

# Swisscom

## “... in changing times ...”

Morgan Stanley Conference

Swisscom presentation

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Barcelona

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**swisscom**

# Agenda

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## Trend 1

**Robust in uncertain times** - no visible impact from threat of slowing economic cycle

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## Trend 2

**Swiss Strength** - low tax and interest rate environment = high FCF conversion, sensible refinancing schedule

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## Trend 3

**Italian Ignition** - Fastweb growing faster than the average sizeable European Altnet - igniting contribution to Swisscom OpFCF

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## Trend 4

**Record FCF generation** - attractive payout yield while securing strong balance sheet

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## Q&A

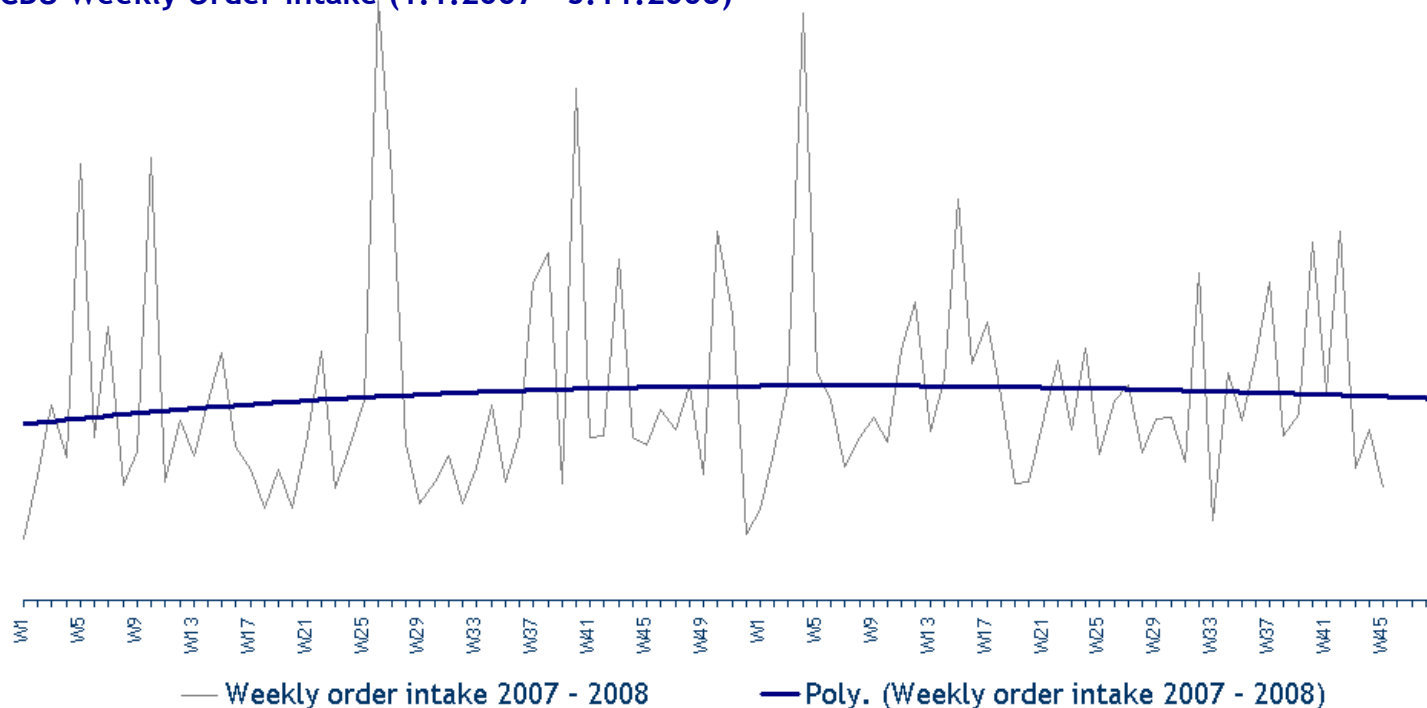
# Trend 1 - robust in uncertain times (1/2)

*No visible impact from slowing economic cycle -  
if there is something to come, it cannot be seen yet in Swisscom's order portfolio....*

## Swisscom:

- Order intake at Segment Swisscom CBU (Corporate Business customers) not significantly impacted
- Exposure to banking/insurance sector limited: 16% of sales at CBU, and 3% of Swisscom sales
- Highest sales of the year in Sept and Oct at SME
- Swisscom IT services sales in Oct best of last 3 months, and offer-requests highest of the year
- Residential sales in Oct just above average of both past 12 and past 9 months

## CBU Weekly Order intake (1.1.2007 - 5.11.2008)



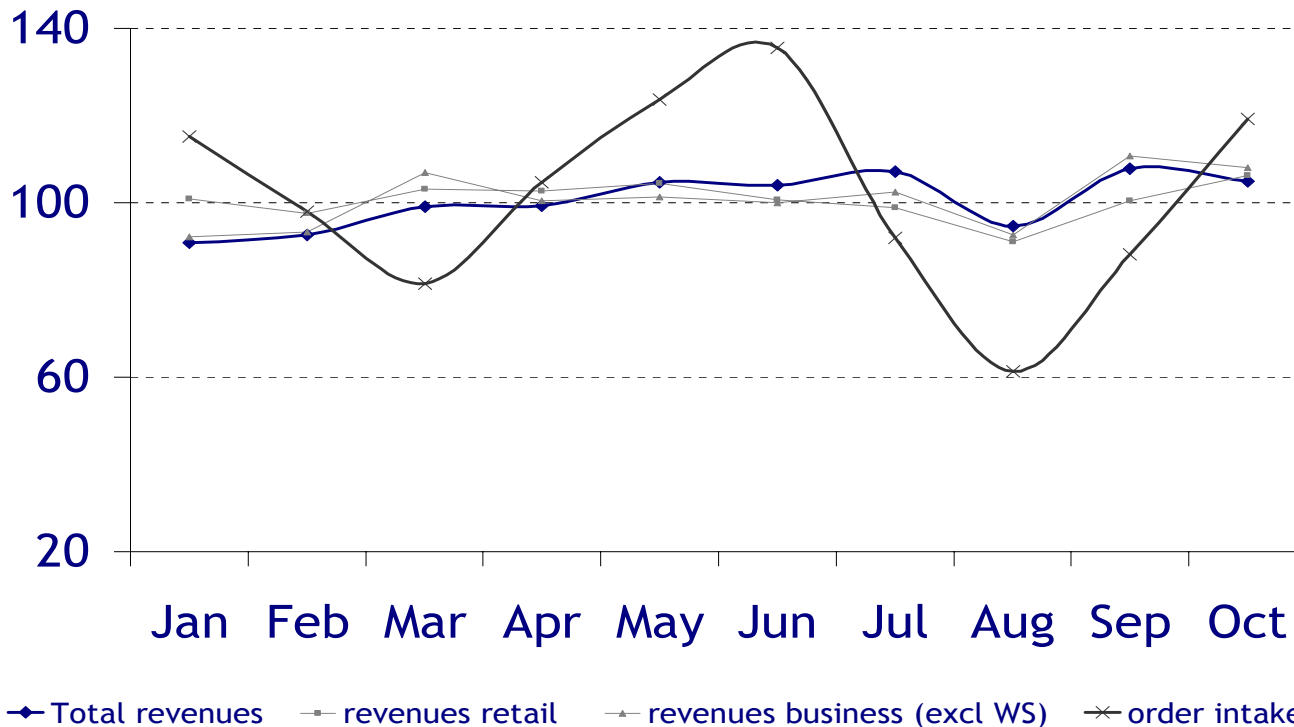
# Trend 1 - robust in uncertain times (2/2)

*No visible impact from slowing economic cycle -  
if there is something to come, it cannot be seen either in Fastweb's order portfolio...*

## Fastweb:

- Order intake from corporate accounts in Sept and October trending back up again from annual holiday dip in August
- Sales continuing to grow, also Sept and Oct above 9 month average
- No meaningful difference between sales trends for residential and corporate accounts

Index (avg. of first 9 months 2008 = 100)

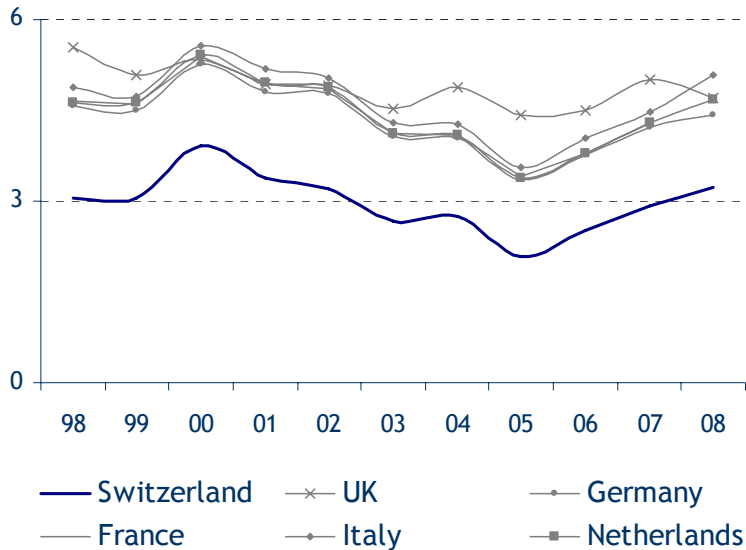


◆ Total revenues    ■ revenues retail    ▲ revenues business (excl WS)    ✕ order intake

# Trend 2 - Swiss strength

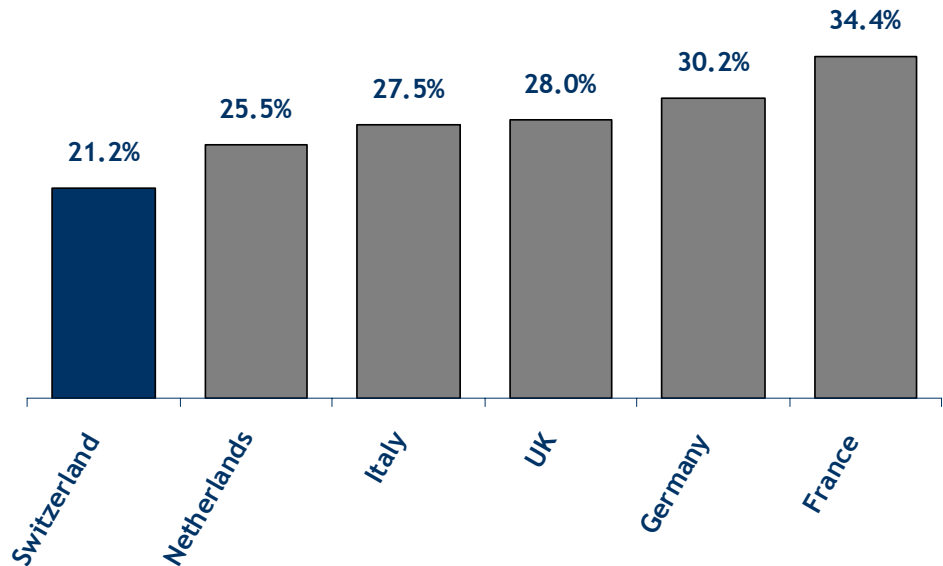
Switzerland has lower long-term interest rates which favors a lower cost of capital and higher free cash flow than in other countries.

Long term (10 yr) interest rates (%)



Swiss companies benefit from one of the lowest corporate tax rates among European countries.

Corporate tax rates (%)



Source: OECD

## Trend 2 - Swiss strength

Lower interest and tax rates result in comparatively higher earnings and FCF for Swiss companies, with over 20% more conversion of EBITDA into Free Cash Flow. This percentage increases with higher leverage (and decreases with lower leverage)

	Switzerland	Germany	Italy	France	Netherlands	UK
EBIT	100	100	100	100	100	100
Debt	500	500	500	500	500	500
Interest Rate <sup>*)</sup>	3.4%	4.7%	5.0%	4.8%	4.8%	5.5%
Interest	17.0	23.5	25.0	24.0	24.0	27.5
EBT	83.0	76.5	75.0	76.0	76.0	72.5
Tax Rate	21.2%	30.2%	27.5%	34.4%	25.5%	28.0%
Tax	17.6	23.1	20.6	26.1	19.4	20.3
Earnings & FCF <sup>**)</sup>	65.4	53.4	54.4	49.9	56.6	52.2

23% higher than average

Ø = 53.3

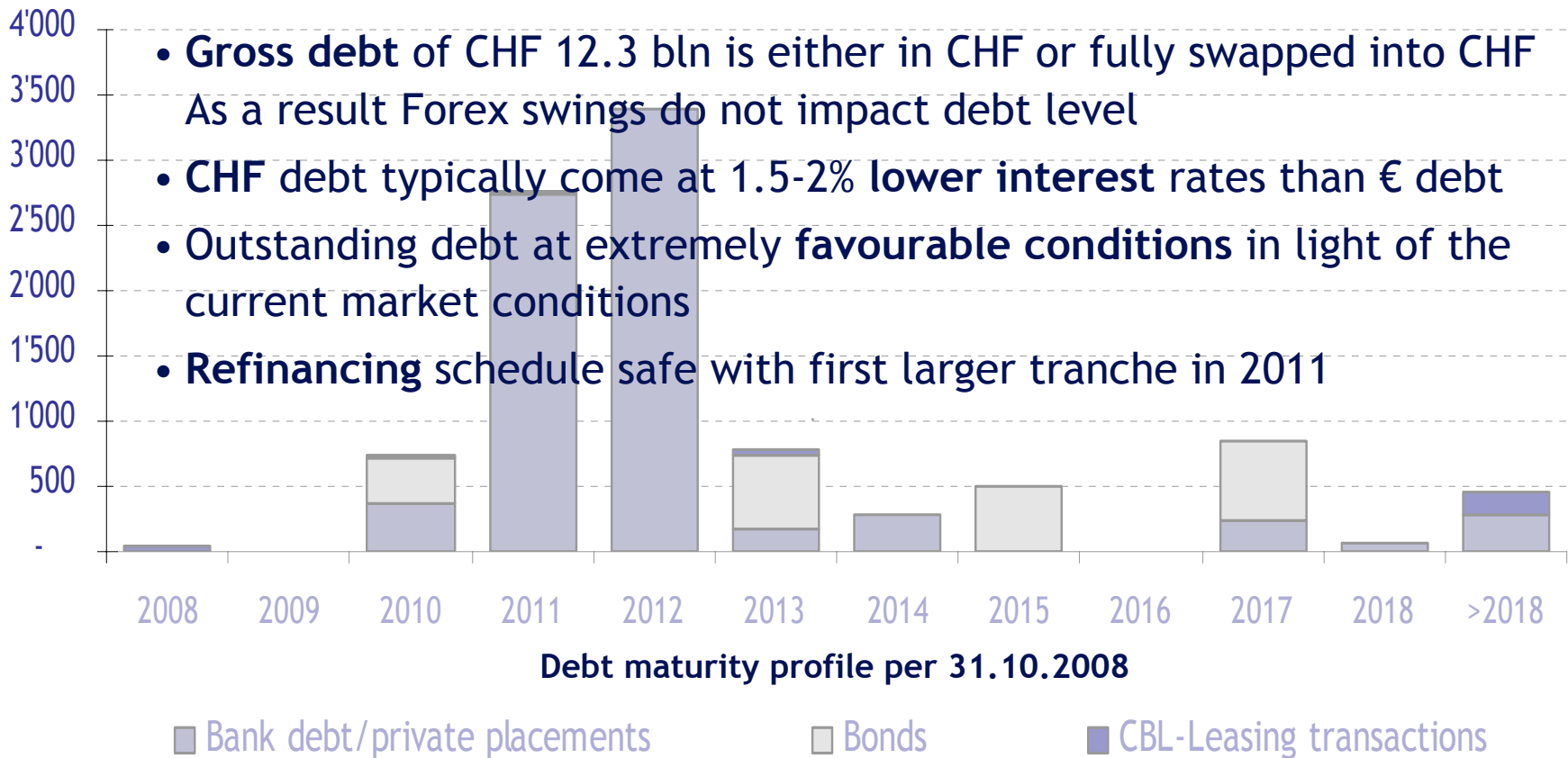
\*) long term (10 yr) rate +50bp

\*\* ) assuming depreciation = capital expenditure

# Trend 2 - Swiss(com) strength

*Favorable financing conditions coupled with safe refinancing schedule*

CHF mm



- **Gross debt of CHF 12.3 bln** is either in CHF or fully swapped into CHF  
As a result Forex swings do not impact debt level
- **CHF debt typically come at 1.5-2% lower interest rates** than € debt
- Outstanding debt at **extremely favourable conditions** in light of the current market conditions
- **Refinancing schedule safe** with first larger tranche in 2011

# Trend 3 - Italian ignition

*Fastweb growing faster than the average sizeable European Altnet - igniting contribution to Swisscom's Operating Free Cash Flow*

**Customer Base Growth <sup>1</sup>**

17%

26%

EUROPEAN OLOs AVERAGE <sup>2</sup>

FASTWEB

**FASTWEB expanding its broadband customer base significantly faster than most European Altnets:**

- FASTWEB broadband net adds market share steadily over 20% in 2008
- TI dominant position in retail broadband (61% market share) offers additional opportunities

**EBITDA Growth**

15%

19% <sup>3</sup>

EUROPEAN OLOs AVERAGE <sup>2</sup>

FASTWEB

**FASTWEB EBITDA growth well above average:**

- EBITDA margin steadily over 30% in 2008 (average Altnet = 25%)
- Absolute EBITDA contribution to outpace Capex by > € 100mm in 2008
- Fastweb contribution to OpFCF (i.e. shareholder returns for Swisscom shareholders) CHF 242 mm by 30.9.2008

<sup>1</sup> Comparison based on fixed line broadband customers

<sup>2</sup> Average calculated on the basis of 1H 2007 and 1H 2008 published results of Iliad, HanseNet, Tele2, Telenet, Tiscali, United Internet, Versatel and Wind (Fixed Line)

<sup>3</sup> FASTWEB EBITDA excludes €30 Mln extraordinary item booked in 2Q 2008



# Trend 4 - record FCF generation - strong payout potential while securing strong balance sheet

Original guidance assumed avg. exchange rate of 1.65 CHF/€. Per 0.05 CHF/€ lower exchange rate (for the year), the impact on Fastweb's consolidation in Swisscom's accounts is - CHF 82 mm (revenues), - CHF 27mm (EBITDA), and CAPEX - CHF 22mm.

FCF Proxy (EBITDA - Capex) hence largely neutral for changes in foreign exchange rate. With recent strengthening of the Swiss Franc, Swisscom Group Revenues may be a touch light of target, all other results should be achievable

Swisscom Group		2007A	2008E	Δ
Net revenue	in CHF bln	11.1	~ 12.3	+10%
EBITDA	in CHF bln	4.5	~ 4.8	+7%
CAPEX	in CHF bln	2.0	~2.1	+5%
Δ NWC	in CHF bln	-0.4	~ -0.2	n/m
OpFCF	in CHF bln	2.1	~ 2.5	+20%
Net Debt	in CHF bln	10.3	< 10	
Net Debt / EBITDA		2.3x	~2x	
Payout to shareholders	in CHF/share	20	23-24	+20%
(according to payout policy, i.e. 50% of OpFCF <sub>t</sub> paid in t+1)				

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