Investing for sustainable returns

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Agenda

1. Big picture - investing for sustainable returns

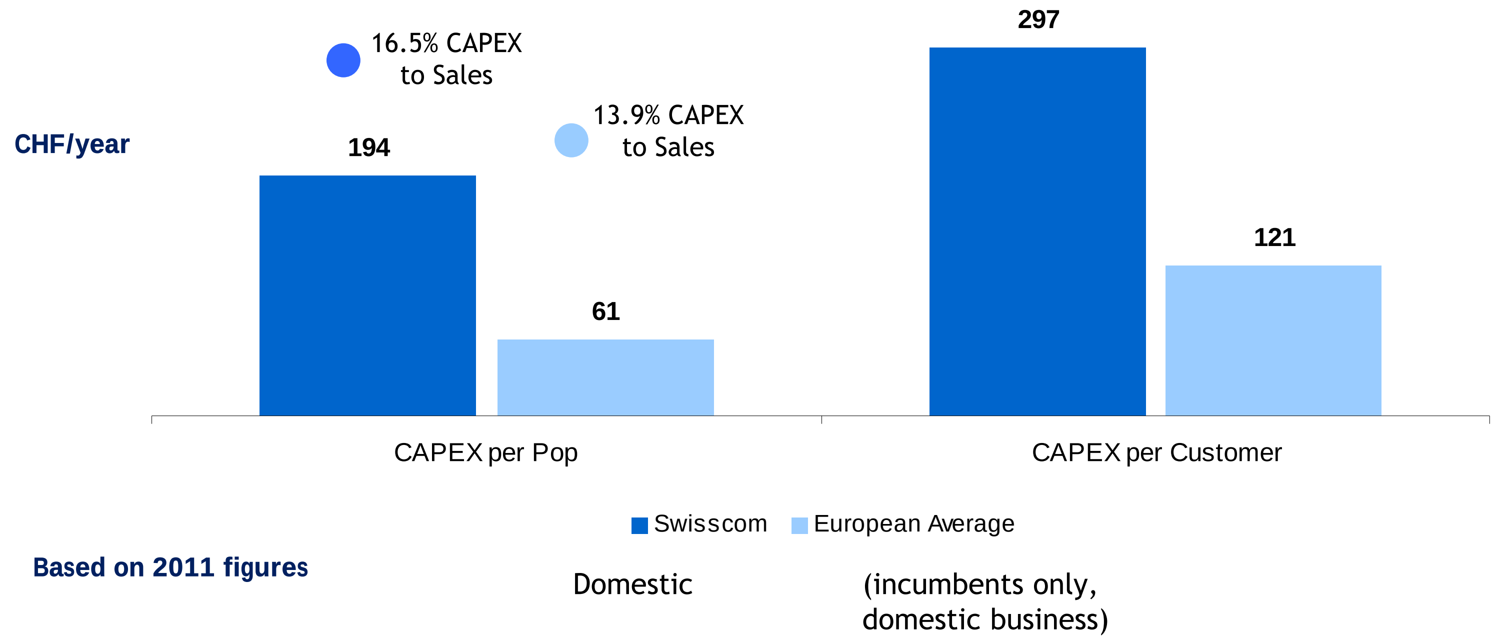
A. Fixed cost business
B. Scale and market share
C. Network and pricing (differentiation)
D. Investments
E. FCF generation

2. Group results – 9m 2012

A. Revenues
B. EBITDA
C. P&L breakdown
D. Outlook

A. Telco, a fixed cost business - Capital intensive (Capex)

Networks by definition constructed to cover an entire country and all inhabitants (pop)



Based on 2011 figures

source: Swisscom and broker research

Swisscom invested around 3x more than peers on a Pop basis and over 2x more on a per customer basis. The Capex / Sales is 20% higher than peers, pointing towards the benefits of high market share and premium which can be charged on the back of best network quality

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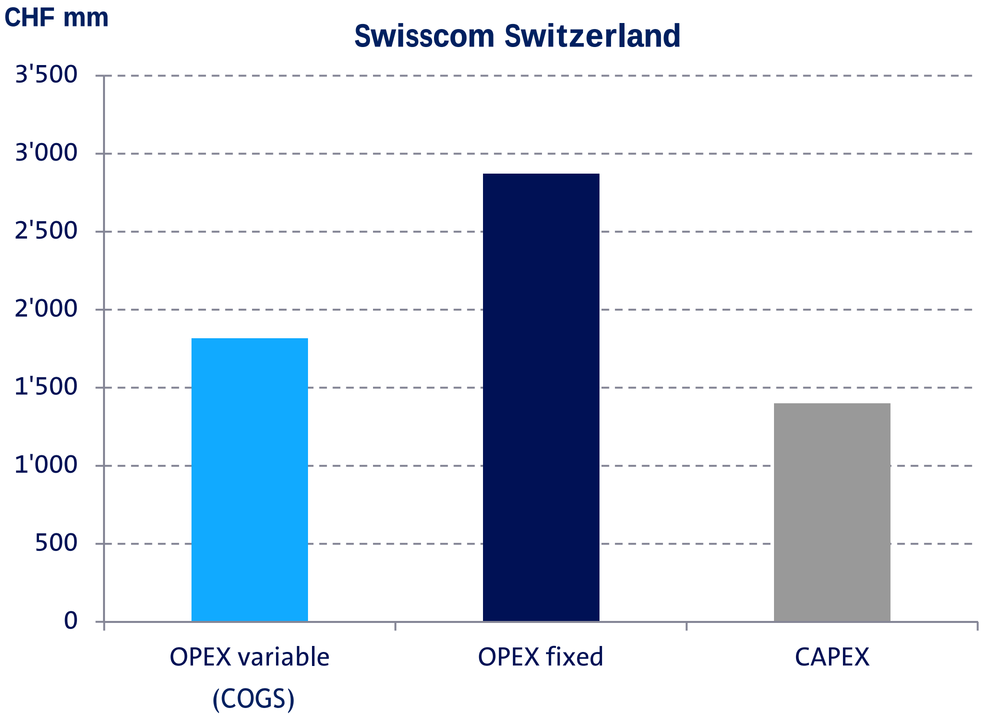
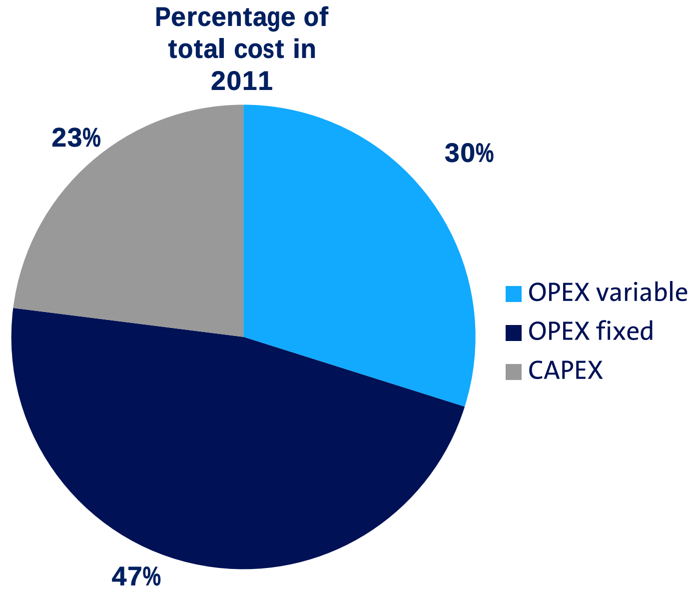
A. Telco, a fixed cost business - Capex & Opex at Swisscom

Operating a network involves mainly fixed, and only limited variable, cash out

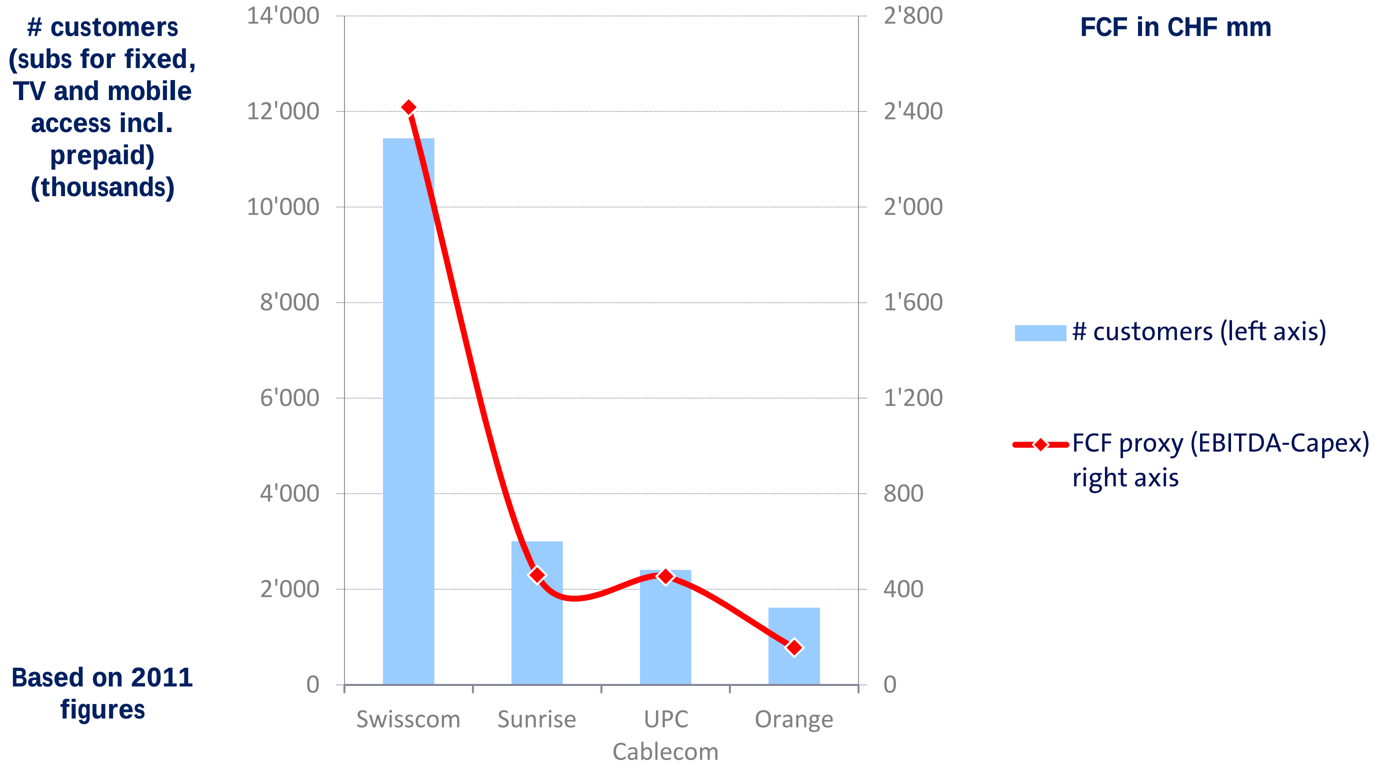




70% of cash out is fixed by nature

B. Making money in a fixed cost business is about scale

Critical mass is crucial with minimum amount of customers to breakeven (on basis EBITDA – Capex) in Switzerland probably at around 1 million

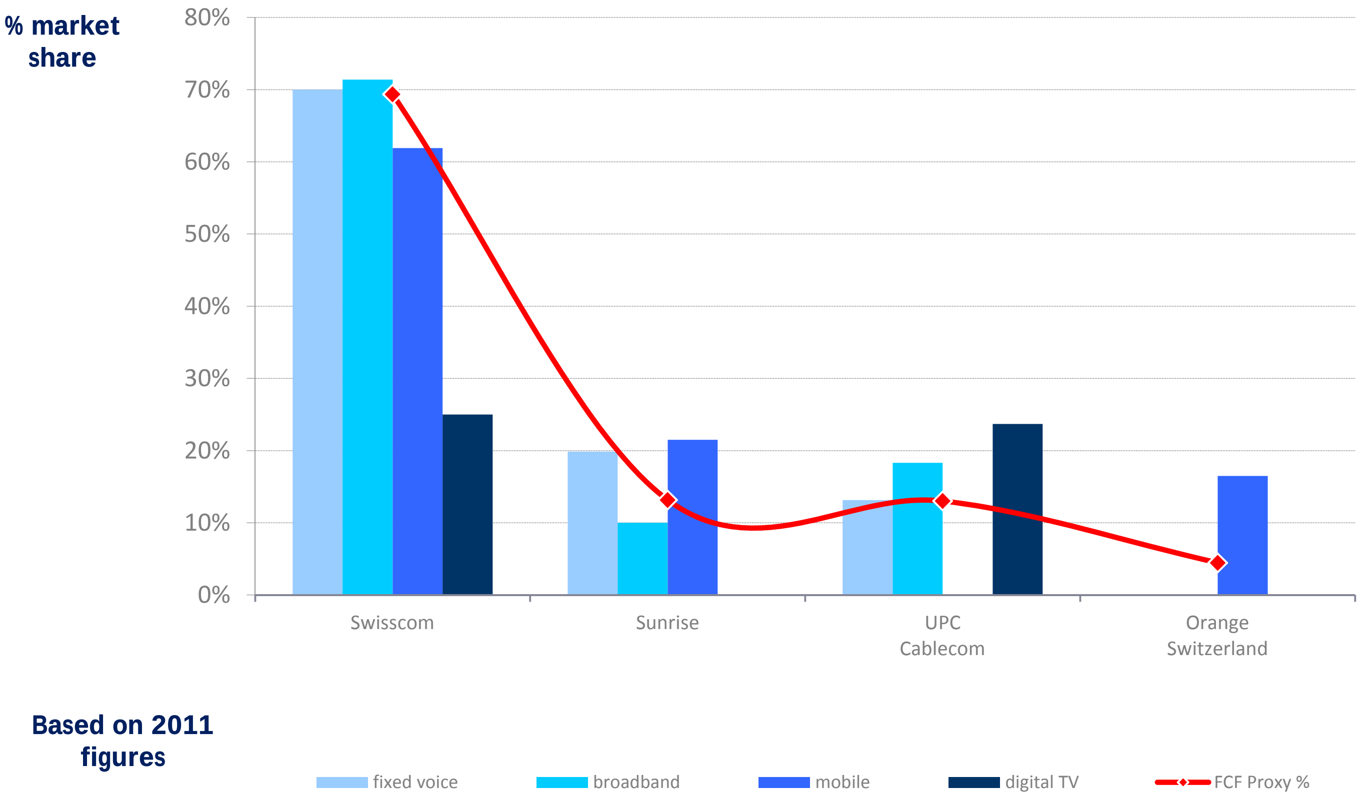


source: Swisscom research

Scale matters, with relative share of FCF higher than customer share

B. Market share is crucial to generate significant FCF

Correlation FCF and Market share in the Swiss market

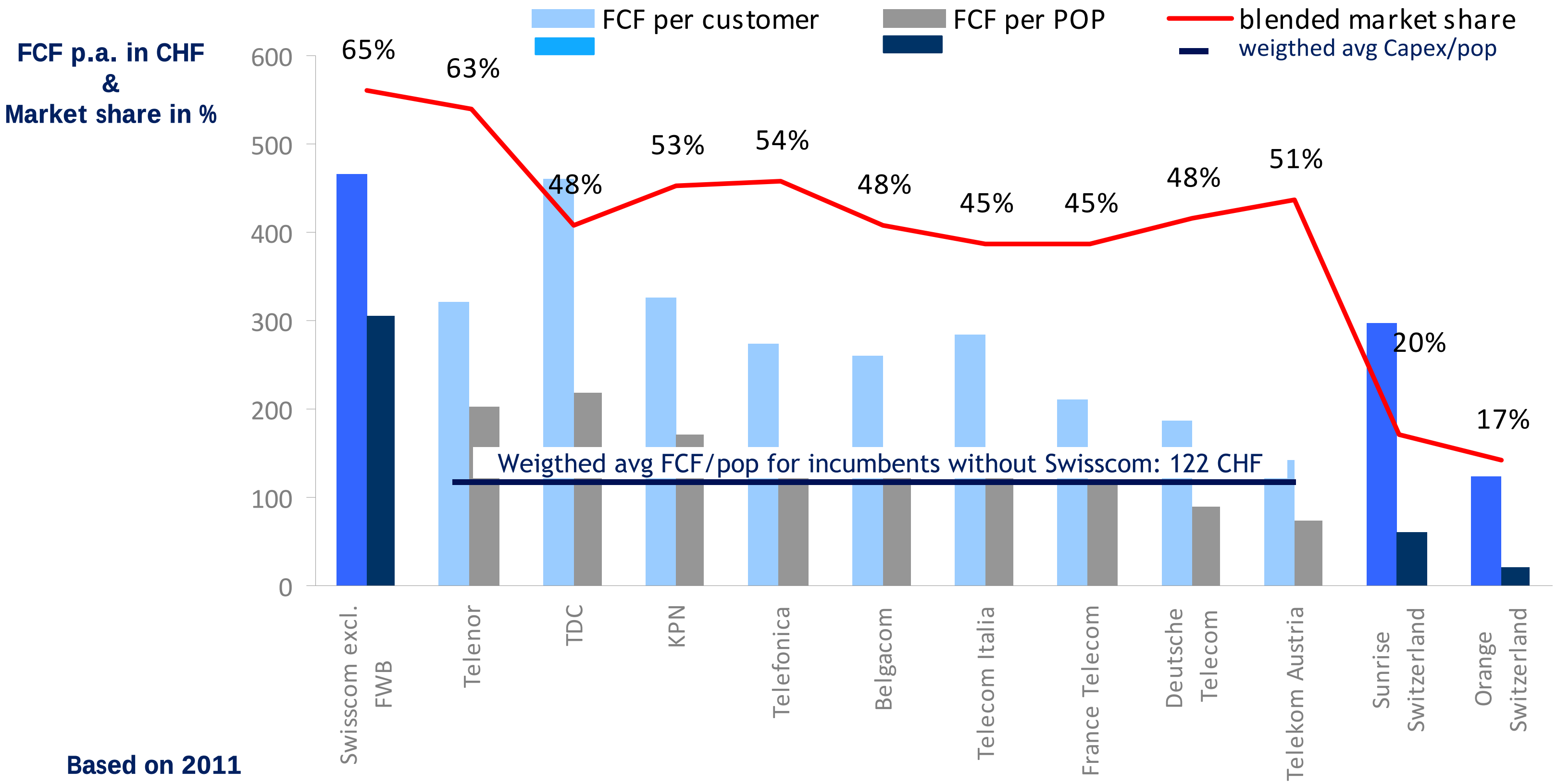


source: Swisscom research

Scale matters, with share of FCF higher than (blended) share of market

B. Market share and FCF are correlated, also internationally

Blended market share in domestic operations versus FCF per pop and per customer



Based on 2011 figures

source: Swisscom and broker research

In quite some other countries, the minimum required market share for breakeven will be higher than in Switzerland, considering also large players create less FCF/pop

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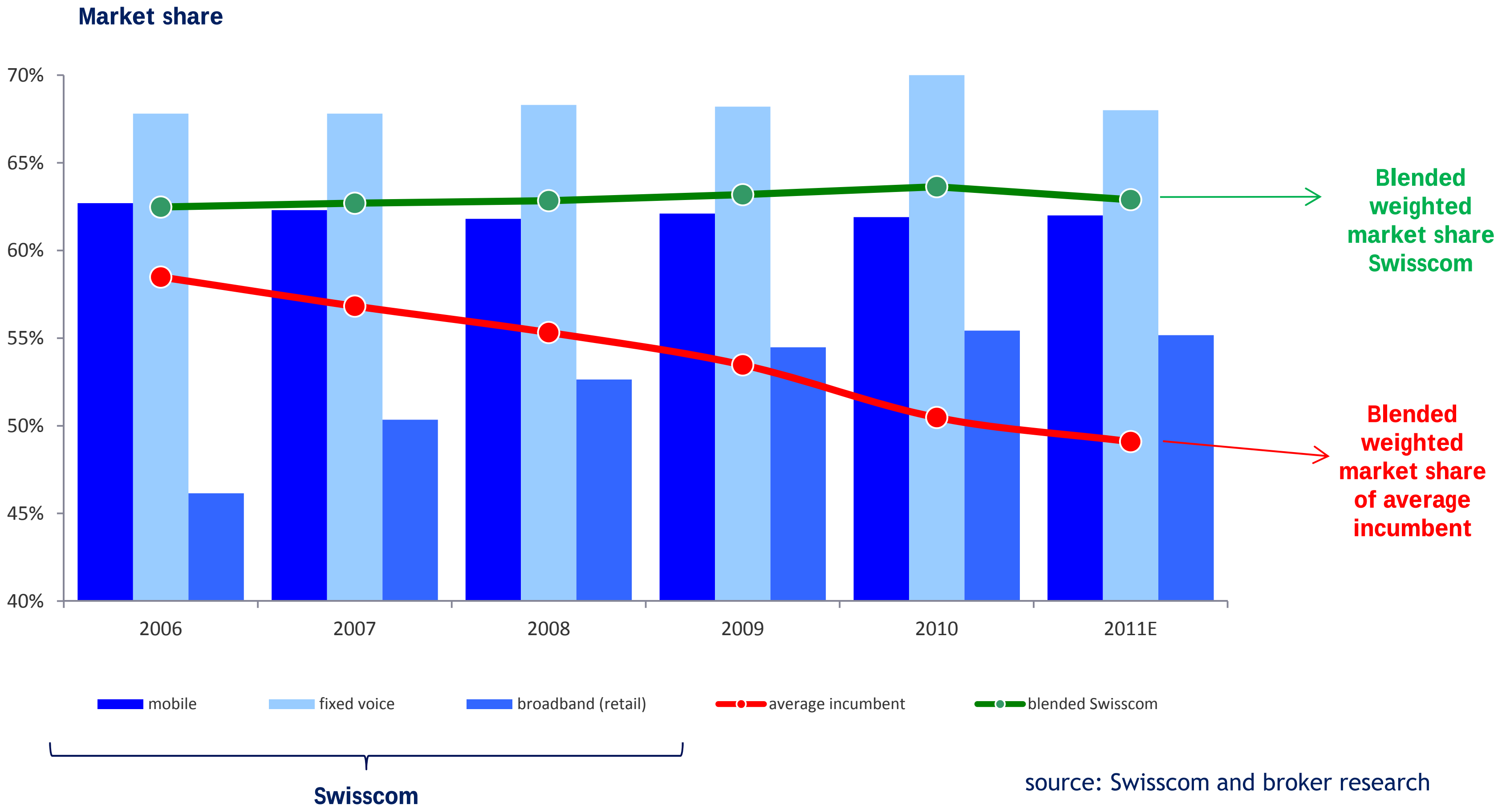
B. Investing for market share pays off – also longer term

Swisscom market shares "more than" stable, with gap towards avg. incumbent increasing

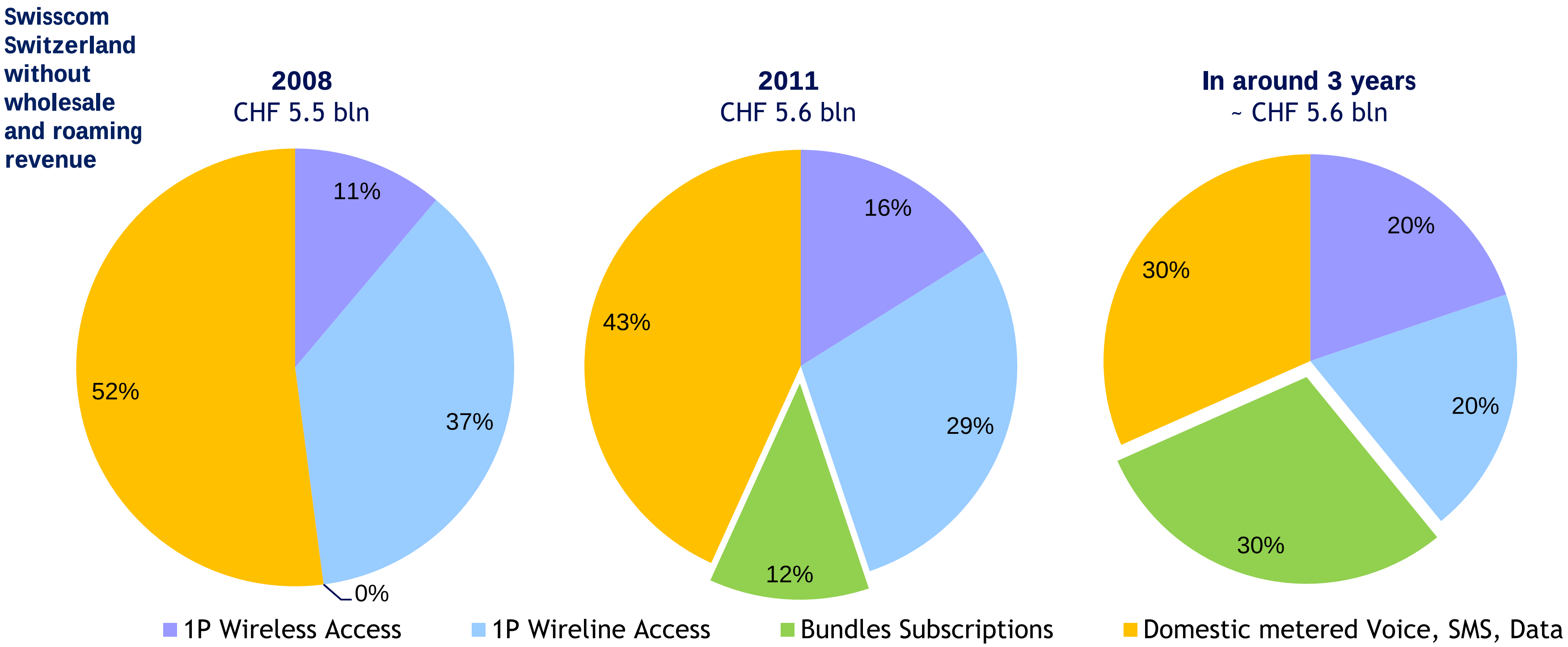


source: Swisscom and broker research

Strategy to invest pays off in terms of market share. Ability to offer bundles (incl. 4P as of lately) helps to cement market share and drive future FCF generation. Part of which again can be used to invest and sustain returns.

C. Customers desire more predictable pricing (less variable)

Do not fight customers' desire to move away from metered revenues, but create bundles which compensate this



Revenues from bundles to go from 0 in 2008 to well over CHF 1.5 bln (30% of total) in a few years

Variable metered revenues from >50% in 2008 to around 30% in a few years. Trend to continue. Challenge: to create bundles generating a compensating amount of new revenues. Sofar it worked.

C. Change to behaviour and business model

Customers increasingly desire

Value for money:

Classic rated products no longer an alternative for free-to-use alternatives

Predictability of bill:

Cost of (rapidly growing) data consumption increasingly unpredictable as customer has no idea how much data is being used (also in background)

Speed:

Speed is intuitive & visible – and therefore valuable. Data volume is not. Mobile data pricing should be aligned with what is known from the fixed line world: speed based

Operators to grab the opportunity

Best network getting more important:

Network quality, spectrum, coverage & capacity increasingly important to experience reliable and consistent speed of connection. This requires capability to (continue) to invest. Swisscom invests 3x avg. European incumbent and operates 2x more antennas than nr. 2 and 3 in Switzerland

Cloud offers opportunities:

Long term vision of secure access to everything with every device: metered products will not work here, and operators have to grab the opportunity to offer an all-inclusive alternative such as Swisscom's Infinity program

OTT and cloud services with access from everywhere will offer great opportunities to operators who have the right (all-inclusive) pricing model on the back of superior network quality

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C. Speed is the only price criterion

New mobile price plans from 25 June 2012

-> Offering 5 plans with all-inclusive domestic voice/SMS/data, designed for the following usage profiles

	infinity XS	infinity S	infinity M	infinity L	infinity XL

typical usage

Voice and SMS

Mail w/o attachment

+ social media

+ video small density

+ video HD

+cloud





	infinity XS	infinity S	infinity M	infinity L	infinity XL
Bandwidth (max)	0,2 Mbit/s	1 Mbit/s	7,2 Mbit/s	21 Mbit/s	100 Mbit/s
Price (CHF/month)	59	75	99	129	169
Roaming in W-Europe (min. voice, # SMS, Mb Data)	-	-	30/30/30	100/100/100	200/200/200

-> Special offers to the youth segment launched mid August at 10-25% discount of S, M and L plans

In each plan, all voice, SMS and data usage is included. Customer only has to pick the desired speed. Gives "total" control over monthly bill to customer. And "peace of mind" to Swisscom, as this pre-empts OTT threats and is not easily replicable by other operators due to required network quality/density

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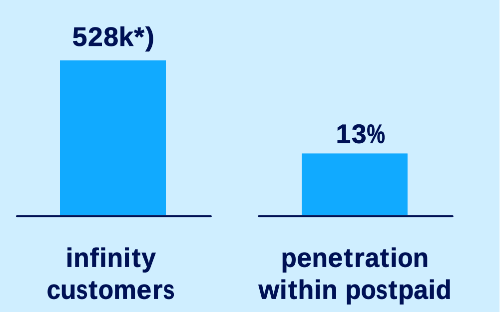
C. Enthusiastic customer response

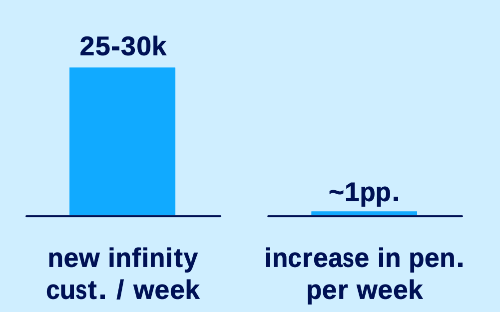
Status after 3 months of operation (per 30.9.2012)

Immediate pick up



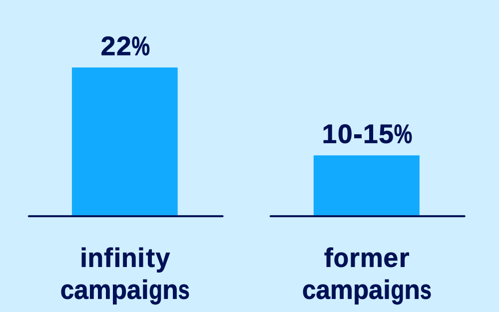
- 528'000*) customers on the new price plans with monthly flat rates
- 110'000 of them prev. "BeFree" customers that have been transferred to NATEL infinity XL

Growing customer base



- Every week 25-30'000 existing/new customers chose NATEL infinity
- Penetration of infinity within postpaid hence increases by 1pp./week

High response rate



- Offers are well received by the end customer
- Outbound call campaigns with extraordinary high response rates (22% vs. former 10-15%)

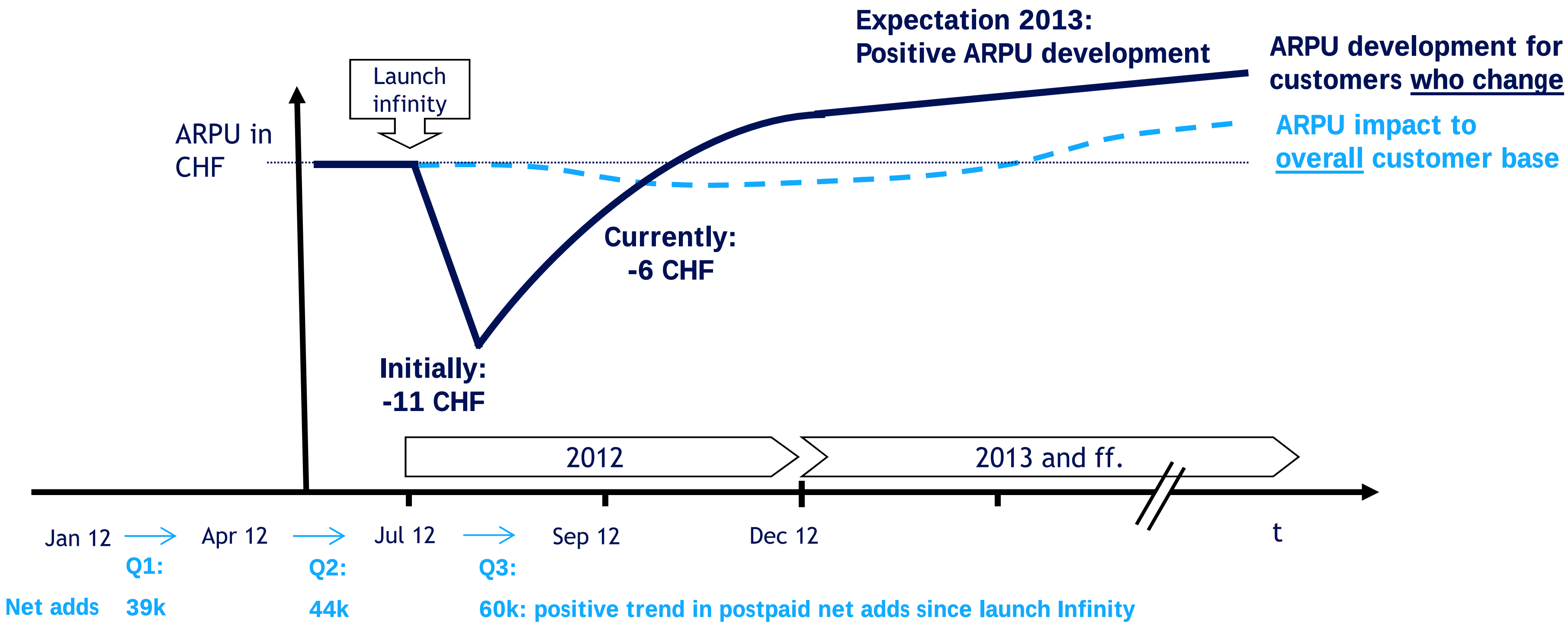
*) 630k per 31.10.2012

Overall customer reaction very positive - many of them moving quickly to infinity

C. ARPU dynamics from infinity migrators

Initial ARPU dilution by "rightgraders" rapidly improving

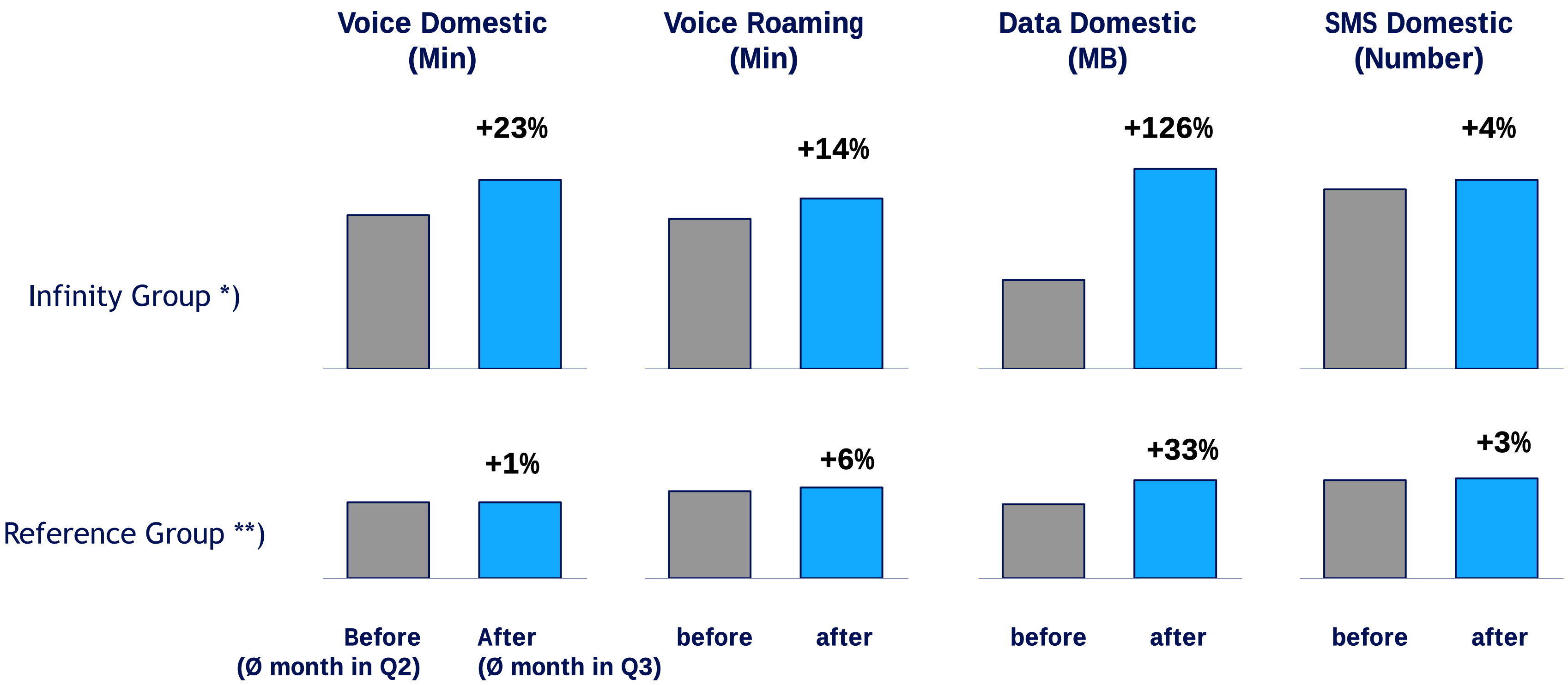
- During first 3 months, 85% of migrators have optimised (i.e. improved their average monthly bill)
- Most other migrators will „buy security" by moving to Infinity, but not necessarily improve their monthly bill



Most obvious rightgraders have moved to Infinity plans already. Expect positive ARPU development from 2013 through "wronggraders" and upselling to higher speed plans for existing customers

C. Data consumption growing more rapidly

The customers having changed to Infinity take advantage of the unlimited volume offering



Although consumption increases more rapidly, network capacity is in place to handle a continuation of this trend

*) customers having changed in July

**) average Postpaid

C. Data only plans also launched

Now offering data-only plans at a discount if taken in combination with a mobile Infinity subscription or an internet access subscription

Unlimited[1] surfing with	NATEL® data S	NATEL® data M	NATEL® data L	NATEL® data XL
Saving data on the internet				✓
HD Video, photo upload, gaming			✓	✓
Youtube, Live TV, music streaming		✓	✓	✓
News, e-mail, surfing, facebook	✓	✓	✓	✓
Download up to	1 Mbps	7.2 Mbps	21 Mbps	100 Mbps
Upload up to	0.5 Mbps	1.0 Mbps	2 Mbps	10 Mbps
Price for infinity/DSL custom.	CHF 9.-	CHF 29.-	CHF 49.-	CHF 69.-
Price w/o NATEL data benefit	CHF 39.-	CHF 49.-	CHF 69.-	CHF 89.-

Unlimited surfing, speed differentiated

- Unlimited[1] surfing with all NATEL® data offer
- Offers are differentiated in terms of speed

[1] capped at 5 GB (S/M), 10 GB (L/XL) to limit cannibalization

Special price for infinity/DSL customers

- Special price for infinity and DSL customers to stimulate 2nd SIM pickup without cannibalizing infinity and DSL

These offers are tailored to prevent cannibalization of fixed internet access, and to drive 2nd SIM card penetration

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C. Scale and share require best pricing strategy & best network

Complete overhaul of (mobile) pricing was necessary to make cannibalisation irrelevant

- Price differentiation on speed only
  - Tariff plans (all you can eat) delivering real, predictable and intuitive customer value
- No regret move, as costs are fixed
  <10% is variable related to termination on other networks
- Fortifies competitive strength
  - Only strongest networks can deliver (Swisscom Capex much higher, better coverage & capacity, more spectrum)
  - Pre-empts loss to OTT

Thoughts going forward

- Fine tune plans when necessary to meet (evolving) customer needs
- Accept initial ARPU decline caused by “right graders” before “up-graders” start kicking in
- Continue to invest to deliver upon perceived quality of service and to cement number 1 market position
- Market such that customers over time move up the chain to higher speeds, thereby increasing ARPU
- Think about similar ways to address the fixed line (voice) market cannibalisation threats. First example: data-only SIM card combination launched recently

In a world where OTT and cloud services grow rapidly, early moving into all-you can eat plans supported by superior network quality, can deliver extra long term value to Telco operators

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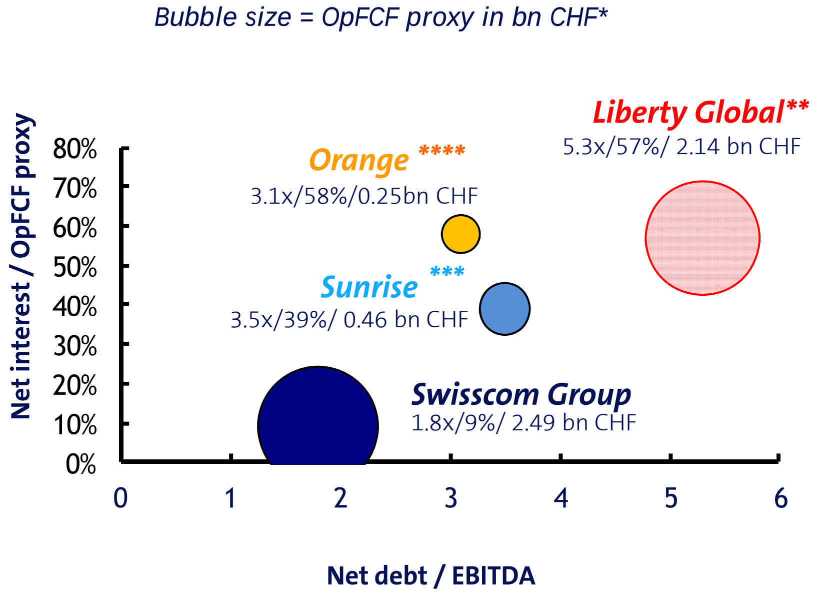
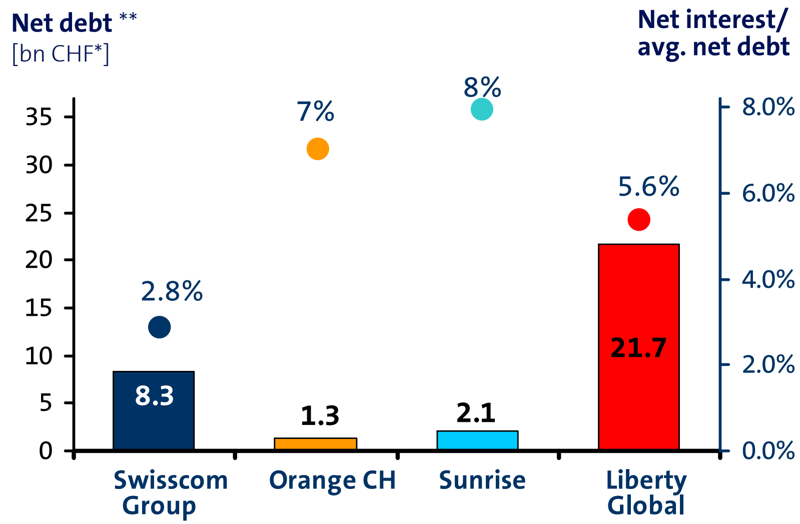
D. To sustain is about ... capacity to invest

Financial strength compared

Debt/interest ratios in 2011



Net debt and avg. cost of debt in 2011



Sources: all figures based on latest publicly available data in reports of Sunrise and Liberty Global (mother company of UPC Cablecom)
**1 USD = 0.94 CHF*
*** Liberty Global assumption: Operating cash flow = EBITDA*
**** Sunrise based on figures as published*
***** Orange CH: estimate derived from publicly available data*

Not just the will, but esp. the ability plays a role in who can stay at the forefront of offering best quality networks & services. With recent changes in ownership in Swiss market, competitors will face more budget constraints than Swisscom - both relatively and absolute - which is a clear window of opportunity. Where Swisscom pays 9% of its FCF in interest, the others pay 39 to 58%….

D. To sustain is about ... Finding the right mix of technologies to invest into – at the right time

	Area	Competition	Current deployment	Potential technologies
0% – 30%	Top 20 cities	Utilities as partner	VDSL 8-30 Mbps; FTTC/VDSL 20-50 Mbps; FTTH 100-1000 Mbps	
30% – 60%	Smaller cities Agglos	Large CATVs	VDSL 8-30 Mbps; FTTC/VDSL 20-50 Mbps	Vectoring 50-100 Mbps; FTTDP up to 500 Mbps; FTTH 100-1000 Mbps
60% – 80% – 100%	Rural areas and remote municipalities	Small or no cable operators	xDSL up to 8 Mbps; VDSL 8-30 Mbps; FTTC/VDSL 20-50 Mbps	HSPA+/LTE up to 100 Mbps (shared); Vectoring 50-100 Mbps; FTTDP/(H) up to 500/(1000) Mbps

Finding the right technology mix is a constantly evolving process of optimization. It needs to take account also of competitors' ability and speed of rollout. Swisscom will invest up to CHF 100 mm extra p.a. over the next few years (from 2012) in an extended technology mix and footprint, in order to be ahead of competition, cement future market share, and generate best excess returns.

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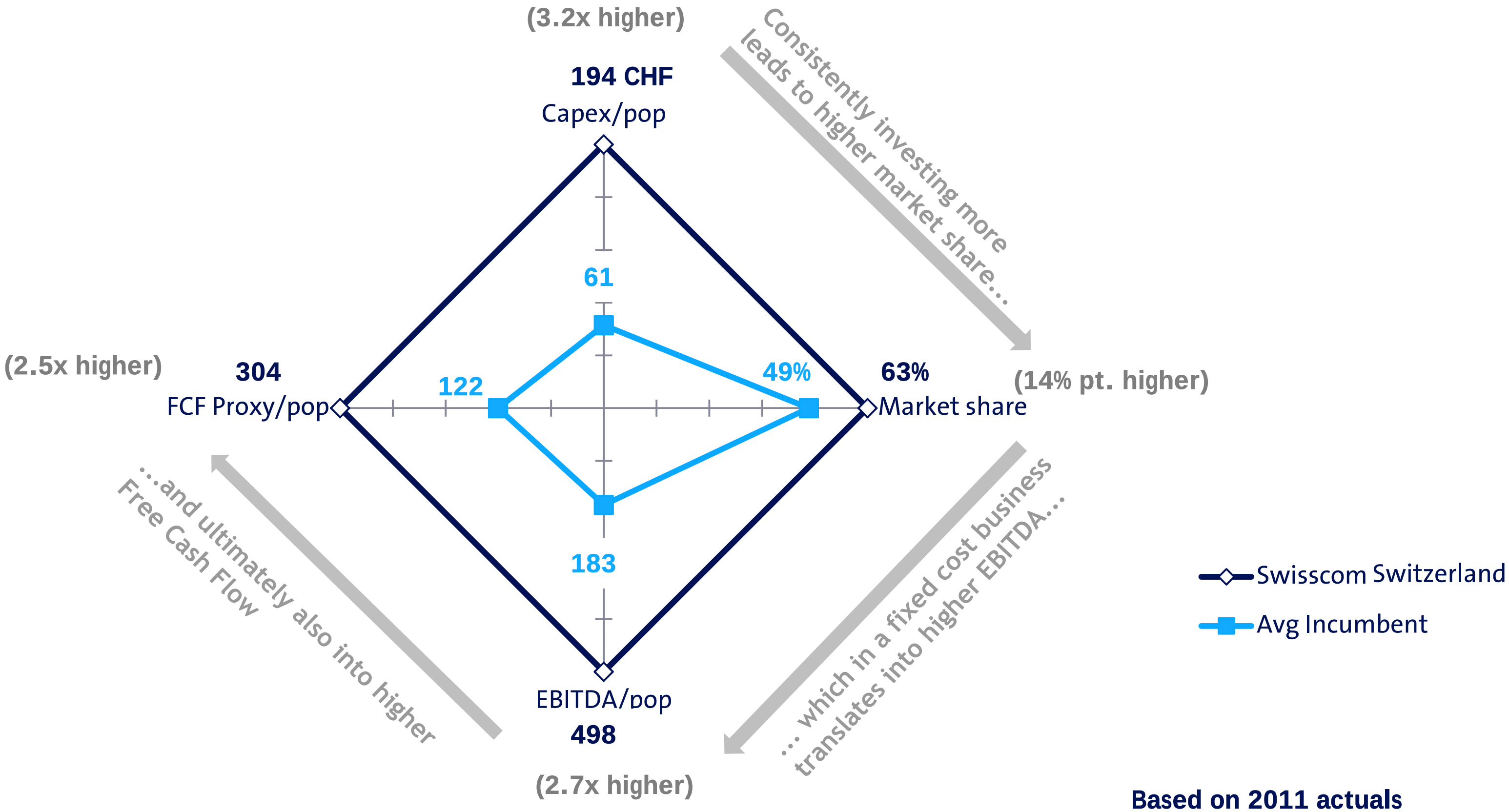
E. Why higher investments make sense

Swisscom invests more – thus generating much higher FCF than other incumbents



Based on 2011 actuals

In a quality conscious market, higher investments into networks and service levels lead to superior FCF generation

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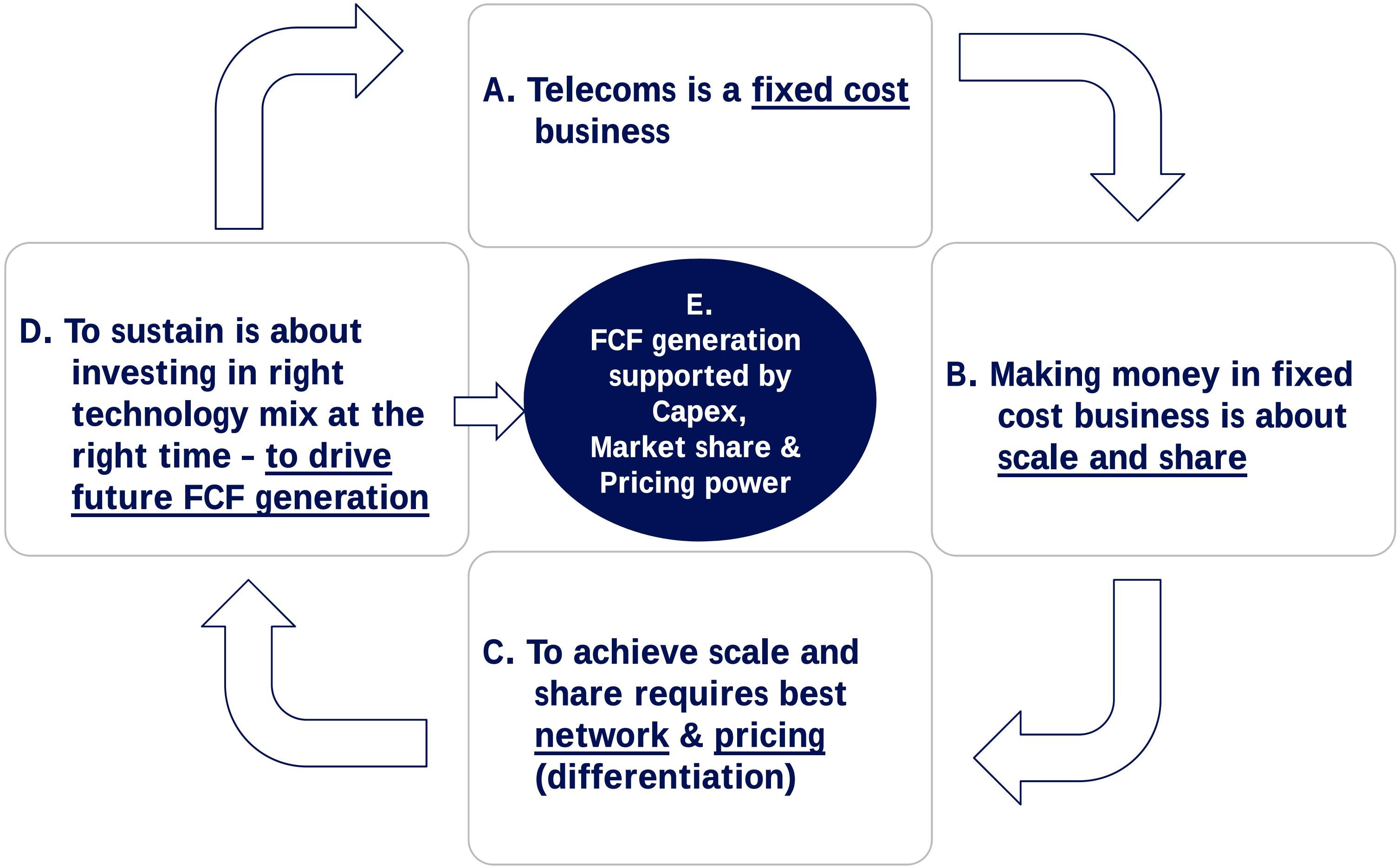
E. Conclusion – investing for sustainable returns



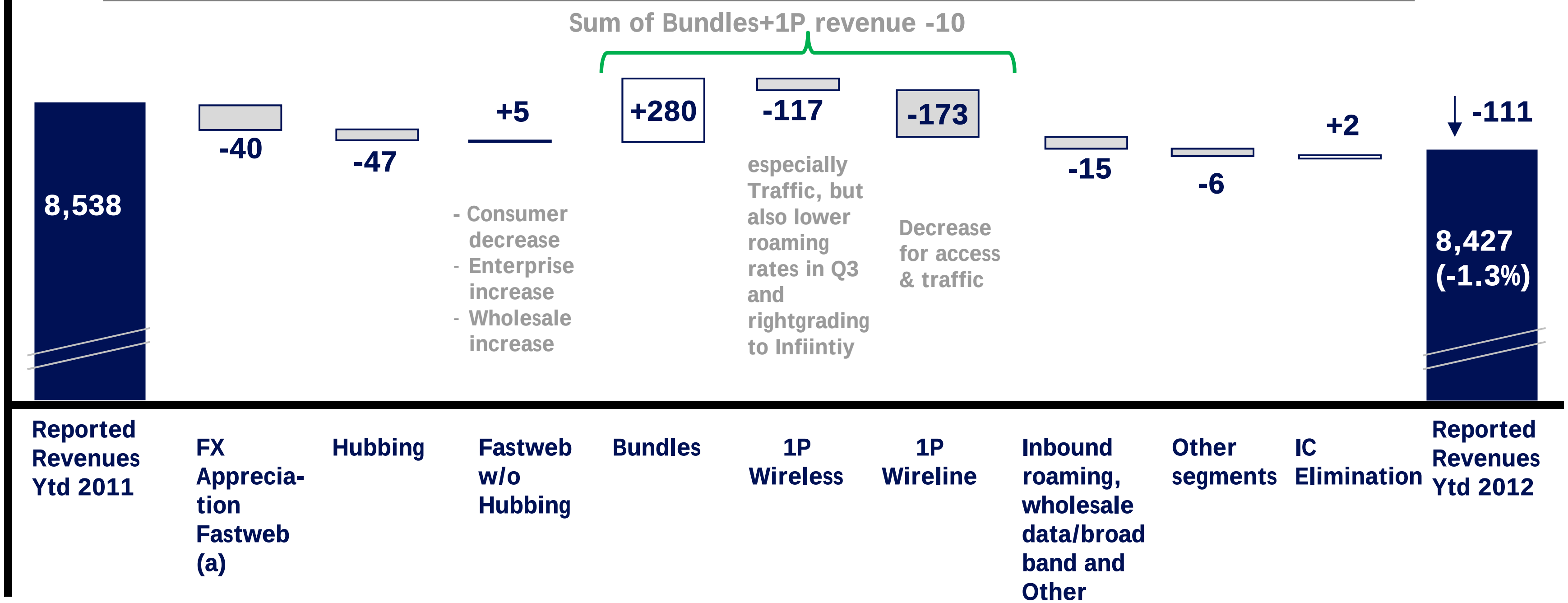
In a fixed cost business, size & scale drive incremental FCF. To make this sustainable, offering intuitive pricing differentiation and best networks is key, as this also drives market share. Therefore, continued investment is the most important driver for future cash flow generation.

A. Revenues

Change YoY (9m 2011 versus 9m 2012) in CHF mm, total Swisscom Group

Fastweb: -82 | Swisscom w/o Fastweb: -29

										Σ
Q1:	-36	-16	+0	+ 92	-17	-62	-15	-7	+1	-60
Q2:	-17	-14	+1	+ 86	-33	-58	-10	+3	+1	-41
Q3:	+13	-17	+4	+102	-67*)	-53	+10	-2	+0	-10



(a) Average exchange rate CHF/€ ytd 2011: 1.2358 vs. ytd 2012: 1.2037, i.e. a weakening of Euro against Swiss Franc of 2.6%

(*) would have been -54 mm on a comparable basis to prior quarters, as since Q3 additional SIM cards taken as part of a bundle, are included in Bundles Revemues

80% of revenue reduction related to FX and Hubbing at Fastweb

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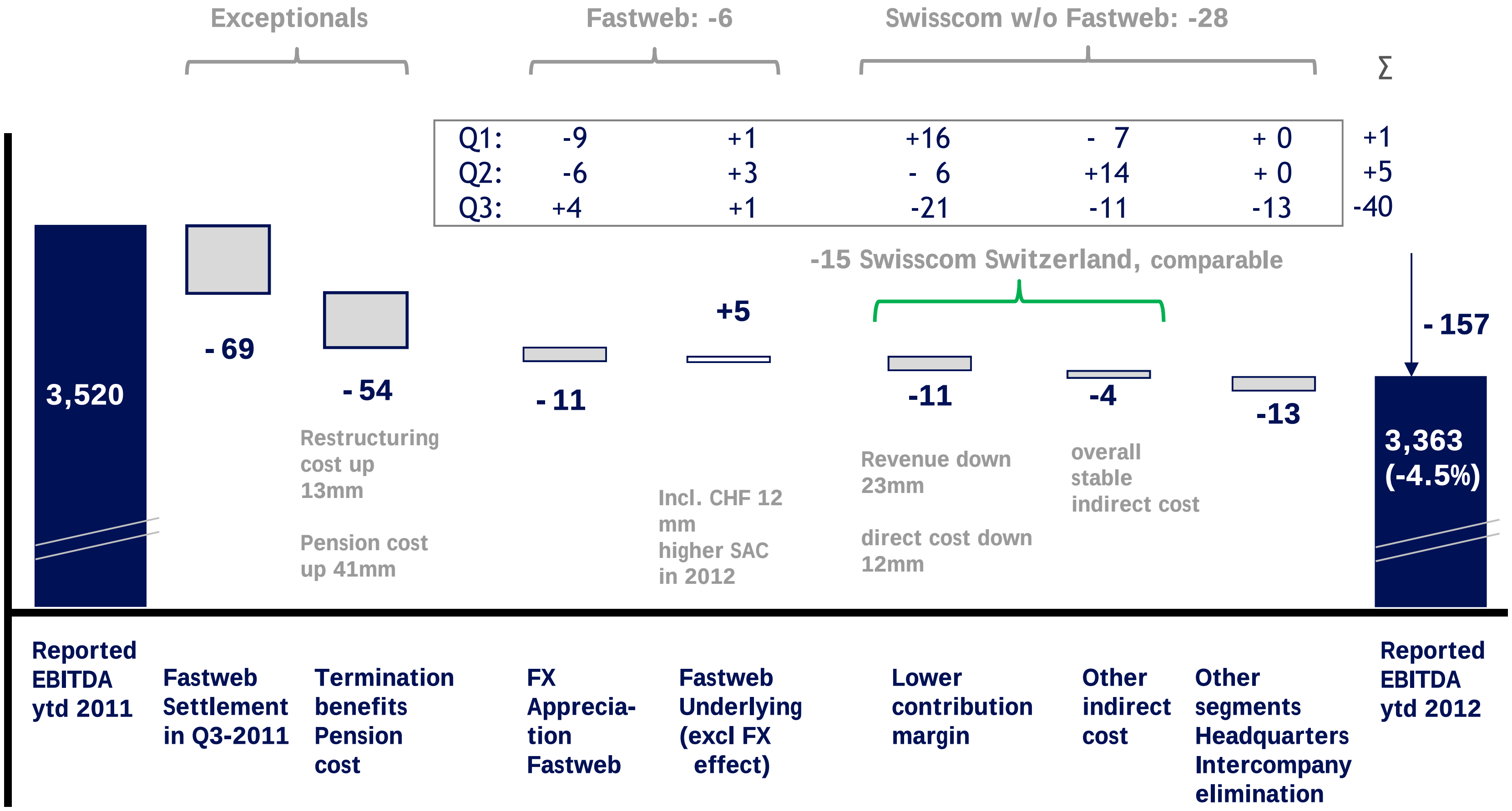
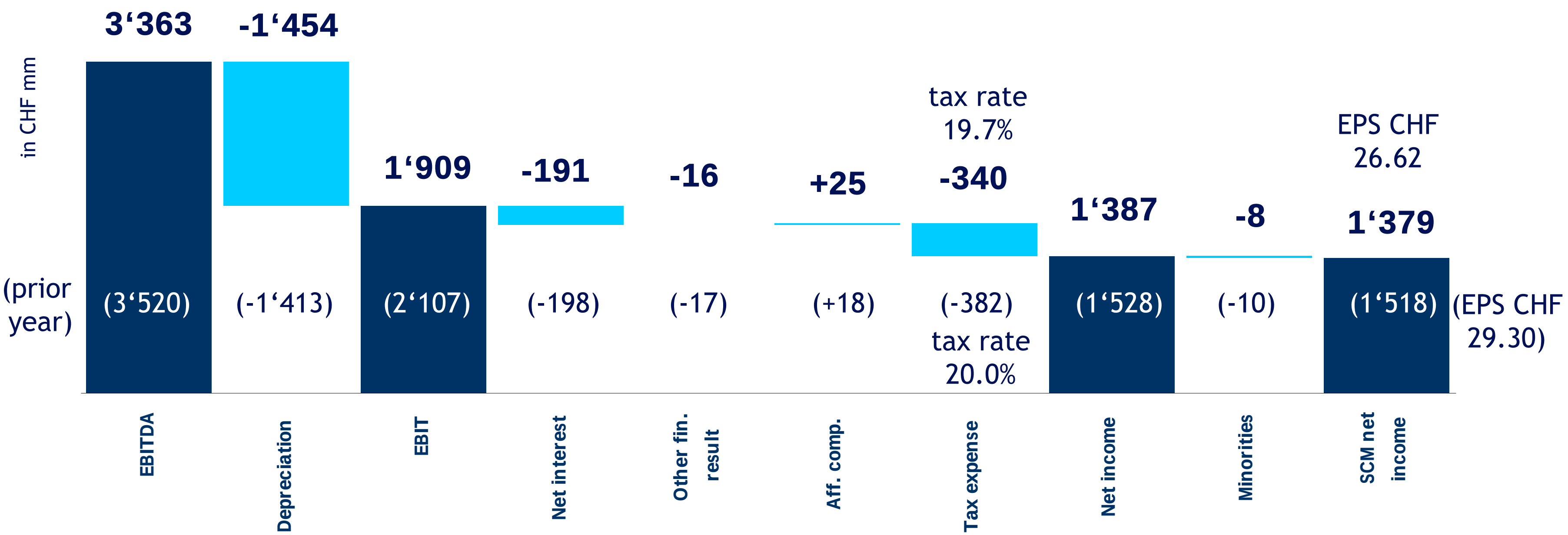
B. EBITDA

Change YoY (9m 2011 versus 9m 2012) in CHF mm, total Swisscom Group



Reported EBITDA down 4.5%, driven by exceptionals as well as roaming price cuts and right grading in Q3

C. P&L breakdown



Net income down mainly following the EBITDA development

D. Outlook

Underlying EBITDA outlook unchanged

CHF bln	2011 actual	2012 target	2012 revisited per 30.9.2012
Exchange rate CHF/€	1.232	1.20	1.20
Revenues	**11.467**	**11.3**	**11.3**
EBITDA	**4.584**	**4.4** →	**4.35**
CAPEX	**2.095**	**2.2** (excl. cost for mobile spectrum)	**2.2** (excl. cost for mobile spectrum)
Dividend per share (payable the year after)	**22** (paid on 13 April 2012)	**22** despite extra cost for mobile spectrum (upon achieving the financial targets above, payable in 2013)	**22** despite extra cost for mobile spectrum (upon achieving the financial targets above, payable in 2013)

CHF 50 million restructuring provision in Q4 causes expected reported EBITDA to be CHF 4.35 bln (from CHF 4.4 bln previously), despite higher SACs/SRCs in Q4. Underlying EBITDA stays the same

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Q&A

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