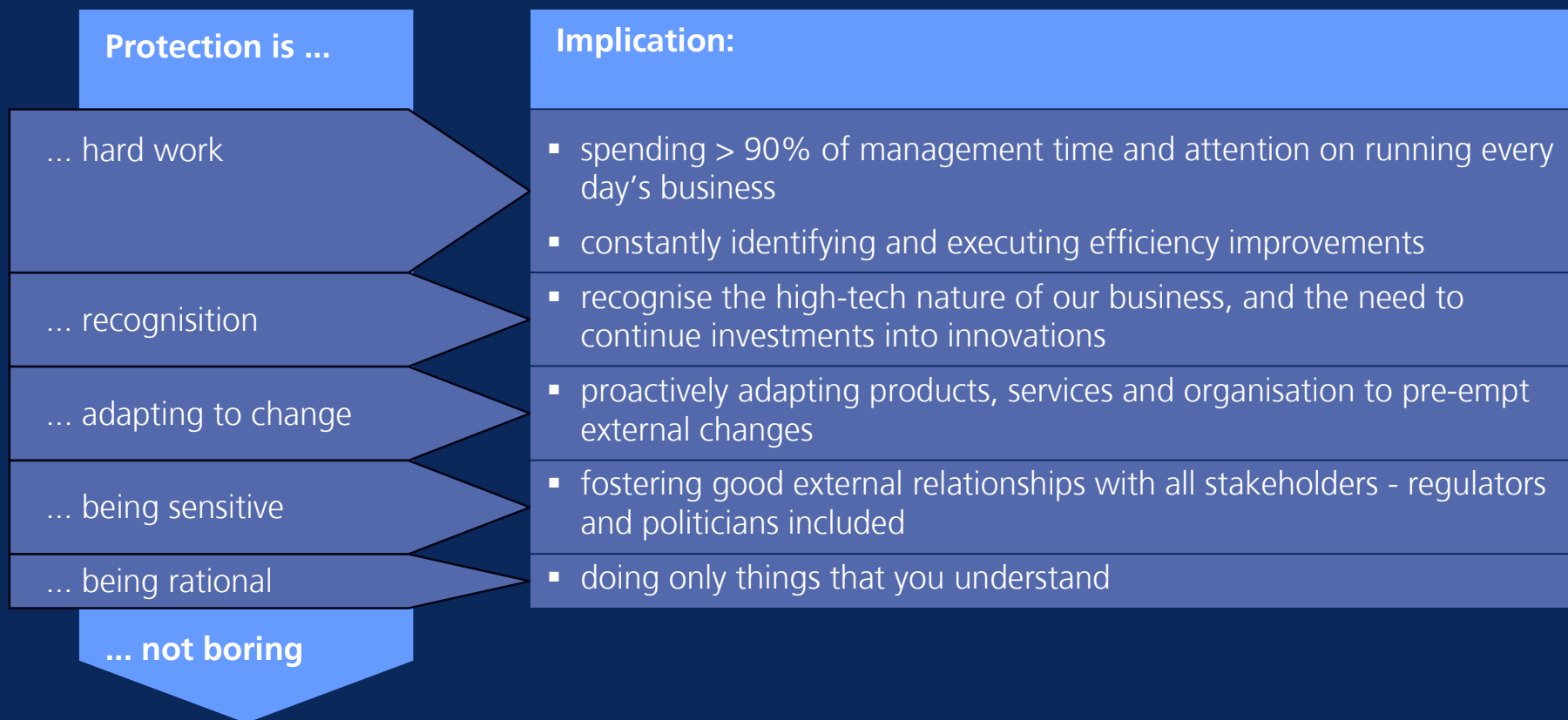
... with a clear outperformance in Corporate Governance ..."



# 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:

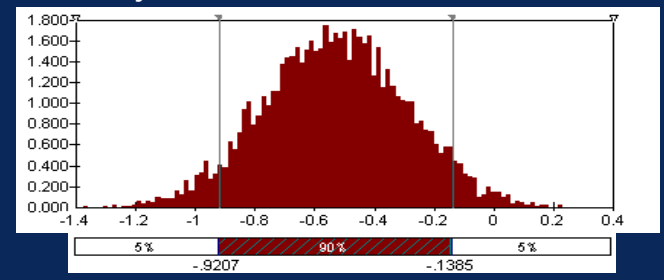
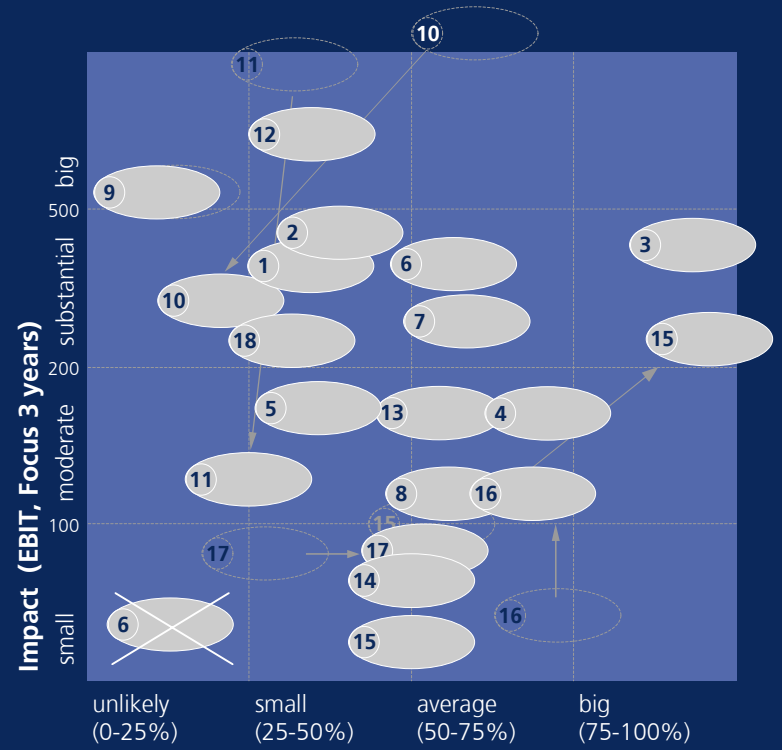
- potential EBIT impact
- probability
- development/dynamics

... 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
	9
	10
	11
	12
	13
	14
	15
	16
	17
related bus.	17



# 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...."

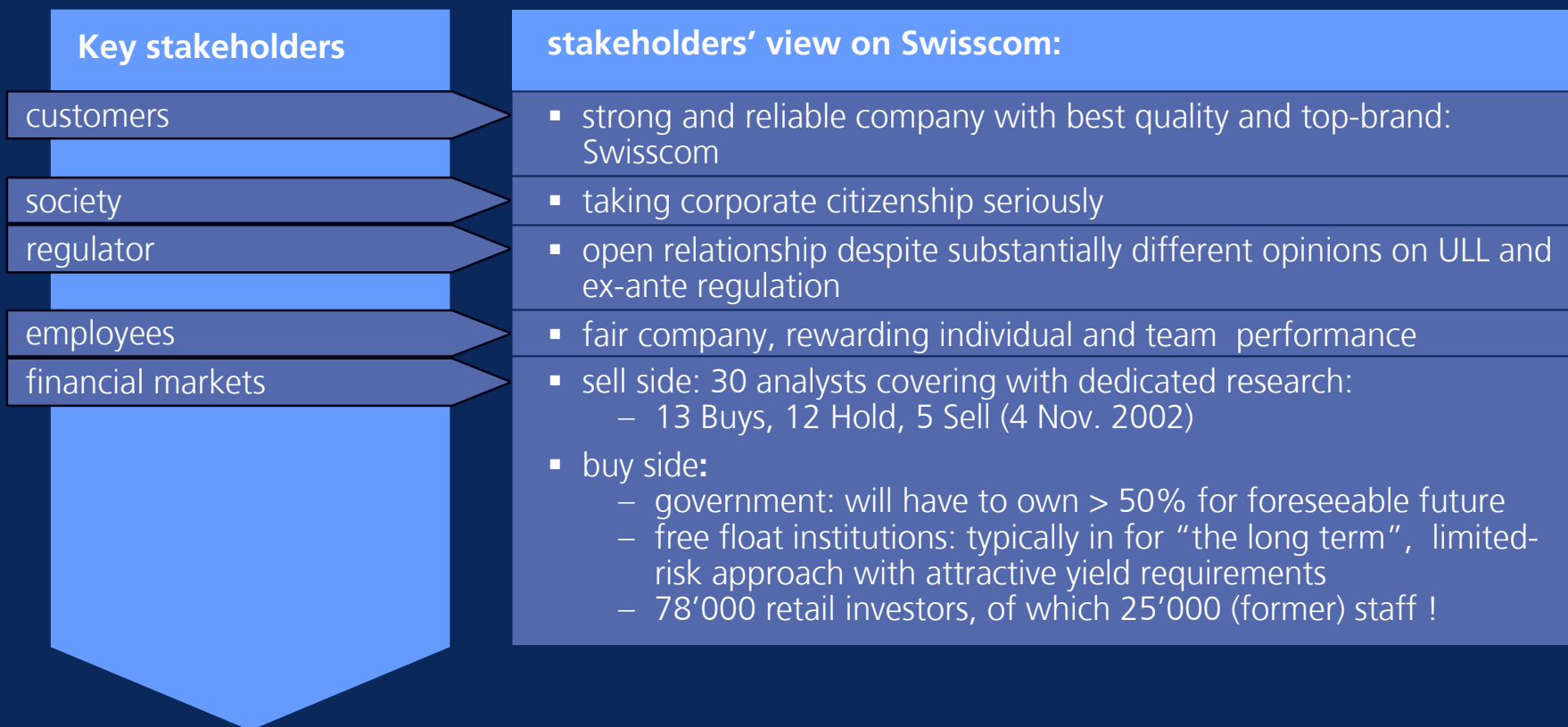
#### From company's perspective

- 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 wants its stock to be attractive for realistic investors

# Aspects of Value ...

## 7 ... *outside-in*



**Swisscom 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](http://www.swisscom.com/ir)