

# “Post-crisis, lessons learned”

Swisscom presentation at Conference  
Bank am Bellevue, Flims

Daniel Ritz  
Chief Strategy Officer, Swisscom AG  
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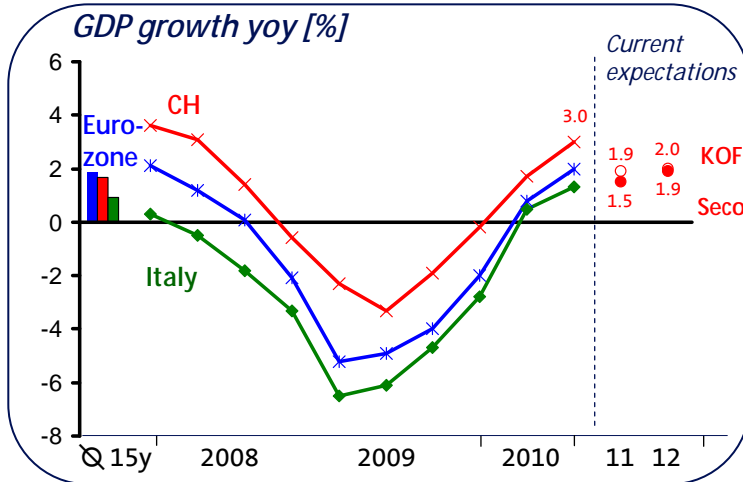
# Agenda

1. Environment during the cycle
  - a. Macro economic, Switzerland vs Europe
  - b. Relative competitor strength
  
2. Telecoms, sensitivity during the cycle
  - a. Sales categories with different sensitivity
  - b. Customer segments with different sensitivity
  
3. Cockpit used by Swisscom to steer through the cycle
  
4. Results “post-crisis”: back to growth

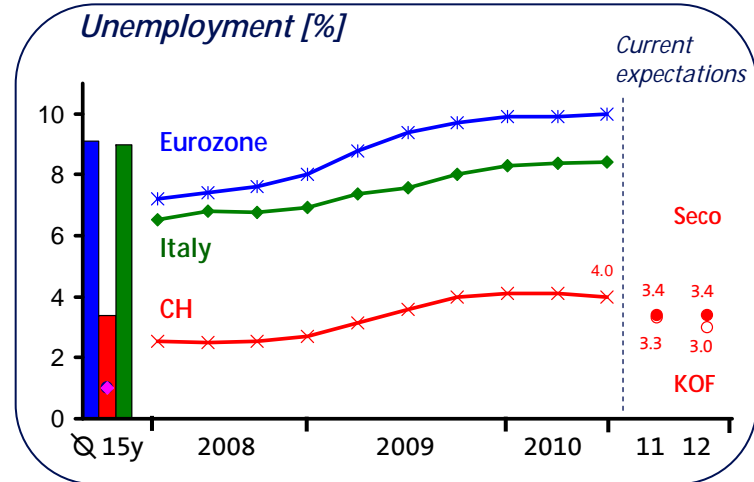
Q&A

# 1a. Macroeconomic development

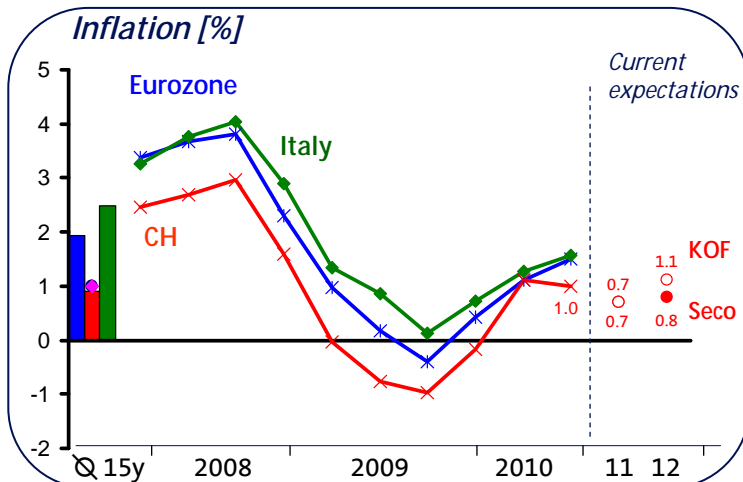
## Switzerland and Italy compared with Europe



Mild and short recession during 2009 but with an ongoing improvement during 2010. (Forecasts of KOF & SECO remain positive)

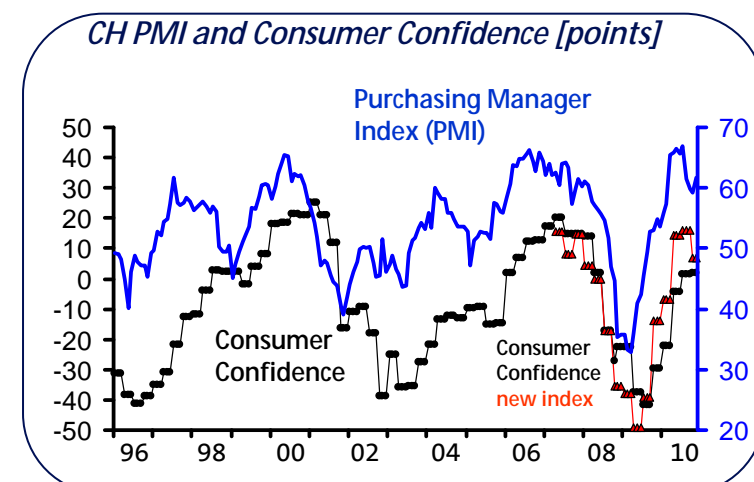


The unemployment rate is expected to further decrease in the upcoming years.



Low to negative Inflation during recession in 2009 – SECO and KOF are expecting a stable development throughout 2011 & 12.

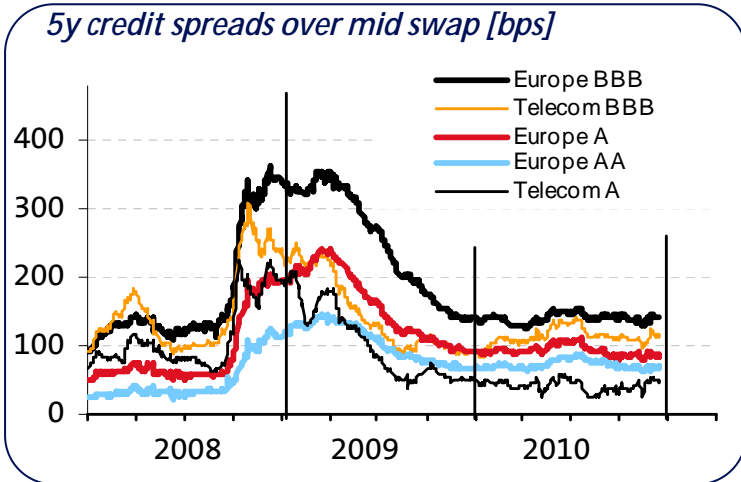
Sources: Bloomberg, Credit Suisse, KOF, Seco



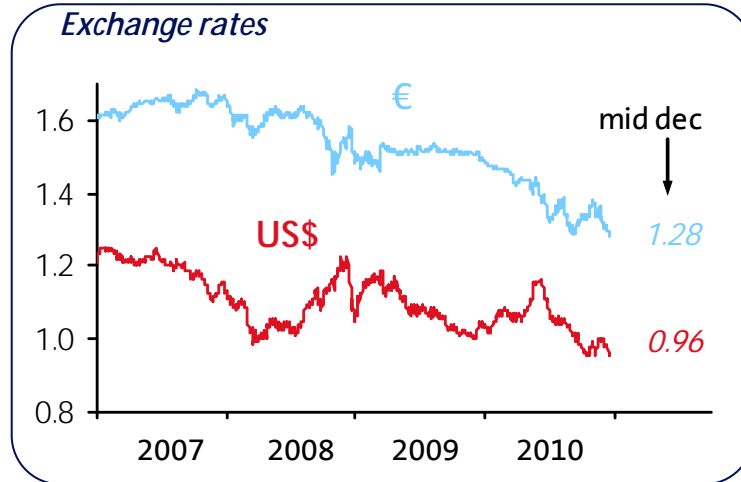
The crisis led to a dip of both Consumer Confidence & Purchasing Manager Index with rebound in 2010.

# 1a. Macroeconomic development

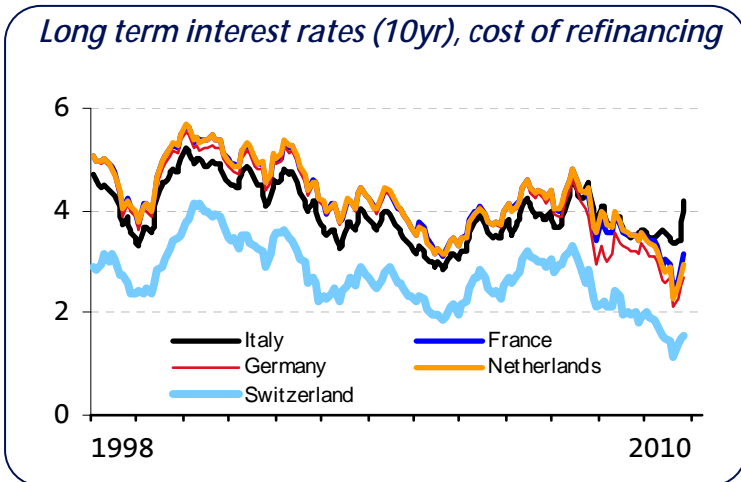
## Switzerland compared with other countries



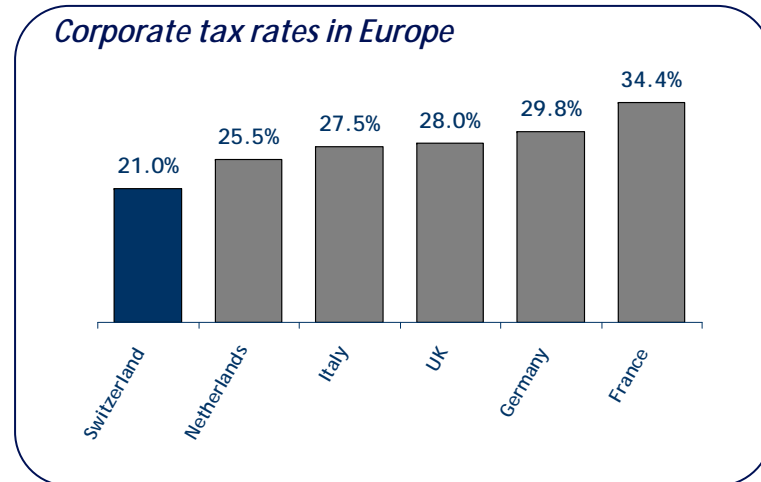
Credit spreads in 2010 back to normal, Telecom A with lowest spreads



Increased volatility in currency rates. Over the past two years, CHF has gained against EUR and USD.



Swiss franc interest rates consistently 1-2% below € rates, making funding significantly cheaper



Swiss taxes low, allowing for higher FCF conversion of gross profits than elsewhere



# 1a. Macro economic development

Lower interest and tax rates result in comparatively higher earnings and FCF for Swiss companies, with over 20% more conversion of EBIT 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
<i>Debt</i>	<i>500</i>	<i>500</i>	<i>500</i>	<i>500</i>	<i>500</i>	<i>500</i>
<i>Interest Rate</i> <sup>*)</sup>	<i>2.3%</i>	<i>3.5%</i>	<i>4.6%</i>	<i>3.8%</i>	<i>3.7%</i>	<i>4.1%</i>
<i>Interest</i>	<i>11.5</i>	<i>17.5</i>	<i>23.0</i>	<i>19.0</i>	<i>18.5</i>	<i>20.5</i>
EBT	88.5	82.5	77.0	81.0	81.5	79.5
<i>Tax Rate</i>	<i>21.0%</i>	<i>29.8%</i>	<i>27.5%</i>	<i>34.4%</i>	<i>25.5%</i>	<i>28.0%</i>
<i>Tax</i>	<i>18.6</i>	<i>24.6</i>	<i>21.2</i>	<i>27.9</i>	<i>20.8</i>	<i>22.3</i>
Earnings & FCF <sup>**)</sup>	69.9	57.9	55.8	53.1	60.7	57.2

23% higher than average

Ø = 57.0

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

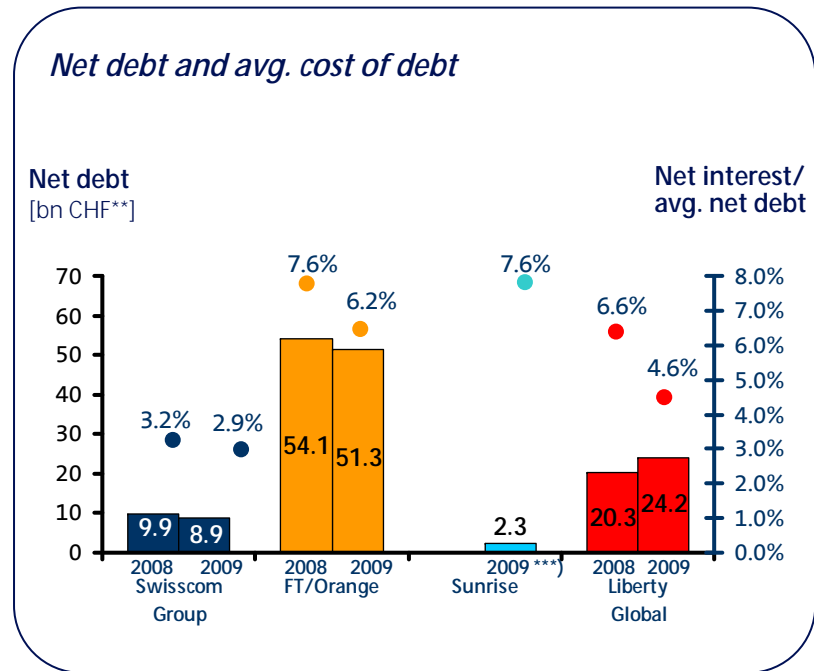
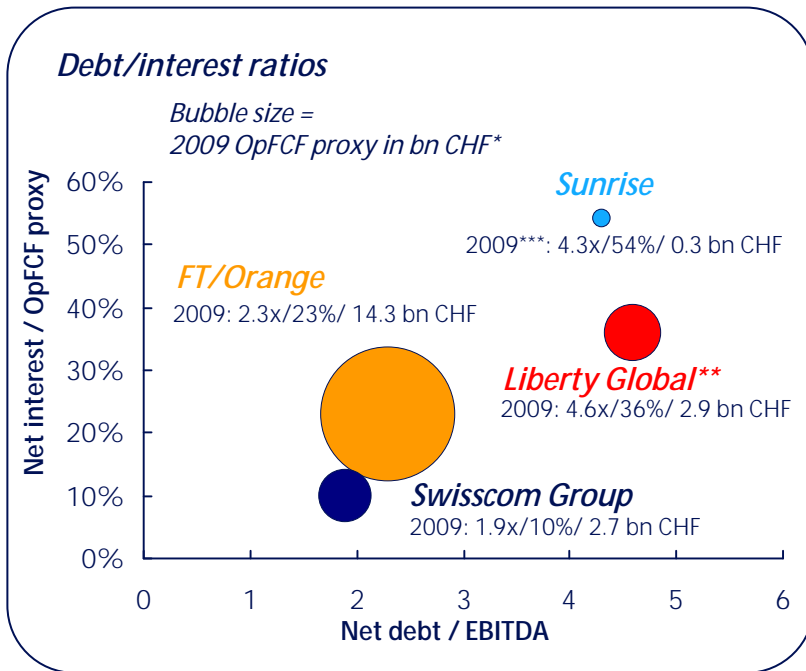
\*\*\*) assuming depreciation = capital expenditure

„5% dividend yield in CHF is more than 6% in €“



# 1b. Relative competitive strength

Financial strength of (mother companies of) players in Swiss market rather different



Sources: all figures based on publicly available data in annual reports of France Telecom/Orange and Liberty Global

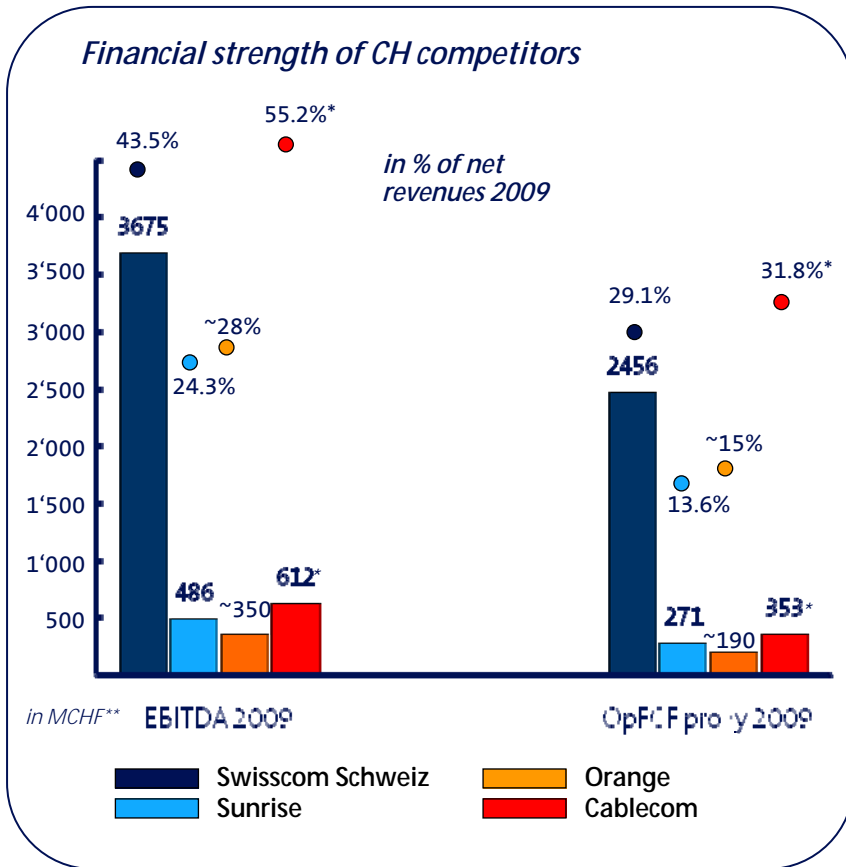
\* 1 EUR = 1.51 CHF; 1 USD = 1.09 CHF

\*\* Liberty Global assumption: Operating cash flow = EBITDA

\*\*\* Sunrise pro forma figures adjusted by the issue of notes of 1.47 bn CHF by mid 2010

# 1b. Relative competitive strength

## Financial strength of players in Swiss market rather different



- Absolute EBITDA and cash flow level of main competitors in Switzerland significantly below Swisscom
- Swisscom as incumbent and Cablecom with own broadband infrastructure have the highest margins
- Attackers such as Sunrise and Orange have significantly lower margins
- Potentially challenging investment effort over time given the absolute cash flow levels generated

Sources: all figures based on publicly available data in quarterly/annual reports of France Telecom/Orange, Liberty Global and Sunrise

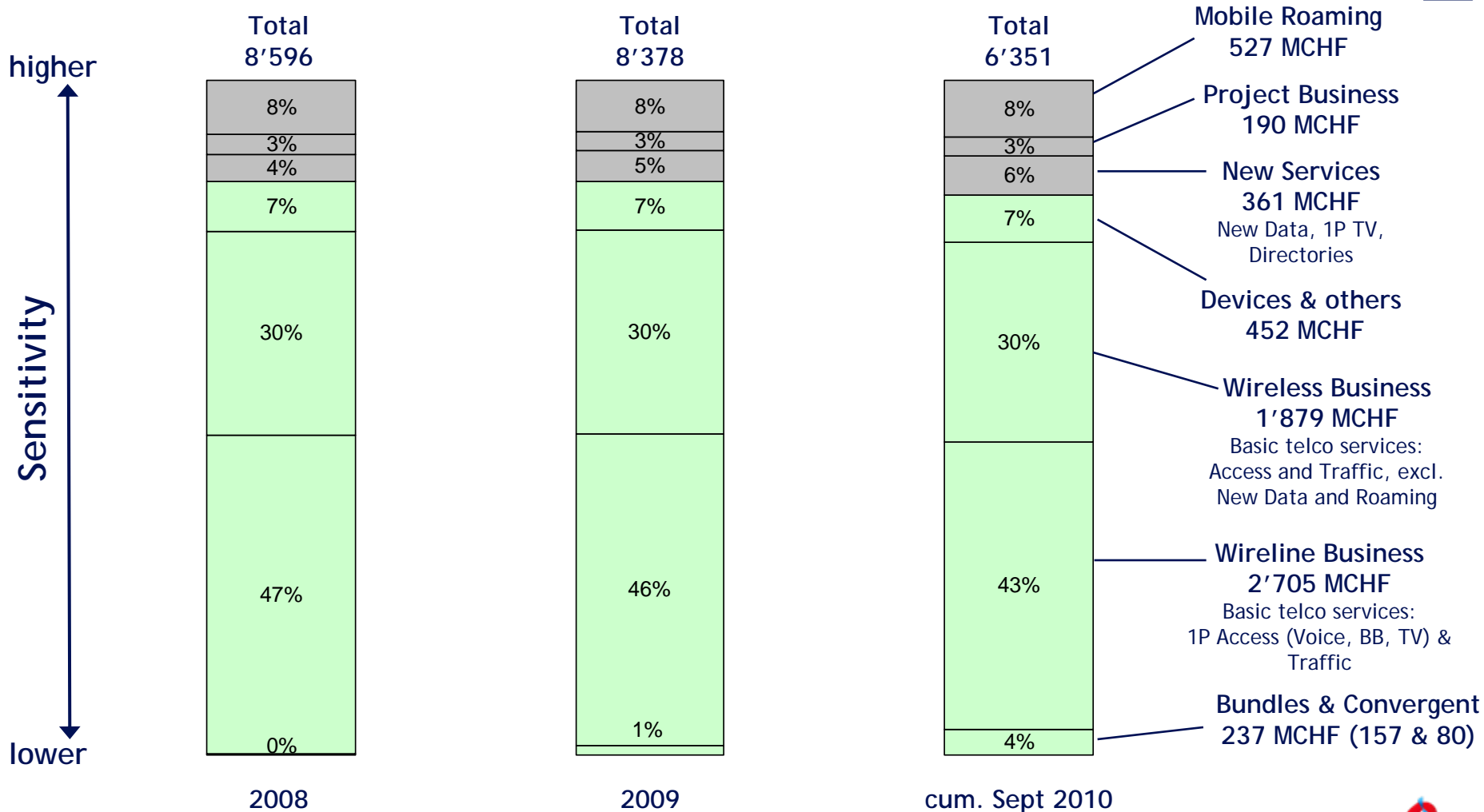
• Cablecom assumption: Operating cash flow = EBITDA

\*\* 1 USD = 1.09 CHF

Orange CH numbers not exactly known, these represent the 2008 results, and interim 2009 numbers point to a similar development

## 2a. Telecoms environment, sales categories with different sensitivity

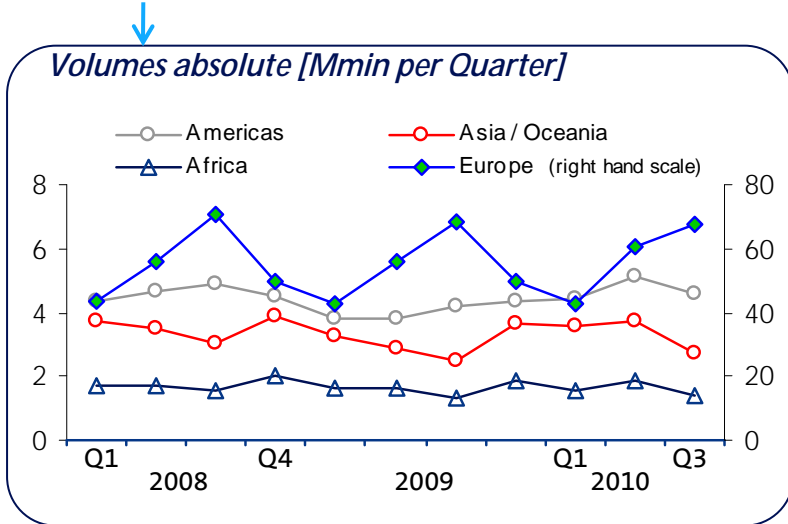
No significant sign of crisis over the past two years.



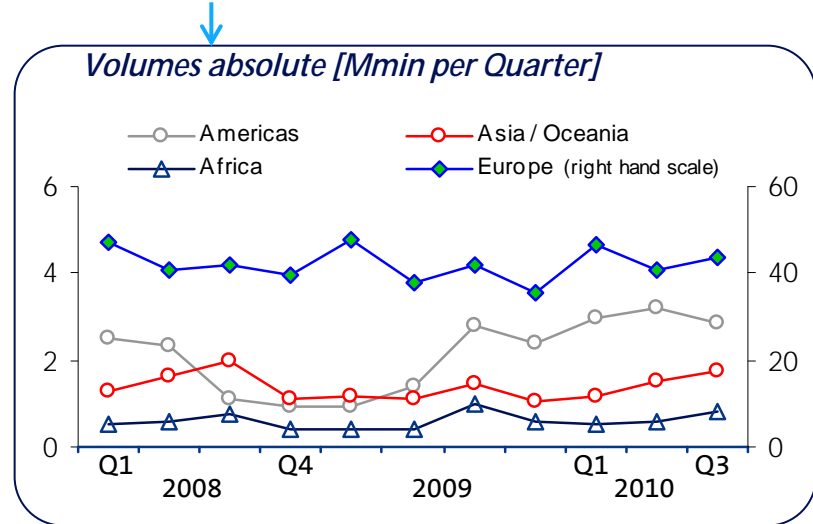


## 2a. Telecoms environment, roaming as an example

Outbound Roaming (Swiss abroad) less impacted than Inbound Roaming (foreigners visiting Switzerland)



Volume development follows seasonal effects



Heavy downturn of the volumes from the Americas in the period of Q3-2008 .. Q2-2009

**Change in Volumes [change vs. prior year quarter]**

*in %*

	2008				2009				2010		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Europe	+8	+4	+4	+2	-1	-1	-3	-1	-1	+8	-1
Americas	+8	+11	+13	-3	-12	-18	-13	-2	+15	+36	+8
Asia/Oceania	+7	+11	+13	+0	-12	-17	-18	-6	+10	+28	+9
Africa	+7	+8	+7	+4	-6	-4	-12	-7	-2	+16	+1
World	+8	+5	+5	+2	-3	-3	-5	-2	+1	+11	0

Dip in 2009

**Change in Volumes [change vs. prior year quarter]**

*in %*

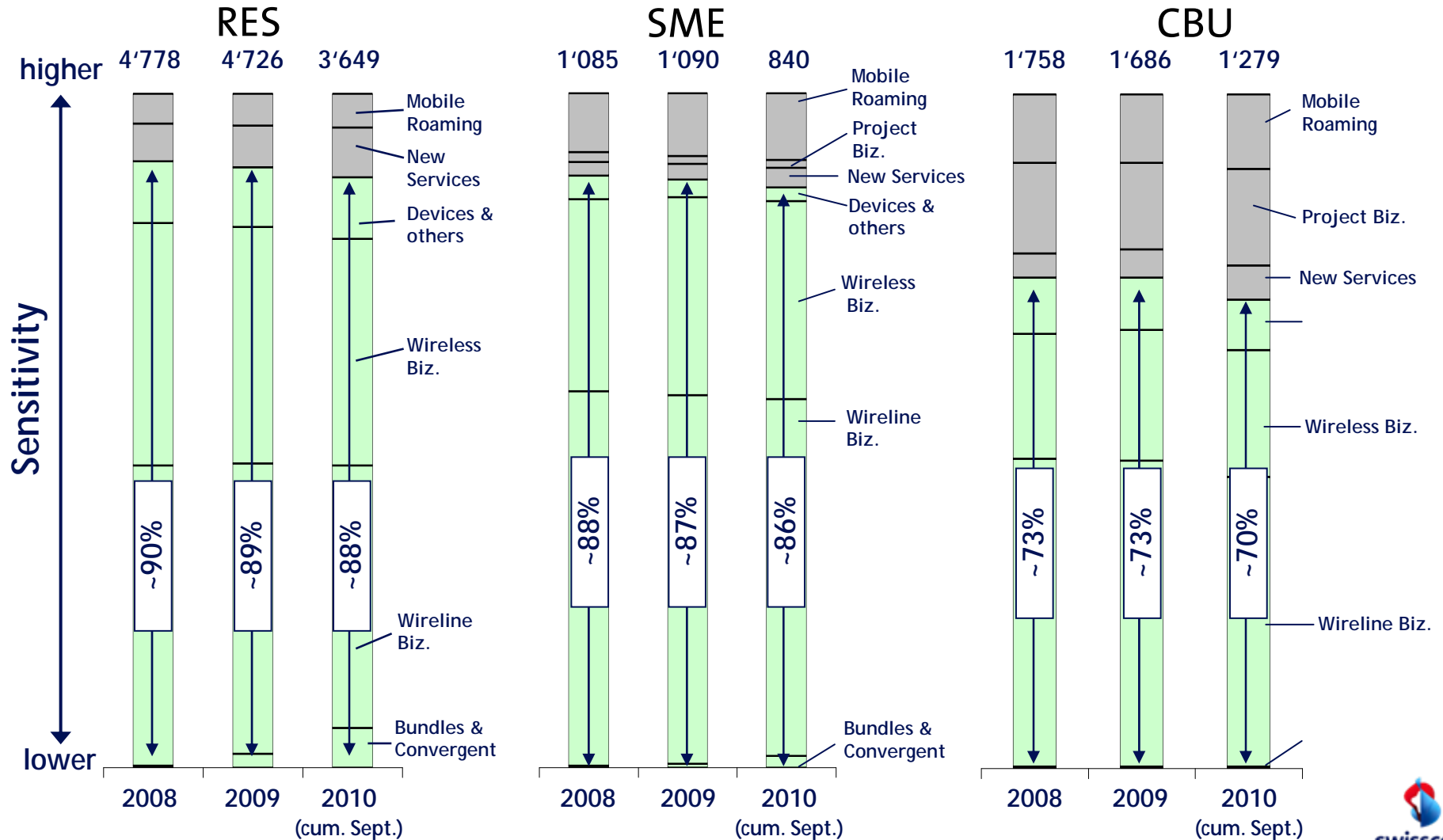
	2008				2009				2010		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Europe	+11	+18	+8	+15	+2	-6	0	-10	-3	+8	+5
Americas	+48	+5	-43	-48	-62	-39	+149	+152	+208	+125	+2
Asia/Oceania	+17	+7	-1	-10	-9	-32	-26	-5	-2	+38	+19
Africa	+8	+24	-14	-21	-14	-29	+28	+37	+17	+36	-16
World	+13	+16	+5	+11	-2	-9	+3	-5	+1	+13	+5

Decline ended in Q2-2009

## 2b. Telecoms environment, customer segments with different sensitivity

Limited impact on high sensitive rated areas over the past two years. Despite crisis, revenues with Mobile roaming, New Data and TV developed well.

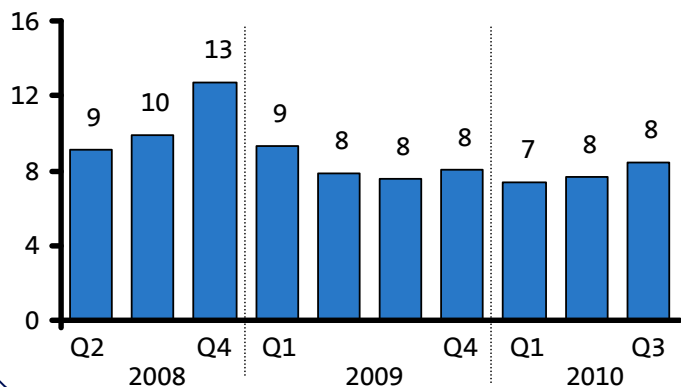
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## 2b. Telecoms environment - bad debt and payment morale stable

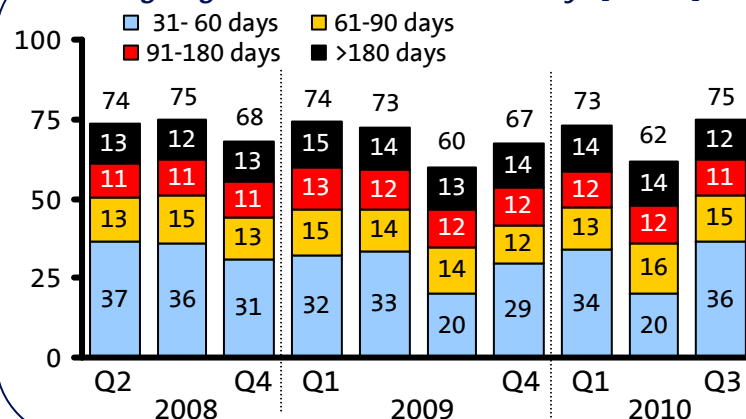
Receivables profile relatively stable, bad debt profile was not worsening

*Bad debt losses Swisscom Schweiz [MCHF/quarter]*



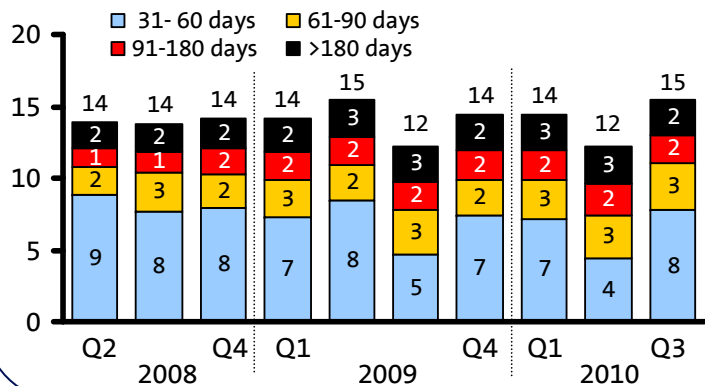
Except for effect from large single customer bankruptcy in Q4-08, no acceleration visible

*RES: Ageing list of receivables > 31 days [MCHF]*



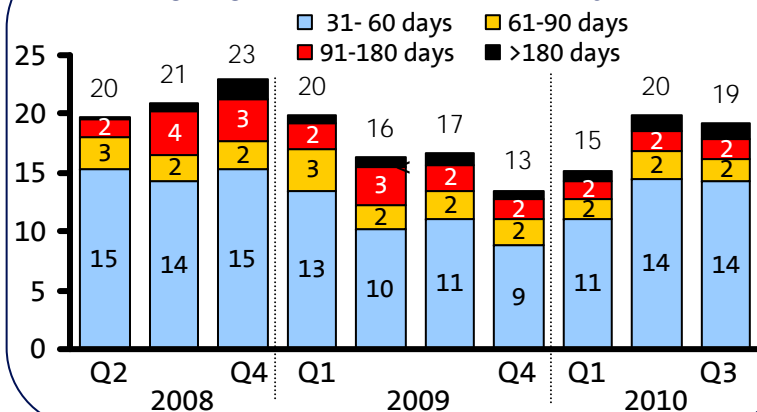
Segment RES: Stable development. No significant changes

*SME: Ageing list of receivables > 31 days [MCHF]*



Segment SME: Stable development. No significant changes

*CBU: Ageing list of receivables > 31 days [MCHF]*

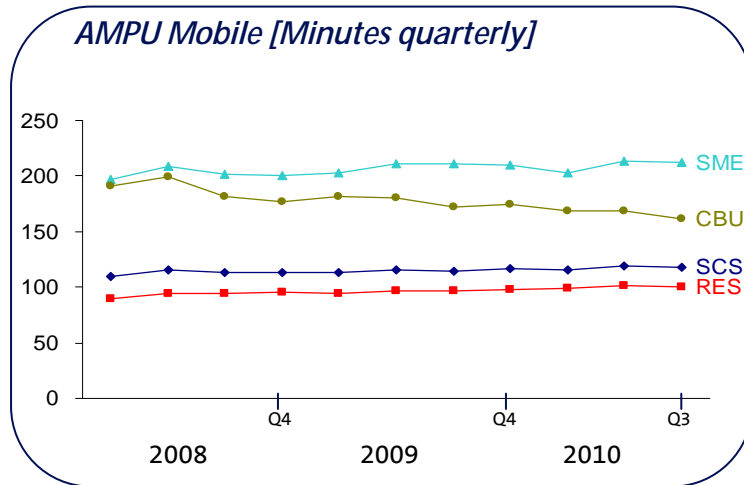


Segment CBU: higher volatility, however no clear trend

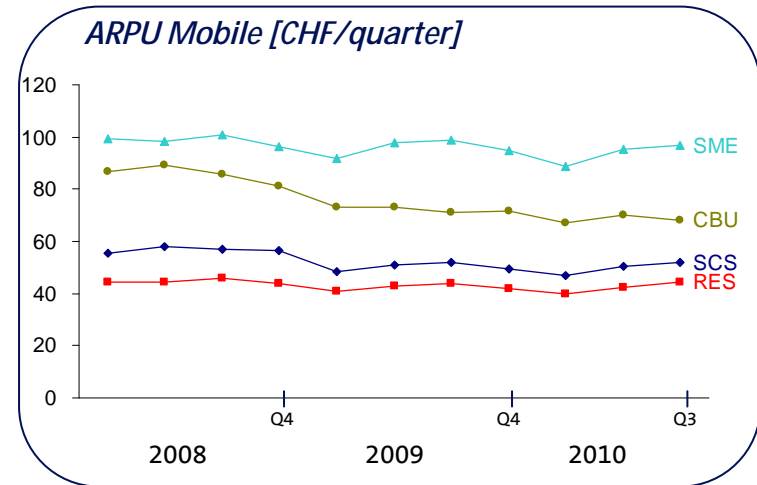
## 2b. Telecoms environment - usage rather stable during "crisis"

No sign of crises in mobile business over the past two years. Trends have been unchanged.

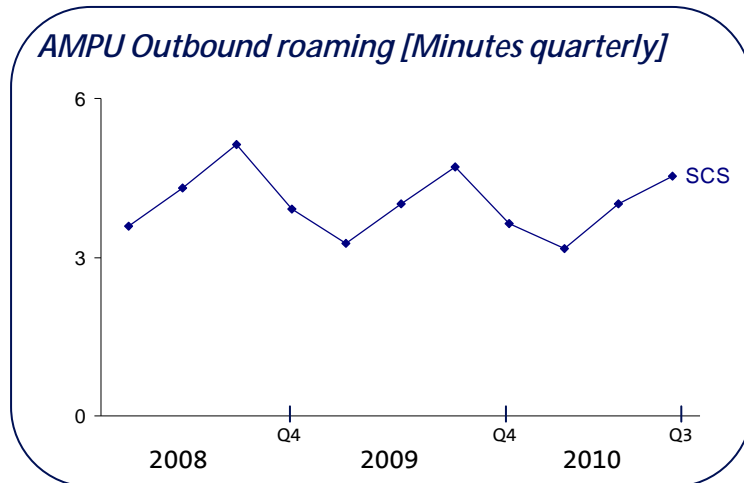
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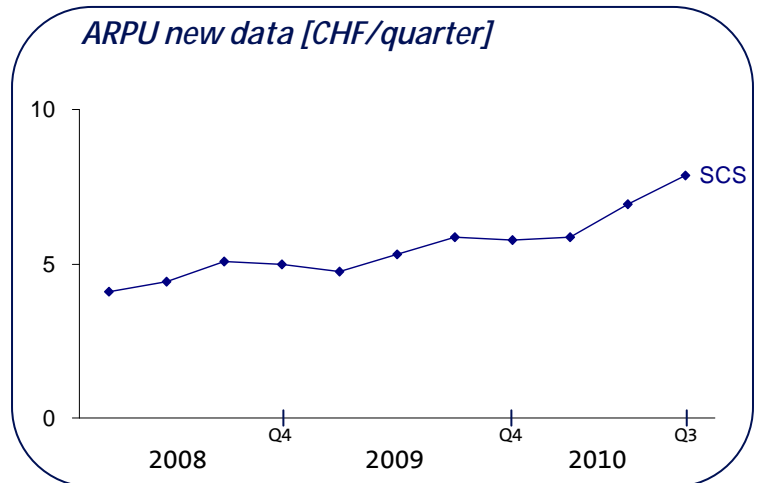
No slowdown over the two past years. AMPU is expected to increase due to flat subscriptions (no charged volumes).



No sign of crises impact on ARPU's. ARPU stabilization due to new price plans and new data growth.



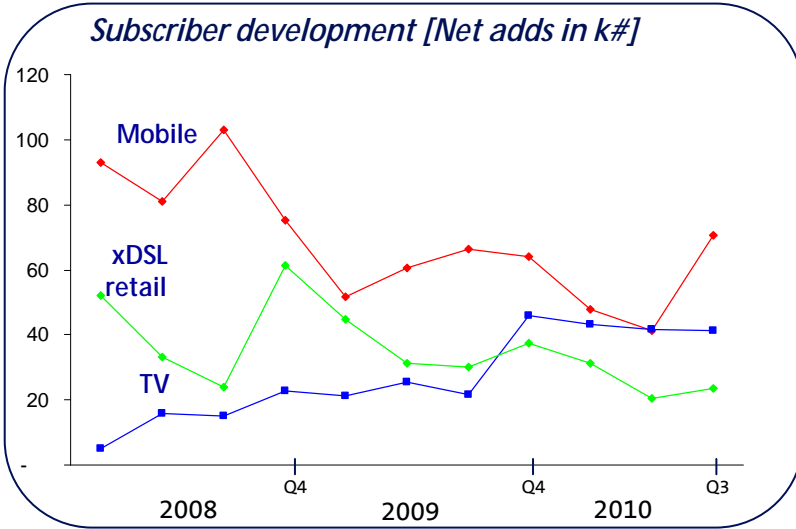
Seasonality as normal (end of year dip due to less holiday and biz. traveling activities).



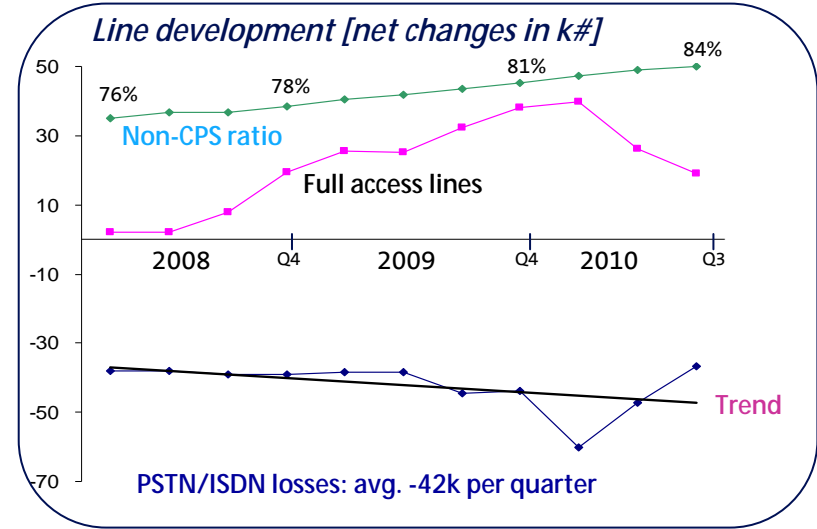
ARPU new data shows steady growth. No impact.

## 2b. Telecoms environment - no trend changes in subscribers due to "crisis"

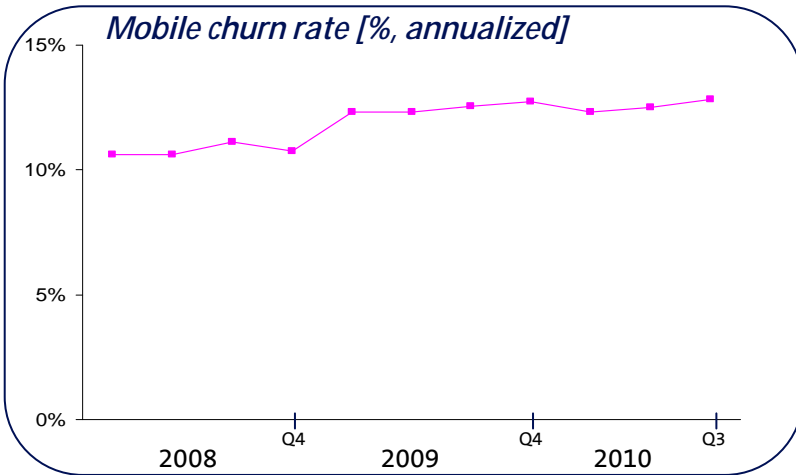
Over the past two years, no significant sign of weakness on Subs. growth, churn and order intake



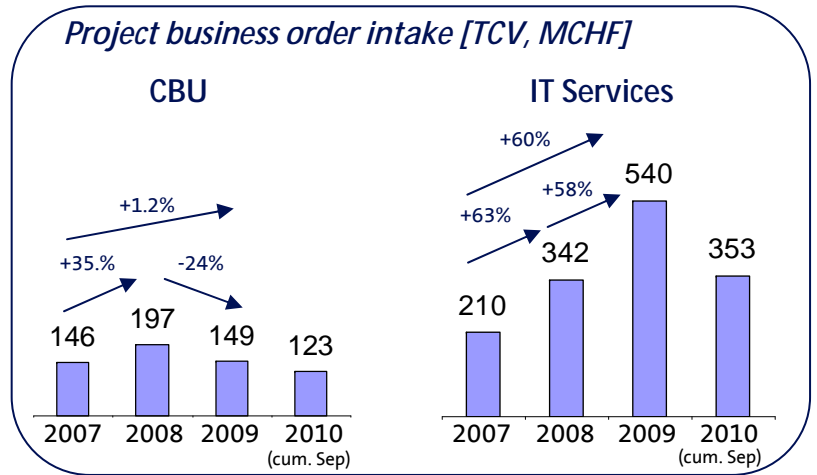
Ongoing strong net add development.



Stable development of line losses. Shift to Full Access continues. Non-CPS share increases.



No substantial change in mobile churn rate.



Crisis driven bend in 2009 at CBU. Substantial increase in order intake of project biz. at IT Services.

### 3. Swisscom cockpit as in use until end of 2009

Special crisis cockpit developed. Constant monitoring in order to be able to act early

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#### Macro economic

- GDP development
- Inflation
- Unemployment rate
- Interest rates
- Spreads for refinancing
- CDS spreads of different sectors
- Purchasing Managers Index
- Consumer Confidence Index
- Rate of bankruptcies in Switzerland
- Rate of new company formations in Switzerland
- EUR and USD exchange rates
- comPlan coverage ratio

#### Competition

- Aggressiveness of competitors (Media spendings, price decreases, etc.)

#### Business KPI's

- RFI/RFP and order entries at CBU and SCIS
- Readiness to change the operator
- Market share of gross adds
- # of customers reducing usage
- Migrators to M-Budget products
- # of customers rightgrading
- # of down-migrators among xDSL profiles
- Average value of reload on prepaid
- Development SAC/SRC KPI
- Changes in wireline voice discounts
- Success rate of direct marketing actions
- Request for price decreases (SME/CBU)
- AMPUs (Outbound mobile, roaming, wireline)
- ARPUs (Mobile voice, new data)
- Net adds (Mobile, BB, TV)
- Churn rates (per segment/per product)

#### Business financials

- Extent of financial flexibility (MCHF of opex/capex not allocated yet)
- Ageing list of receivables of different segments
- Dunning, collections
- Effective bad debt losses

#### Qualitative elements

- Incidents/requests regarding customer solvency issues
- Business customers sentiment barometer
- Development/incidents of key customers and key suppliers

### 3. Cockpit - know what customers may be looking for in a “crisis”

#### Potential changes in customer behavior in case of prolonged depression

#### RES

- 
- Increasing price sensitivity  
-> focus on cost control and increased rightgrading as well as churn
- Less travel activities -> lower roaming usage
- Resistance for subscription and usage of new gadgets/services
- Cancellation of non-basic services
- Increasing hard substitution (one access)
- +  
• Increasing TV consumption
- Longer usage of handsets -> lower SAC/SRC

#### SME

- 
- Increasing price sensitivity  
-> focus on cost control and increased rightgrading
- Less business travel activities  
-> lower voice roaming usage
- Resistance for subscription and usage of new gadgets/services
- Cost pressure -> FTE reductions and closure of locations
- +  
• Potential for ICT solutions as means for efficiency increases

#### CBU

- 
- Increasing price pressure  
-> renegotiations of existing contracts
- Prioritisation of investments/projects
- Less business travel activities  
-> lower roaming usage
- Resistance for subscription and usage of new gadgets/services
- “Clearing up” actions (validation of needs)
- Cost pressure -> FTE reductions and closure of locations
- +  
• Increasing demand for outsourcing projects for variabilisation of cost structure

### 3. Cockpit - only valuable if linked to planned measures

#### Short term measures

##### Agility reserve

- ✓ • Postpone opex and capex for internal projects

##### Suppliers

- ✓ • Identify top 50 suppliers by risk (impact on technology and roadmaps) and elaborate alternative sourcing plan
- ✗ • Renegotiate contract conditions

##### External employees and consultants

- ✓ • Insourcing of external employees
- ✗ • Assess necessity of new and existing contracts with consultants

##### Headcount

- ✗ • Define areas for FTE freezes without impact on the business
- ✓ • Approval in hiring process set to senior management level.

##### Bad debt

- ✗ • Identify top 50 customers by risk and introduce credit limits
- ✓ • Improve and increase focus of monitoring of bad debt development and ageing list of receivables

#### Options for medium term

##### Rollout capex

- ✗ • Evaluate potential and priorities for substantial reduction of infrastructure rollout capex

##### MarCom, Sponsoring, PR

- ✗ • Evaluate potential and priorities for substantial reduction of expenses

##### Working capital

- ✗ • Evaluate measures to free cash from working capital (e.g. introduction of pre-billing flat monthly rates)

##### ✗ Headcount reductions

##### ✗ Divestments (of assets or subsidiaries)

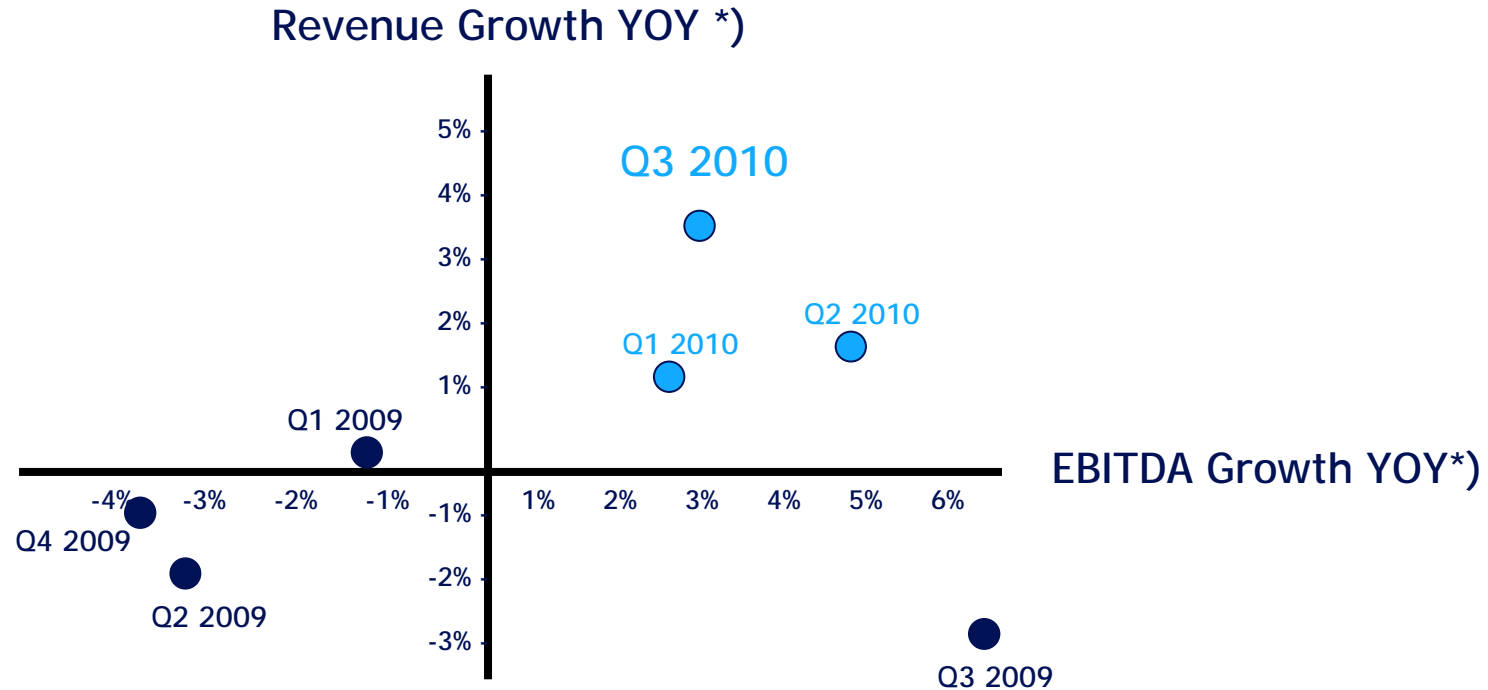
- ✓ Implemented - and partially ongoing
- ✗ Not implemented - not necessary



## 4. Results post crisis: back to growth

Change YoY, total Swisscom Group in constant currency (@ CHF 1.40/€)

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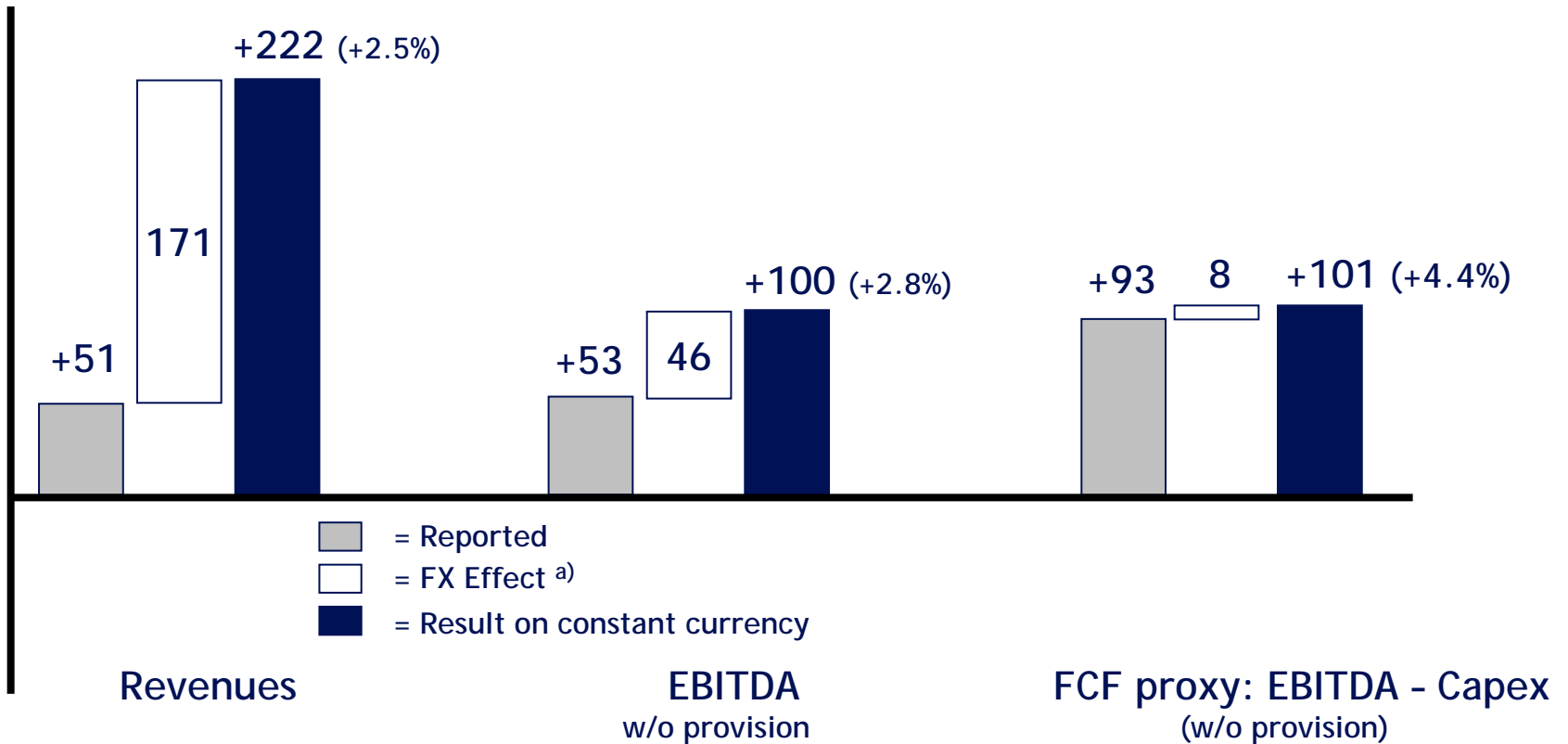


\*) adjusted by M&A transactions, provisions and other one-off items

Trends have improved in 2010, with Q3 2010 the clear “winner”

#### 4. Results post crisis: $9m_{09} < 9m_{10} < (9m_{10} @ FX_{09})$ : strong despite weak €

Change YoY (9m 2010 versus 9m 2009) in CHF mm, total Swisscom Group

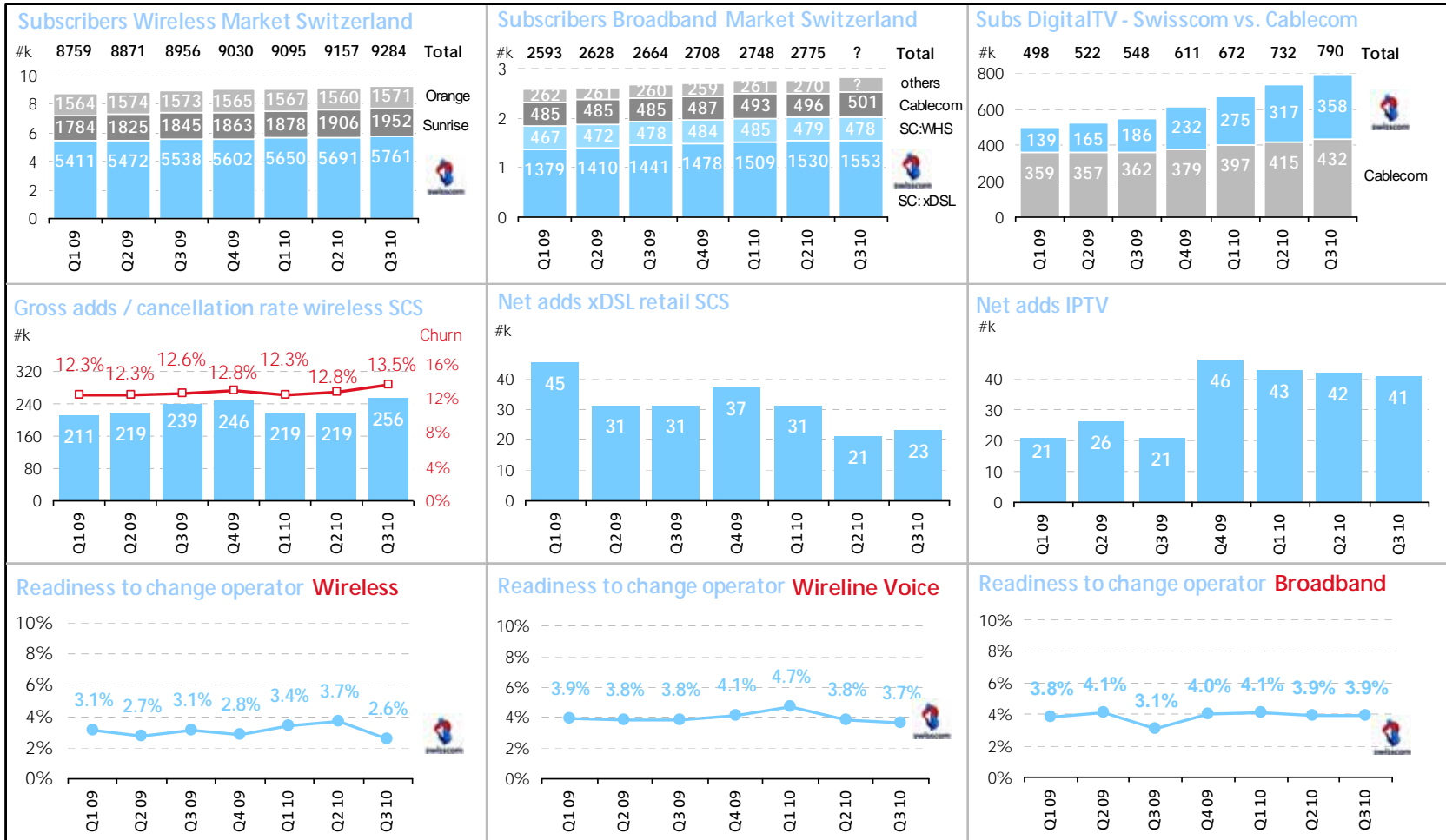


(a) Average exchange rate CHF/€ in 9m 2009: 1.5100 and 9m/2010: 1.3911, i.e. a strengthening of 7.9%

Strong underlying results, with no negative impact on FCF from stronger Swiss Franc as Fastweb Capex was booked at lower CHF rate

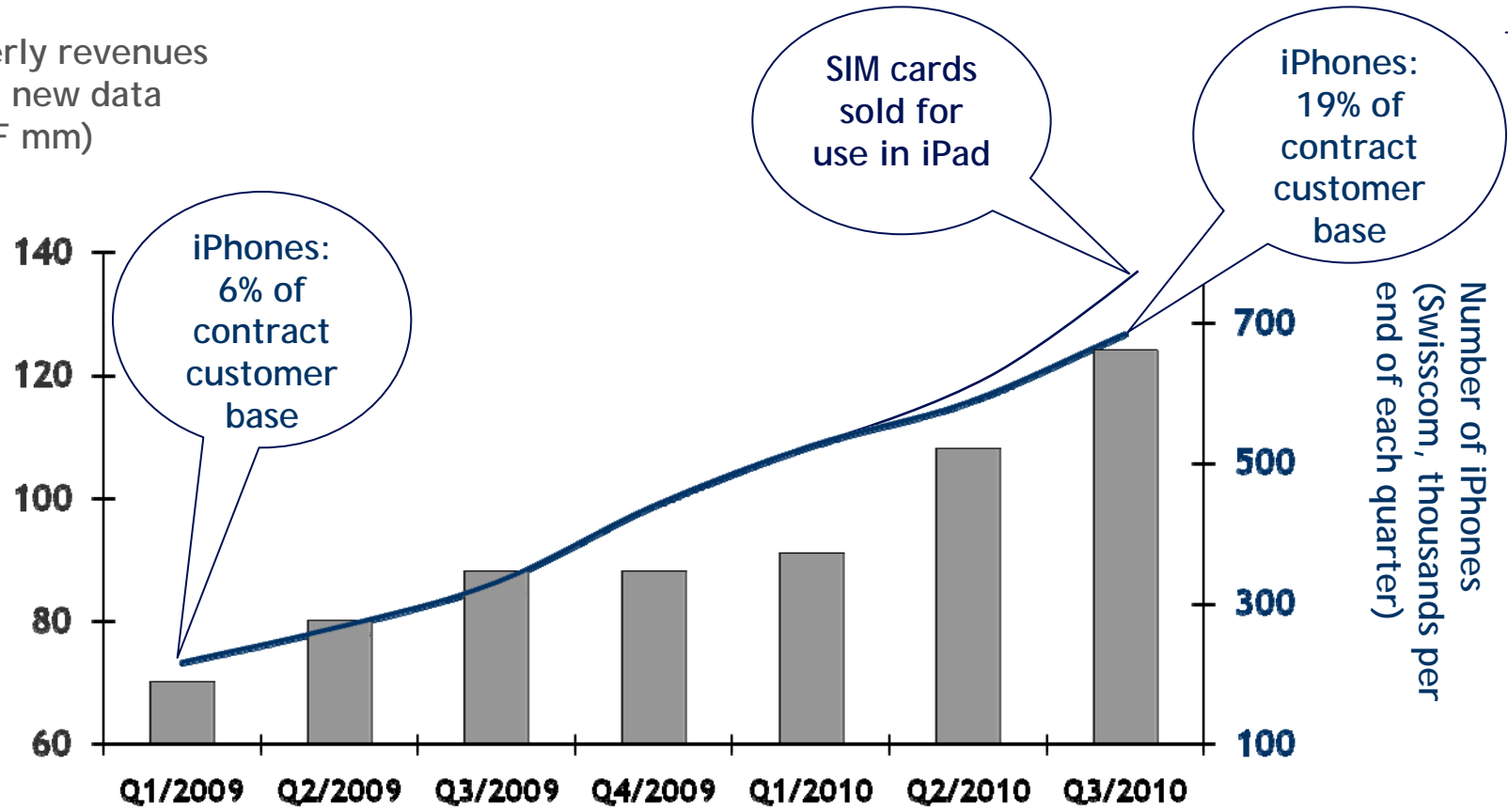
# 4. Results post crisis: strong customer trends

Up and downs, overall good market performance



## 4. Results post crisis: mobile new data growth taking off

Quarterly revenues  
mobile new data  
(in CHF mm)



(a) Consists of Data Traffic, domestic and outbound roaming from Swisscom customers. i.e. excl. SMS & MMS

Mobile new data one of the most important growth drivers (+CHF 85mm or +36% YoY), helped by customer friendly devices such as iPhones and iPads



## 4. Results post crisis: fibre push to further fuel future growth

City	Number of Households	>80% Built until	Total Invest sum (CHF)	Invest Share Swisscom/ Partner	Market share <sup>1</sup> Swisscom	Market share <sup>1</sup> Cable Op	Market share <sup>1</sup> Resellers
<b>Contract Signed</b>							
Basle	110'000	2015	170 Mio.	60/40	38	49	13
Berne	82'000	2017	172 Mio.	60/40	41	47	12
Geneva	200'000	2014	Not discl.	60/40	47	35	18
Lucerne	40'000	2014	90 Mio.	60/40	47	38	15
St. Gall	42'000	2014	Not discl.	60/40	44	44	12
<b>Letter of Intent</b>							
Fribourg	120'000	2019	Not discl.	60/40	45	42	13
Lausanne	80'000	Pilot project	Not discl.	N.A.	42	38	20
Zurich <sup>2</sup>	220'000	2018	284 Mio.	60/40	35	52	13

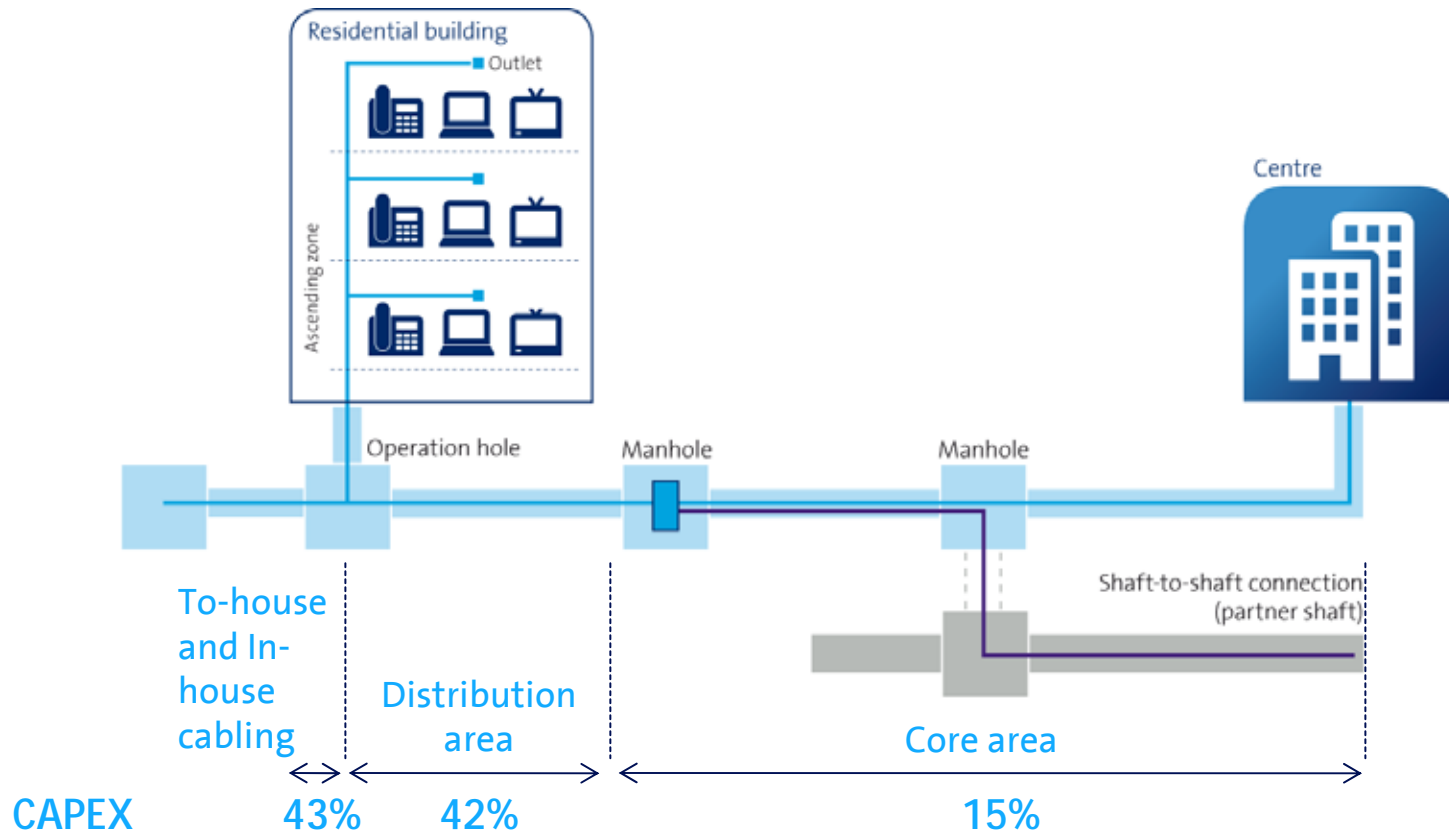
<sup>1</sup>estimated

<sup>2</sup>Contract is finalized, partners wait for ComCo decision on St. Gall contract

End of 2015: More than 1 million households connected to the basement (1/3 of the population)

## 4. Results post crisis: fibre push to further fuel future growth

Investments for fibre are dominated by civil works in the last meters and the in-house cabling. Swisscom's share in the overall investments in fibre until the end of 2015 will be around 2 bln CHF

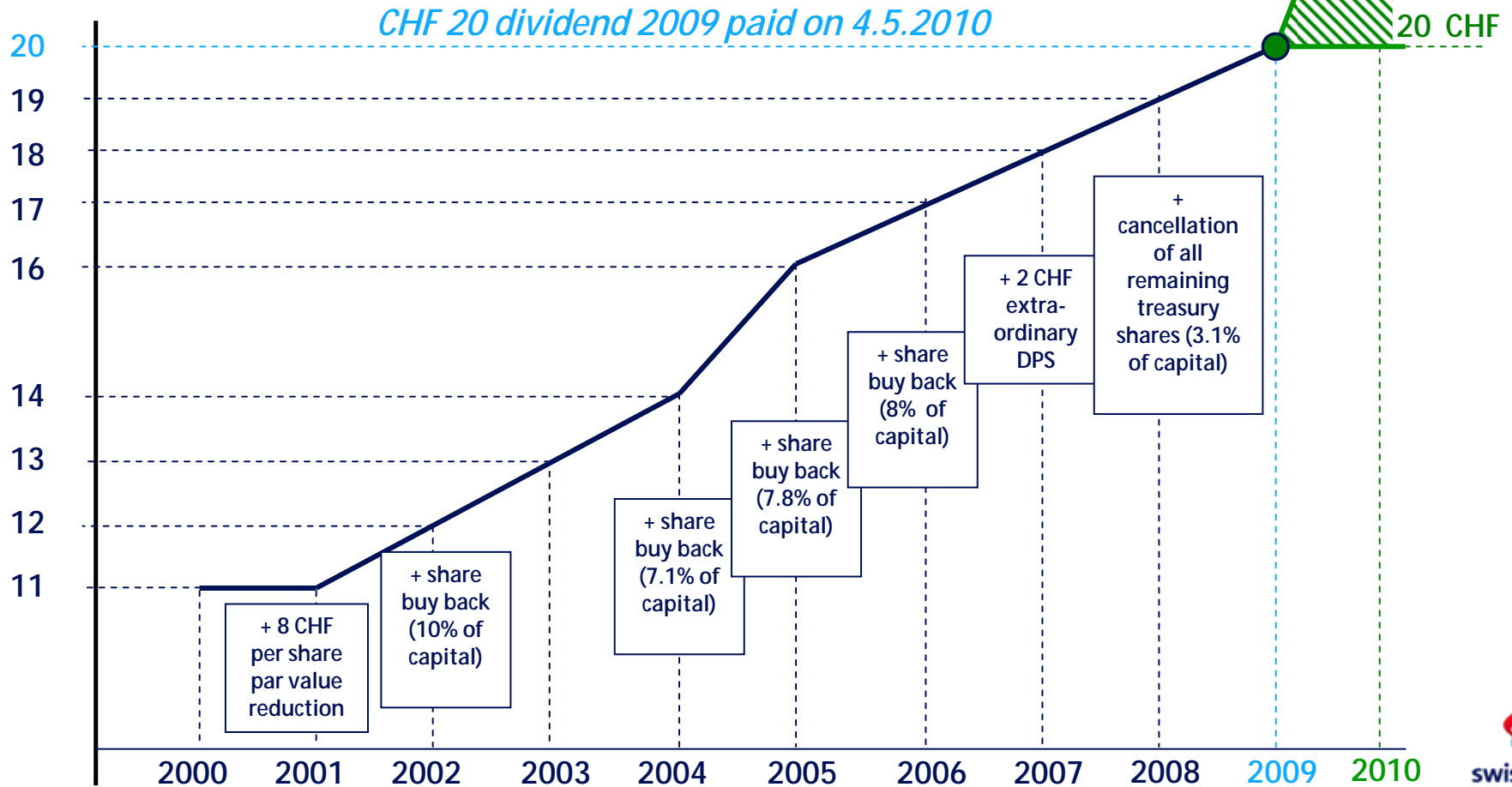


## 4. Results post crisis: Outlook 2010 substantially improved

	previous guidance in CHF and €	expected change	new "guidance" in CHF bln (at assumed rate of 1.40 CHF/€)	comments
<b>Revenues</b>				
Swisscom without Fastweb (CHF bln)	9.15	+	9.35	Both less price erosion as well as higher volume growth than expected
Fastweb (€ bln)	<u>1.95</u>	---		Just under € 1.9 bln, largely caused by changed revenue recognition and lower wholesale revenues
<b>Proforma Group in CHF bln</b> (assuming avg of CHF 1.40/€)	11.9	CHF +100mm	12.0	FY2010 to be slightly better than originally expected
<b>EBITDA</b>				
Swisscom without Fastweb (CHF bln)	3.75	++	4.0	Less price erosion as well as higher volume growth than expected lead to higher revenues, which translates fully into higher EBITDA. Additionally some extra cost savings achieved
Fastweb without VAT provision (€ bln)	<u>0.58</u>	---		-5% lower than expected, largely caused by revenue recognition which impacts EBITDA
Proforma Group in CHF bln (assuming avg of CHF 1.40/€)	4.6	CHF +200mm	4.8	
VAT provision		€ -70mm	-0.1	
<b>Proforma Group including VAT provision</b>		CHF +100mm	4.7	FY 2010 better than expected despite CHF 100mm VAT provision and lower exchange rate
<b>Operating Free Cash Flow</b>	2.6	0	2.6	Stable despite VAT provision and slightly higher (IT) CAPEX Fastweb. W/o potential extraordinary payments from existing regulatory provisions.

# 4. Crisis or no crisis: robust dividend trajectory to be continued

Dividend / share (CHF)





# 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 behaviour of other market participants, the actions of governmental regulators and other risk factors detailed in Swisscom's and Fastweb's past and future filings and reports, including those filed with the U.S. Securities and Exchange Commission and in past and future filings, press releases, reports and other information posted on Swisscom Group Companies' websites.

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**For further information, please contact:**

phone: +41 31 342 6410 or +41 31 342 8658

fax: +41 31 342 6411

[investor.relations@swisscom.com](mailto:investor.relations@swisscom.com)

[www.swisscom.ch/investor](http://www.swisscom.ch/investor)