

# Presentation Swisscom

at UBS Investors Club

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# Who is Swisscom?

*A company committed to strong fundamentals and financial discipline*

1

## Leading Telco in CH

a

Successfully defending strong market position

b

Focused on operating cost and staff reductions to sustain margins

Optimize free cash flow from core business

2

## Intelligent investor

a

Larger investment only if acquisition criteria satisfied

b

Smaller investment into innovative 'entry-ticket options'

Create balanced risk-reward growth path

3

## Solid financial footing

a

Preserving strong balance sheet to optimize strategic flexibility

b

Returning all equity free cash flow to shareholders. Every year

Combine strategic flexibility with generous yield



# Who is Swisscom?

1

## Leading Telco in Switzerland

a

**Successfully defending strong market position**

### Swisscom Fixnet:

- CHF 6 bln revenues p.a.
- 30-35% EBITDA margin
- ~ 60% share of traffic in declining voice market
- growing access (DSL) to
  - sustain growth of monthly access revenues
  - cope with threat of cable competition

### Swisscom Mobile:

- CHF 4 bln revenues p.a.
- 45-50% EBITDA margin
- ~ 65% share of subscribers in slower growth market
- pushing data to compensate declining voice ARPU:
  - residential: SMS, Vod. Live!
  - business: GPRS/WLAN/3G

**Several other companies completing the product portfolio (Enterprise Solutions, Systems, IT, Broadcast, Billag) with total gross revenues of approx. CHF 2 bln p.a.**

**with the aim to optimise free cash flow from core business**



# Who is Swisscom?

1

## Leading Telco in Switzerland

b

focused on operating cost and staff reduction to sustain margins

### Swisscom as an incumbent operator:

- cannot reasonably grow due to regulatory pressure
- must hence not aim to grow market share, but:
- should focus on **optimising cash flow** from its business:
  - e.g. in Swisscom Mobile by charging premium pricing and offering lower handset subsidies than competition
  - e.g. in Swisscom Fixnet by constantly redesigning processes and shedding/outsourcing workforce
- is forced to reduce workforce (> 3,000 FTE's in last 4 years), and does so in a socially responsible manner.

with the aim to optimise free cash flow from core business



# Who is Swisscom?

2

## Intelligent Investor

a

**Larger investment only if acquisition criteria satisfied**

Criteria	Explanation	Rationale
Sustainability	Focus on sustainable cash flow generation and accretion to group cash flows	<p><b>What is the uniqueness of the constellation?</b>            What makes Swisscom a better investor than a financial investor directly:</p> <ul style="list-style-type: none"> <li>-We may be the only acceptable buyer for a majority stake</li> <li>-We can sweat the asset better thanks to our experience</li> <li>-We can extract some synergies with current operations</li> <li>-We may be able to deploy our capital better on the back of low cost of debt-funding</li> </ul>
Strategic fit	Potential strategic/financial synergies, and ability to exploit these through control	
Management	Availability of experienced management team	
Price	Attractive valuation, enhancing Swisscom's CF yield	
Size/risk	No major shift in existing risk profile	

**Create balanced risk-reward growth path**



# Who is Swisscom?

2

## Intelligent Investor

b

Smaller investment into innovative entry-ticket options

Innovation	Explanation	Example: Public WLAN
Radar	Can't always have the best ideas yourself, crucial is ability to scan	–Public WLAN scanned > 5 years ago by Swisscom's satellite office in Silicon Valley
Products, technology	Develop further from what is scanned.	–Product developed further between Swisscom Innovations and Swisscom Mobile for launch in 2003
Market approach	Understanding of (latent) demand. Domestically and/or internationally? As attacker or as defender? Cannibalising yourself if needed	–Combined approach (as defending incumbent through Swisscom Mobile in CH, and as attacker through Eurospot internationally). First focus on "land-grab", then on customers
Processes	Innovation goes beyond product dimension. How to organise and roll out is equally important	–Fantastic product – however a niche market! Don't place bet on one technology. Combine with others (e.g. new PCMCIA card enabling seamless handover GPRS, UMTS and WLAN)
Realism	Be realistic about fit between product and demand. Manage risk	

Create balanced risk-reward growth path



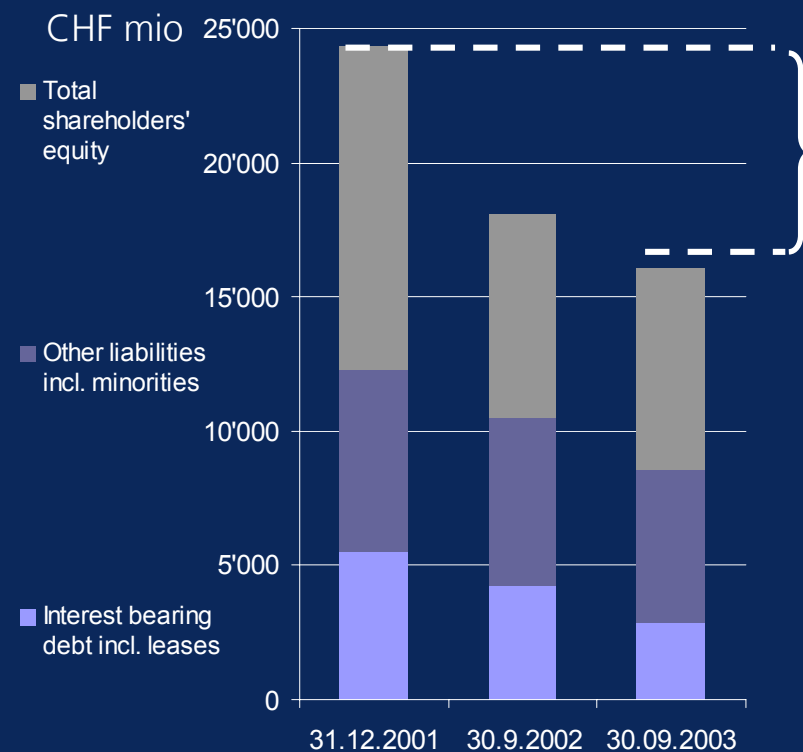
# Who is Swisscom?

3

## Solid financial Footing

a

Pre-serving strong balance sheet to optimize strategic flexibility



### Strategic flexibility intact:

After shortening the balance sheet, among others by returning CHF 6.7 bln (~30% of balance sheet total !) to shareholders in less than 2 years, situation remains solid. Per 30.9.2003:

- net cash position of CHF 334 mm
- equity ratio of 47%
- net interest coverage (EBITDA/net interest) over first 9 months at 84x
- multi-billion funding potential without losing strong credit rating

Combine strategic flexibility with generous yield





# Who is Swisscom?

3

## Solid financial Footing

**b**

**Returning all equity free cash flow (EFCF) to shareholders.**

**Every year**

Definition of EFCF	30.9.2002	FY 2002	30.9.2003	Outlook FY 2003
+ EBITDA	+ 3,414	+ 4,413	<b>+3,607</b>	+ 4.5
- CAPEX	- 803	- 1,222	- 800	<= 1.3
+/- working cap. Δ	- 418	+ 2	- 44	similar as full yr 2002
- tax (cash)	- 165	- 537	- 32	less than half of full yr 2002
- net interest	- 52	- 78	- 36	similar as 2002
- minorities, affiliates	- 302	- 304	- 392	- 392+120 divid. from CT
<b>= FCF from ops.</b>	<b>= 1,674</b>	<b>= 2,274</b>	<b>= 2,303</b>	<b>= higher than in 2002</b>
- net acquisitions	- 94	- 92	- 44	???
- debt repayments (net)	- 750	- 1,000	- 750	- 750
<b>=</b>	<b>=</b>	<b>=</b>	<b>=</b>	<b>=</b>
<b>EFCF available to shareholders in t+1</b>	<b>+ 830</b>	<b>+ 1,182</b>	<b>+1,509</b>	assuming no acquisitions, EFCF in 2003 will be clearly trending up from 2002

**Combine strategic flexibility with generous yield**

# In summary - Which 3 “Beliefs” would you have to share when investing in Swisscom?

*A company committed to strong fundamentals and financial discipline*

Leading Telco in CH

1

“Swisscom is able to sustain strong annual equity free cash flows - through clever defense and good cost control”

Intelligent investor

2

“Swisscom doesn’t have a long term strategic (scale) problem if it doesn’t acquire, and only acquires if this is value accretive”

Solid financial footing

3

“Swisscom will return all equity free cash flow to shareholders while preserving a strong balance sheet enabling strategic flexibility”

# Thank you for your attention!

## Questions & Answers

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