Swisscom

Challenges, Answers & Rewards

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Zurich, 19 September 2007
Ueli Dietiker, CFO Swisscom
Swisscom strategy

Maximize
- one customer experience
- efficiency & convergence

Extend
- deepen the business

Expand
- widen the business

The Challenges
1. Optimise market position and cost structure
2. Compensate revenue decline
3. Compensate cash flow decline

The Answers

The Rewards
Shareholder friendly capital structure and payout policy
### Challenge 1 – sustaining a very strong starting base

<table>
<thead>
<tr>
<th></th>
<th>Wireline share of lines</th>
<th>Wireline share of broadband</th>
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<tbody>
<tr>
<td>65%</td>
<td></td>
<td>100%</td>
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<tr>
<td>share</td>
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<td>(1.2mm lines):</td>
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<td>Swisscom</td>
<td>Competitors</td>
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<td>35%</td>
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<td>&lt;10%</td>
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<td>OLO’s on resale of minutes only</td>
<td>Cable as only infrastructure competitor</td>
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<td>Cable as only infrastructure competitor</td>
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<td></td>
<td>Best network (near full coverage of GSM, GPRS, EDGE, UMTS) and &gt; 40% coverage for HSDPA</td>
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<tr>
<td>62%</td>
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<td>38%</td>
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<tr>
<td>share</td>
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<td>(1.8mm subs):</td>
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<td></td>
<td>Swisscom</td>
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<td>35%</td>
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<td>&gt;90%</td>
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<tr>
<td>share</td>
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<td>(3.9mm lines):</td>
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<td></td>
<td>Swisscom</td>
<td>Competitors</td>
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<td>100%</td>
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<td></td>
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<tr>
<td>share</td>
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<tr>
<td>(2.8mm subs):</td>
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<td></td>
<td>Swisscom</td>
<td>Competitors</td>
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<tr>
<td></td>
<td></td>
<td></td>
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<tr>
<td>100%</td>
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</table>

Swisscom has successfully defended its strong base over the past years.
**Challenge 2: growing profitably**

**Maximize**
- Erosion traditional business: -202
- New revenue: BB & mobile: +90
- Other: +42

**Extend**
- New revenue: Bluewin TV, IT, Solutions: +74
- Other: +37

**Expand**
- New business: Fastweb, Hospitality, BB CEE, Betty etc.
- Fastweb: +281
- Fastweb: +79

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**Revenue**
- H1’06: 4,772
- H1’07: 5,094 (+6.7%)

**EBITDA**
- H1’06: 1,813
- H1’07: 2,042 (+12.6%)

Expansion is key to stem cash flow erosion from traditional business.
Answer 1 – organize better

New organization

Swisscom strategy

Maximize

one customer experience

Extend

Expand

Swisscom Residential

Swisscom SME

Swisscom Corporate

Swisscom Networks

Swisscom IT

Fastweb

Participations

One single face towards the customer
2 Answer 2 - improve cost base in bigger steps

Swisscom strategy

Maximize

- efficiency & convergence

Cost base improvements

- Savings 2013 (CHF)

- One Overhead for all customer facing units
  - 120mm pa
  - 330mm pa

- One single All-IP Network

Reducing cost in medium term

Cumulative cash-out CHF 250mm

Base line savings CHF ~330mm

Answer 2 - improve cost base in bigger steps
Rationale

- Low trading volume for Swisscom securities in the US compared with the virt-x in London (well below 5% of overall volume)
- Decision in compliance with the new SEC rules for deregistration
- Reduction of both the costs and the complexity of regulations and reporting obligations
- Commitment to continued high standard of corporate governance, transparency and reporting

ADR program

- Modification to an OTC trading under an ADR program Level 1
- Current ADR holders will be able to retain their shares or exchange them for ordinary shares in CHF traded on the virt-x in London

Timetable

- **August, 21**: Filing of Form 25 with the SEC pertaining to delisting
- **August, 30**: Last day of trading at NYSE
- **August, 31**: Delisting from NYSE effective, start of OTC trading
- **September, 4**: Filing of Form 15F with the SEC pertaining to deregistration
- **December, 4**: Deregistration will be effective
Answer 4 - develop new business

Swisscom strategy

Maximize

Extend

Expand

Grow

Inorganic

Organic

deepen the business

widen the business

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„Speed up, or secure, development of position”

„Build business for revenue growth”

„Tap into growing cash-flows and add value”

„Grow build-ups, ventures for cash flow”
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Compensate revenue and cash flow declines from traditional business
Answer 5 - Fastweb acquisition (1)

Goal: reinvigorate growth – topline and bottomline

Maximise

Expand

Highlights of the Fastweb Acquisition:

1. Fits into strategic framework of Swisscom ...
2. Satisfying all investment criteria by ...
3. Buying in the most attractive European broadband market ...
4. The best positioned and managed broadband player ...
5. To drive OpFCF growth & synergies from the combination
Fastweb is preferred acquisition – there was and is no alternative equally attractive

- Growth in the European telecom market seen only in broadband
- Italian broadband market is under-penetrated (around 30% of households, i.e. just half of Switzerland) and of significant size (7x more inhabitants than Switzerland)
- Italy has an attractive regulatory (altnet friendly) and competitive environment (cable is non-existent)
- Fastweb is a state of the art service provider with 13 % market share and a share of net adds over recent quarters of around 20% - growing faster than the market
- Fastweb operates a state of the art infrastructure with well over € 3 bln invested – representing around 80% of acquisition price
### Key financials

<table>
<thead>
<tr>
<th>in CHF mm</th>
<th>30.06.2007</th>
<th>YOY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net revenue</td>
<td>5,094</td>
<td>6.7%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>2,042</td>
<td>12.6%</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>40.1%</td>
<td></td>
</tr>
<tr>
<td>EBIT</td>
<td>1,228</td>
<td>10.6%</td>
</tr>
<tr>
<td>Net income *</td>
<td>944</td>
<td>2.6%</td>
</tr>
<tr>
<td>SCM net income **</td>
<td>936</td>
<td>23.5%</td>
</tr>
<tr>
<td>EPS ***</td>
<td>18.07</td>
<td>35.2%</td>
</tr>
<tr>
<td>CAPEX</td>
<td>818</td>
<td>55.5%</td>
</tr>
<tr>
<td>OpFCF</td>
<td>978</td>
<td>n/m</td>
</tr>
<tr>
<td>Net debt</td>
<td>11,426</td>
<td>n/m</td>
</tr>
<tr>
<td>FTE</td>
<td>20,498</td>
<td>22.5%</td>
</tr>
</tbody>
</table>

* Net income before minorities
** Net income to Swisscom sh’holders (excl. minority interests)
*** Avg. # of outstanding shares in 1st six months 07: 51.802mm

### HY 2007 comments

- **Top-line** up by CHF 322mm and **EBITDA** increased by CHF 229mm
- **Net financial expense** increased only by CHF 15mm due to a gain from hedging activities related to the FWB transaction
- **EPS** increased by 35% YOY largely thanks to repurchase of minority stake from Vodafone and lower avg. # of outstanding shares
- **CAPEX** up on the back of VDSL rollout and FWB integration
- **OpFCF** for 1st six months at CHF 978mm
- **FTE** up by 22.5% mainly because of FWB acquisition

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**All key financials up**
Reward 2 - H1 revenues up nearly 300mm CHF

- Total revenue: 5,094 mm CHF (+294 mm CHF, +6.1%)
- Net revenue HY07: 4,772 mm CHF
- Roaming HY06: 28 mm CHF
- Like-for-like revenue HY06: 202 mm CHF
- Trad. Fixed HY06: -53 mm CHF
- BB Access HY06: +55 mm CHF
- Mobile HY06: +53 mm CHF
- B2B * HY06: +68 mm CHF
- Fastweb HY06: +281 mm CHF
- Other ** HY06: +39 mm CHF

* Project- and Outsourcing Business
** Of which at Accarda: CHF +9mm, Antenna Hungaria: CHF +7mm, SIMAG: CHF +5mm, Broadcast: CHF -8mm, Hospitality Services: CHF +14mm, Airbites CEE: CHF +5mm, all other CHF +7mm
Reward 3 - Like for like H1 EBITDA not eroding

EBITDA excluding 2006 one-offs flat YOY thanks to Fastweb integration
### Reward 4 - EBITDA for FY 2007 strongly up

**+ CHF 0.5-0.6 bln**

<table>
<thead>
<tr>
<th>Component</th>
<th>CHF (in mm)</th>
<th>Change</th>
</tr>
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<tbody>
<tr>
<td>(\text{\textasciitilde}595^\text{\textdagger}) (\times) 1.66 CHF / €</td>
<td>3,900</td>
<td>1.0</td>
</tr>
<tr>
<td>- provisions for risks &amp; doubtful debts newly reported above EBITDA</td>
<td>4.9</td>
<td>-0.1</td>
</tr>
<tr>
<td>- one-off installation cost capitalised instead of expensed</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>- sale Antenna Hungary and sale Accarda</td>
<td>4.7-4.8</td>
<td>0.9**</td>
</tr>
<tr>
<td>+/- other small items (Betty, SCIS, Airbites, LRIC etc)</td>
<td>3.8-3.9</td>
<td>0.3**</td>
</tr>
</tbody>
</table>

**New group guidance for FY07 (in CHF bln)**

- **\(\text{\textasciitilde}3,900\)**
- **\(\text{\textasciitilde}595^\text{\textdagger}\)**
- **\(\text{\textasciitilde}4.4 - 4.5\)**

**More outlook / share** compared to guidance pre-Fastweb acquisition

*\(\text{\textasciitilde}595^\text{\textdagger}\) Represents Fastweb’s original FY 07 guidance of +40% compared to 2006 (1.4 \(\times\) € 425mm = € 595mm) under the “old” definition of EBITDA

**\(\text{\textasciitilde}4.4 - 4.5\)**

**\(\text{\textasciitilde}4.7-4.8\)**

> 13% higher outlook per Swisscom share

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\(*\) FY guidance and actual results until 22.5.2007 include a net of € 43.5mm EBITDA for the arbitration case with TI and the cost incurred by FWB relating to the public tender offer by Swisscom. This is non-recurring EBITDA and should be excluded when thinking about the underlying operating performance. The FY guidance for Fastweb assumes that a ruling on the reverse IC case will take place in 2007. Should this not happen, Fastweb will continue to build provisions which then would impact EBITDA by some € 60mm (CHF 100mm) negatively compared to current guidance.
3 Reward 5 - leverage far more efficient

Payout forms: dividends (in minimum CHF 17/share) and topped up to 50% of OpFCF with share buy backs

*) EBITDA based on FY pro-forma integration of Fastweb and pro-forma 2007 guidance of CHF 4.7-4.8 bln for the Group (again assuming FY integration FWB)
Reward 6 - attractive payout policy

**Swisscom financial policy**

**a** Capital structure: limit net debt / EBITDA at max. 2x

<table>
<thead>
<tr>
<th>Net debt</th>
<th>EBITDA</th>
<th>currently 2.3x</th>
<th>~2x</th>
<th>0x</th>
</tr>
</thead>
</table>

**S&P:** A-, stable  
**Moody’s:** A-2, stable

Envisaged max. indebtedness

**b** Payout policy: 50% of OpFCFₜ₋₁*) + extra return potential if net debt < 2x EBITDA

<table>
<thead>
<tr>
<th>OpFCF 50%</th>
<th>Div</th>
<th>Buy back</th>
<th>Total payout</th>
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</table>

<table>
<thead>
<tr>
<th>OpFCF 50%</th>
<th>Div</th>
<th>Buy back</th>
<th>Total payout</th>
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Optional extra payout to shareholders once net debt / EBITDA < 2x and if not required for strategic flexibility

**t+1 (year of payout)**

Attractive payout policy with cash dividend proportion of total payout to be at least the prior year’s DPS (starting from CHF 17/share paid in ’07 for ’06)

*) OpFCF = EBITDA – Capex +/- ΔNWC – Dividends paid to Minorities
Thank you for your attention!

Questions & Answers

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 behavior of other market participants, the actions of governmental regulators, the outcome of the tender offer for Fastweb, Fastweb’ growth prospects and the prospects of the industry and markets in which it operates, the ability of Swisscom to integrate Fastweb successfully, the costs of the integration, the level of interest rates and the availability of the re-financing opportunities and other risk factors detailed in Swisscom’s past and future filings and reports filed with the U.S. Securities and Exchange Commission and posted on our websites.

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