Swisscom’s Value(s) Approach

A discussion of value aspects at Swisscom
Ueli Dietiker, CFO
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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 ...

<table>
<thead>
<tr>
<th>Investors’ perspective …</th>
<th>Swisscom’s perspective …</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ looking at “value” as an investment style</td>
<td>▪ recognises that company has to take value beyond the investors’ perspective</td>
</tr>
<tr>
<td>▪ judging attractiveness of this “value” style against other investment styles (eg “growth” or “GARP”)</td>
<td>▪ to create shareholder value requires that a company takes other “values” seriously:</td>
</tr>
<tr>
<td>▪ attractiveness of any style depends on ability to select stocks that are either undervalued or have significant growth potential ahead</td>
<td>– customers</td>
</tr>
<tr>
<td></td>
<td>– society</td>
</tr>
<tr>
<td></td>
<td>– regulator</td>
</tr>
<tr>
<td></td>
<td>– employees</td>
</tr>
</tbody>
</table>

This presentation focuses on Value Aspects from Swisscom’s perspective
# Aspects of Value – overview

<table>
<thead>
<tr>
<th>Value</th>
<th>Implication:</th>
</tr>
</thead>
<tbody>
<tr>
<td>company introduction</td>
<td>- focus on key cash generators at Swisscom</td>
</tr>
<tr>
<td>1... sustainability</td>
<td>- top of class organisation and governance</td>
</tr>
<tr>
<td>2... protection</td>
<td>- cherish today’s business - every day</td>
</tr>
<tr>
<td>3... @risk</td>
<td>- systematic identification and management of risks</td>
</tr>
<tr>
<td>4... yield</td>
<td>- run for cash and capital efficiency</td>
</tr>
<tr>
<td>5... growth</td>
<td>- weigh acquisitions against share buybacks: growth of absolute value, versus growth per share</td>
</tr>
<tr>
<td>6... relative to peers</td>
<td>- comparing to, and positioning against peers</td>
</tr>
<tr>
<td>7... outside in</td>
<td>- understanding stakeholders’ view on the company</td>
</tr>
</tbody>
</table>
A discussion of value aspects at Swisscom

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:

<table>
<thead>
<tr>
<th>Swisscom Fixnet</th>
<th>Swisscom Mobile</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Full range of fixed line products</strong></td>
<td><strong>Full range of mobile communication products</strong></td>
</tr>
<tr>
<td>• annual revenues of &gt; CHF 6 bln *)</td>
<td>• annual revenues of &gt; CHF 4 bln *)</td>
</tr>
<tr>
<td>• EBITDA 2001 of almost CHF 2 bln</td>
<td>• EBITDA 2001 of almost CHF 1.9 bln</td>
</tr>
<tr>
<td><strong>Key issues in 2002:</strong></td>
<td><strong>Key issues in 2002:</strong></td>
</tr>
<tr>
<td>• regulation: ULL, ex-ante regulation</td>
<td>• stabilise ARPU’s</td>
</tr>
<tr>
<td>• renumbering, local CPS introduction, unified tariff</td>
<td>• control market share loss</td>
</tr>
<tr>
<td>• ADSL roll out: wholesale and retail (Bluewin)</td>
<td>• continue to optimise cash from business</td>
</tr>
<tr>
<td>• size of market stagnating; substitution by mobile, cannibalisation ADSL</td>
<td>• UMTS roll out plan</td>
</tr>
<tr>
<td>• restructuring continued to further improve efficiency and protect margins</td>
<td>• continue positive cooperation with Vodafone</td>
</tr>
</tbody>
</table>

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

*) including intersegment revenues (pre-consolidation)

Ueli Dietiker, presentation at NZB event
5 November 2002
A discussion of value aspects at Swisscom

Aspects of Value ...

*company introduction*

<table>
<thead>
<tr>
<th>Some Values</th>
<th>Magnitude:</th>
</tr>
</thead>
<tbody>
<tr>
<td>revenues</td>
<td>CHF 14.2 bln in 2001</td>
</tr>
<tr>
<td>EBITDA</td>
<td>CHF 4.4 bln, or 31.1% of revenues</td>
</tr>
<tr>
<td>net income</td>
<td>CHF 5.0 bln in 2001, CHF 1.2 bln pre-exceptionals *)</td>
</tr>
<tr>
<td>marketcapitalisation</td>
<td>CHF 28.6 bln as per 1.11.2002</td>
</tr>
<tr>
<td>free cash flow yield</td>
<td>around 7% p.a. of current marketcap</td>
</tr>
<tr>
<td>capital expenditure</td>
<td>CHF 1.3-1.5 bln p.a.</td>
</tr>
<tr>
<td>leverage</td>
<td>17% as per 30.6.2002 (net debt/equity)</td>
</tr>
<tr>
<td>employees</td>
<td>21,342 FTE avg in H1 2002</td>
</tr>
</tbody>
</table>

*) 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”
A discussion of value aspects at Swisscom

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

<table>
<thead>
<tr>
<th>Corporate Governance</th>
<th>Corporate Communications</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Supervisory Board:</strong></td>
<td>Corporate and Investor communication:</td>
</tr>
<tr>
<td>▪ principle: “nose (deep) in, hands out”: at least 10 full-day meetings p.a.</td>
<td>openness and transparency beyond legal requirements:</td>
</tr>
<tr>
<td>▪ chairman spends half of his time on the company</td>
<td>▪ extensive external reporting</td>
</tr>
<tr>
<td>▪ 9 independent members, 2 of which foreign, appointed for 2 years with maximum of 4 terms</td>
<td>▪ detailed segmental reporting, facts &amp; figures on operational performance</td>
</tr>
<tr>
<td>▪ split in 4 committees: finance, audit, staff &amp; organisation, compensation &amp; nomination (latter on ad-hoc basis)</td>
<td>▪ no new reporting structures without restatement of past year</td>
</tr>
<tr>
<td>▪ assisted by internal audit and risk mngt department</td>
<td>▪ shareholder letters covering our Beliefs &amp; Strategy</td>
</tr>
<tr>
<td><strong>Swisscom Group:</strong></td>
<td>▪ openness on remuneration and share option programs</td>
</tr>
<tr>
<td>▪ independent, P&amp;L responsible companies, businesses in their own right</td>
<td>▪ clear tracking of Sarbanes-Oxley Act</td>
</tr>
</tbody>
</table>

“... Swisscom scored well above the industry average ... ... with a clear outperformance in Corporate Governance ...”

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5 November 2002
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Aspects of Value ...  
2 ... protection

Guiding principle: “growth starts by not loosing what you already have”

Protection is ...
- hard work
- recognisision
- adapting to change
- being sensitive
- being rational
- not boring

Implication:
- spending > 90% of management time and attention on running every day’s business
- constantly identifying and executing efficiency improvements
- recognise the high-tech nature of our business, and the need to continue investments into innovations
- proactively adapting products, services and organisation to pre-empt external changes
- fostering good external relationships with all stakeholders - regulators and politicians included
- doing only things that you understand
A discussion of value aspects at Swisscom

Aspects of Value ...

... @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!

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5 November 2002
Aspects of Value ...

4 ... yield

- yield for investors starts with customer satisfaction!
- customer satisfaction is in the target set 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 appreciation
  but 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

<table>
<thead>
<tr>
<th>High yield acquisitions</th>
<th>Continued share buy backs</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ improving the company’s total Free Cash Flow yield, without substantially changing its risk profile</td>
<td>▪ enhancing per share performance</td>
</tr>
<tr>
<td>▪ creating growing cash flows and absolute value enhancement</td>
<td>▪ optimising capital structure</td>
</tr>
<tr>
<td>▪ ... but not an instrument that can be applied without rigorous investment-criteria</td>
<td>▪ creating attractive yields for shareholders and relative value enhancement</td>
</tr>
<tr>
<td></td>
<td>▪ ... but not an instrument to grow absolute cash flows</td>
</tr>
</tbody>
</table>

“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
Swisscom compared to its peers (European telco’s)

<table>
<thead>
<tr>
<th>From investors’ perspective</th>
<th>From company’s perspective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Swisscom:</td>
<td>- Rational and pragmatic approach: “first see, then believe”</td>
</tr>
<tr>
<td>▪ is considered to be a safe haven</td>
<td>- if no accretive investment opportunities can be identified, then return cash to shareholders</td>
</tr>
<tr>
<td>▪ has a strong balance sheet</td>
<td>- a share buy back is not a defeat!</td>
</tr>
<tr>
<td>▪ enjoys low volatility / Beta</td>
<td>- ... growth gap will diminish as:</td>
</tr>
<tr>
<td>▪ offers high dividend yield</td>
<td>- peers’ growth profile flattening with the most obvious cash driving measures implemented</td>
</tr>
<tr>
<td>▪ generates high free cash flow yield (compared to both other telco’s and to Swiss bond yield)</td>
<td>- peers start admitting that there aren’t that many growth opportunities</td>
</tr>
<tr>
<td>▪ ...“but is not set for high growth....”</td>
<td></td>
</tr>
</tbody>
</table>

Swisscom wants its stock to be attractive for realistic investors
Aspects of Value ...

7 ... outside-in

<table>
<thead>
<tr>
<th>Key stakeholders</th>
<th>stakeholders’ view on Swisscom:</th>
</tr>
</thead>
<tbody>
<tr>
<td>customers</td>
<td>▪ strong and reliable company with best quality and top-brand: Swisscom</td>
</tr>
<tr>
<td>society</td>
<td>▪ taking corporate citizenship seriously</td>
</tr>
<tr>
<td>regulator</td>
<td>▪ open relationship despite substantially different opinions on ULL and ex-ante regulation</td>
</tr>
<tr>
<td>employees</td>
<td>▪ fair company, rewarding individual and team performance</td>
</tr>
<tr>
<td>financial markets</td>
<td>▪ sell side: 30 analysts covering with dedicated research:</td>
</tr>
<tr>
<td></td>
<td>- 13 Buys, 12 Hold, 5 Sell (4 Nov. 2002)</td>
</tr>
<tr>
<td></td>
<td>▪ buy side:</td>
</tr>
<tr>
<td></td>
<td>- government: will have to own &gt; 50% for foreseeable future</td>
</tr>
<tr>
<td></td>
<td>- free float institutions: typically in for “the long term”, limited-risk approach with attractive yield requirements</td>
</tr>
<tr>
<td></td>
<td>- 78’000 retail investors, of which 25’000 (former) staff !</td>
</tr>
</tbody>
</table>

Swisscom wants to create value for all its stakeholders - sustainable
Thank you for your attention

For further information, please contact:
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fax +41 31 342 6411
or visit our homepage: www.swisscom.com/ir