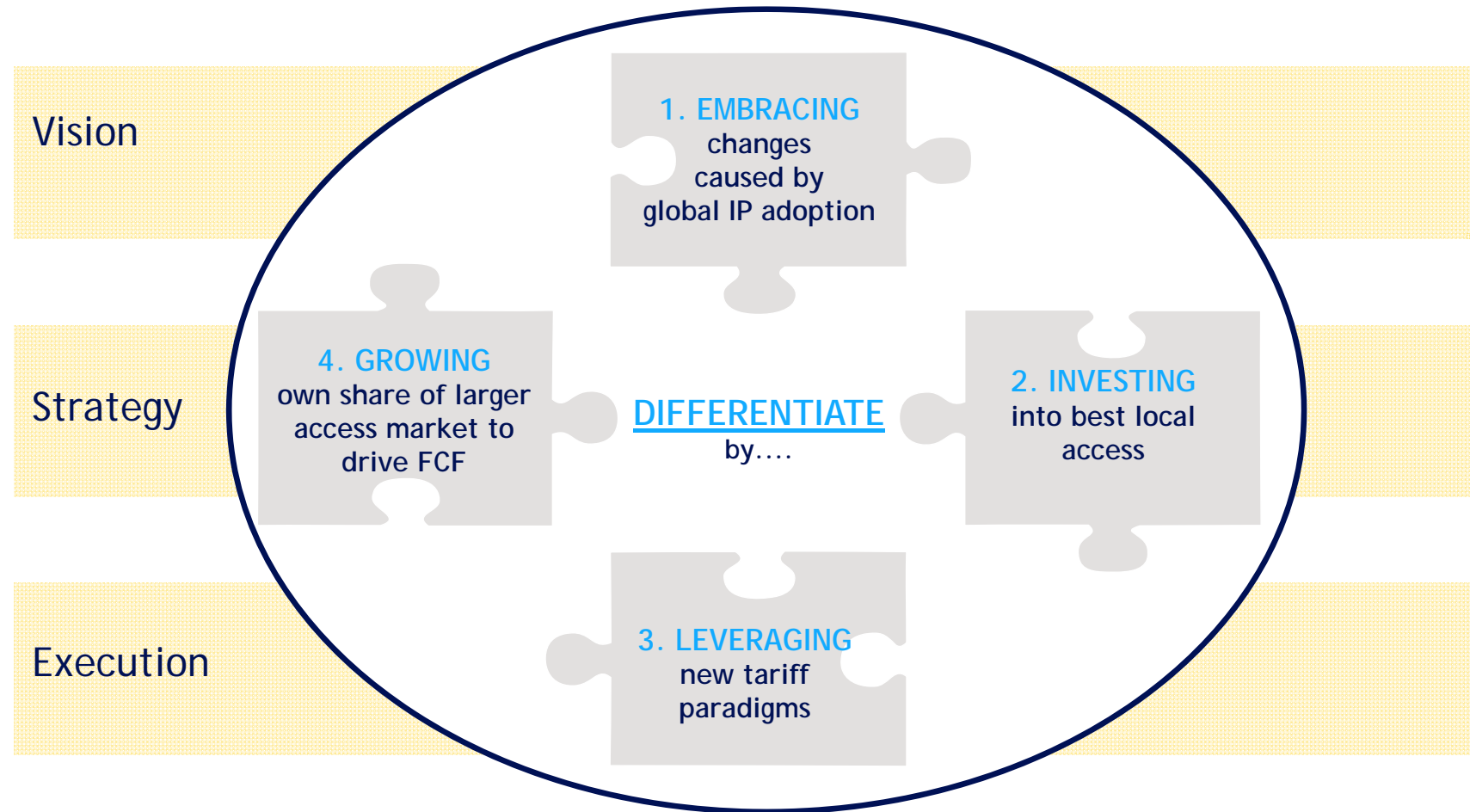


Swisscom - Truth & Dare

Vontobel Equities Conference
Interlaken, 12 June 2013
Carsten Schloter, CEO Swisscom



Swisscom: Truth & Dare



1. Embracing IP

Truth

Dare

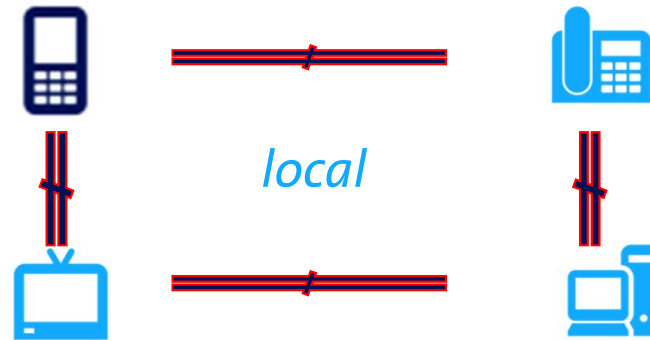
Customer adoption

– IP changes customer choice from LOCAL to GLOBAL

3

Pre "IP" customers could only use local (domestic) services

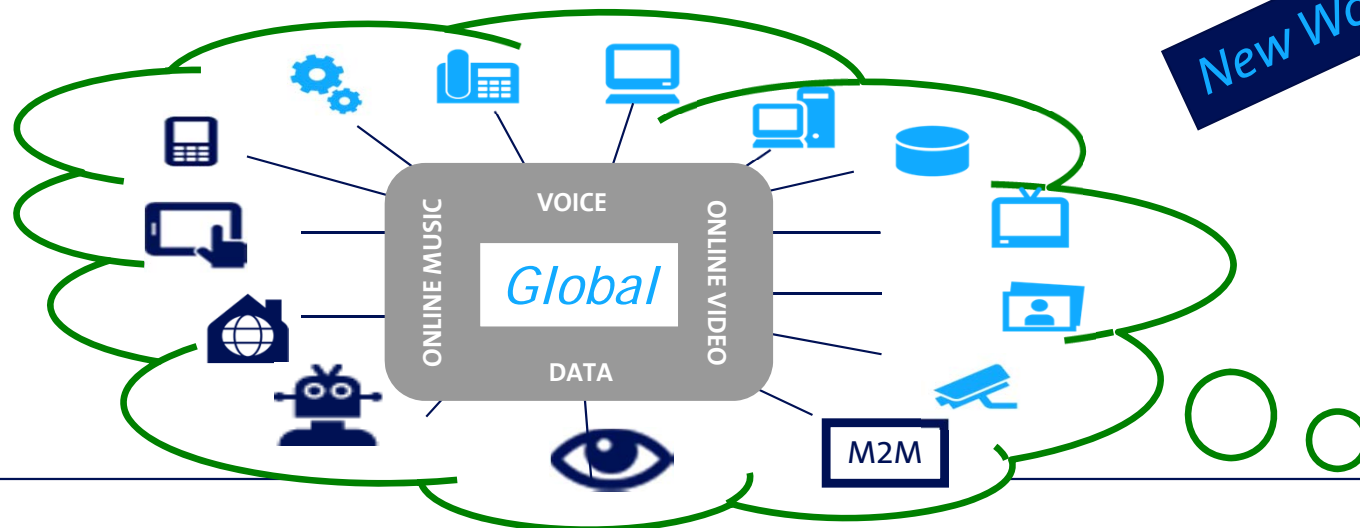
Individual – **unconnected** – services offered only by LOCAL providers: mobile telephony, fixed telephony, early internet (dial up), (analogue) TV



Old World

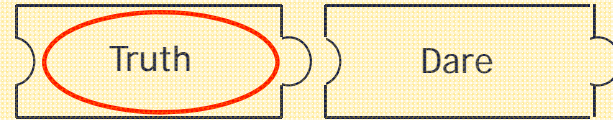
Now that IP is omnipresent, a whole range of alternatives to traditional products becomes available to customers, especially through "Over The Top" (OTT) providers. This turns local into global competition

Many – **connected** – services offered by both local and GLOBAL providers – in the Cloud



New World

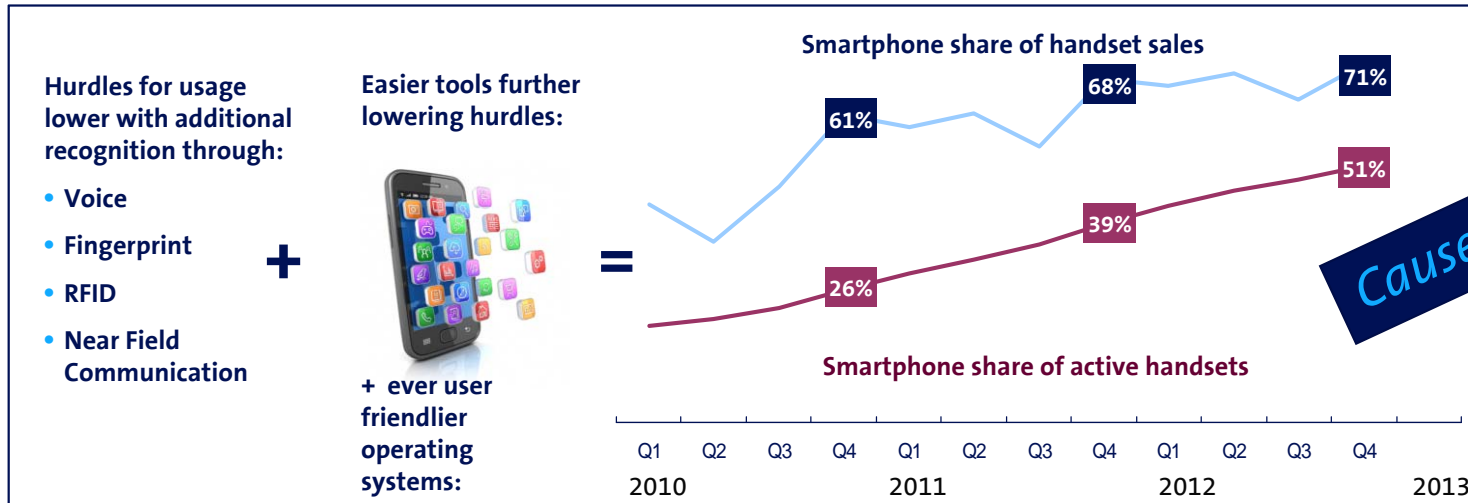
1. Embracing IP



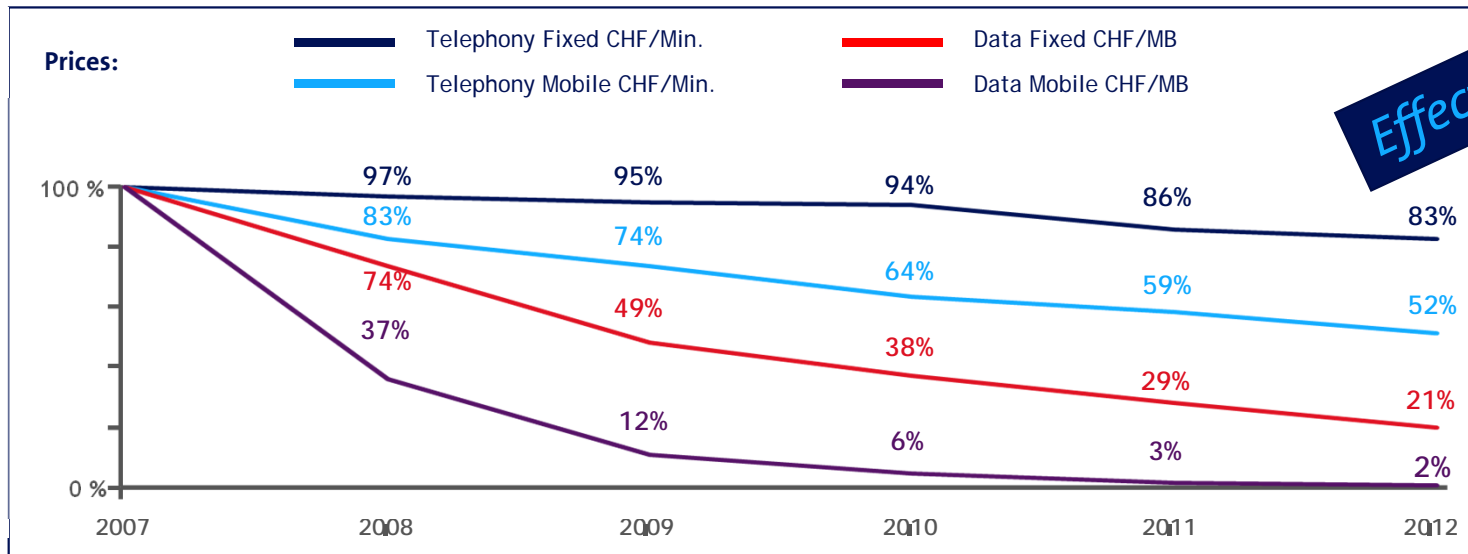
Customer impact

— OTT offers drive IP adoption while eroding usage prices —

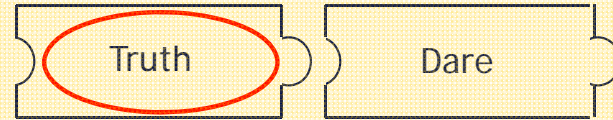
Demand for new services (e.g. apps) exploding, especially through rapidly growing penetration of smartphones and tablets. On top comes different user behaviour of younger customers turning to social media and replacing voice



Customers no longer willing to pay for usage, as (OTT) alternatives are free of usage charges. The only thing a customer needs is (multiple or bundled) high quality access subscriptions. As a result, prices of traditional products (minutes, SMS, MB) have come down rapidly



1. Embracing IP



Impact on Operators

– IP has changed what operators can charge for usage

Back “pre-internet”, with no alternatives to local services, 75% of revenues were usage based.

Now, with internet alternatives to fixed voice usage, and with OTT apps as threat to mobile usage, only 36% of revenues is still usage based.

There is no choice for operators but preparing for the day that there will be “no” usage based fees left.

The challenge: keep or grow total revenues (as we did between 1998 and 2012)

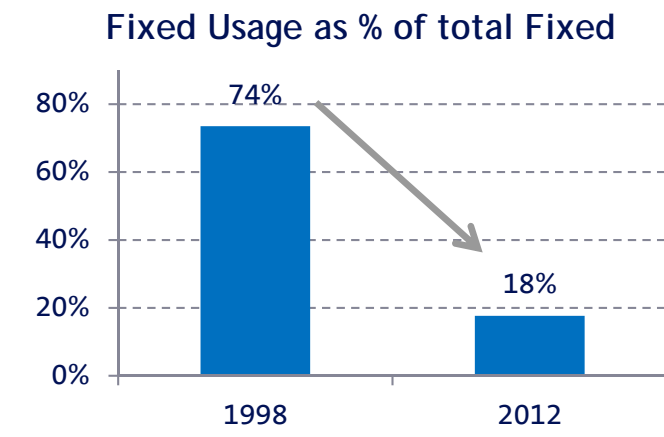
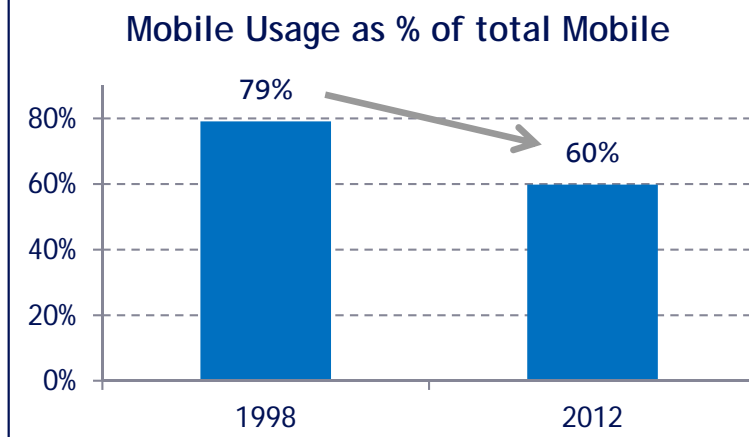
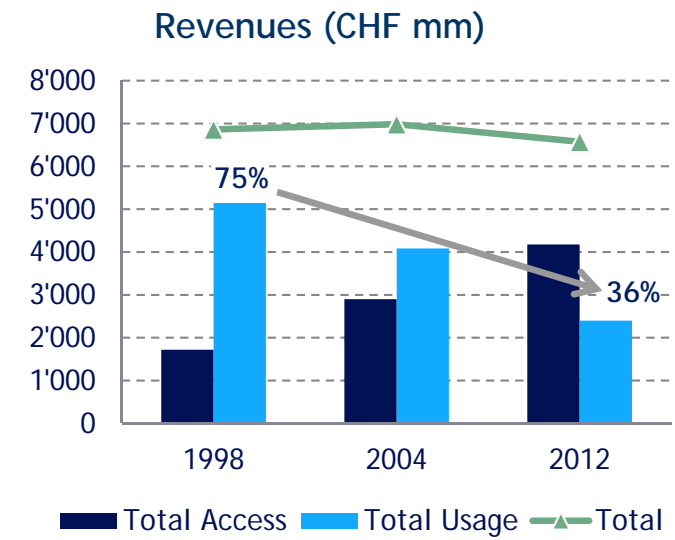
In the “old” switched “TDM” world (1998):

- CHF 5.1 bln out of total 6.9 bln revenues were usage based: 75%
 - for Mobile this was 79%
 - for Fixed this was 74%

In the “transitional phase” now (2012):

- CHF 2.4 bln out of total 6.6 bln are usage based: 36%
 - for Mobile this is 60%
 - for Fixed this is 18%

With proliferation of IP based services, this trend will continue going forward



2. Investing into best access

Truth

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Best networks

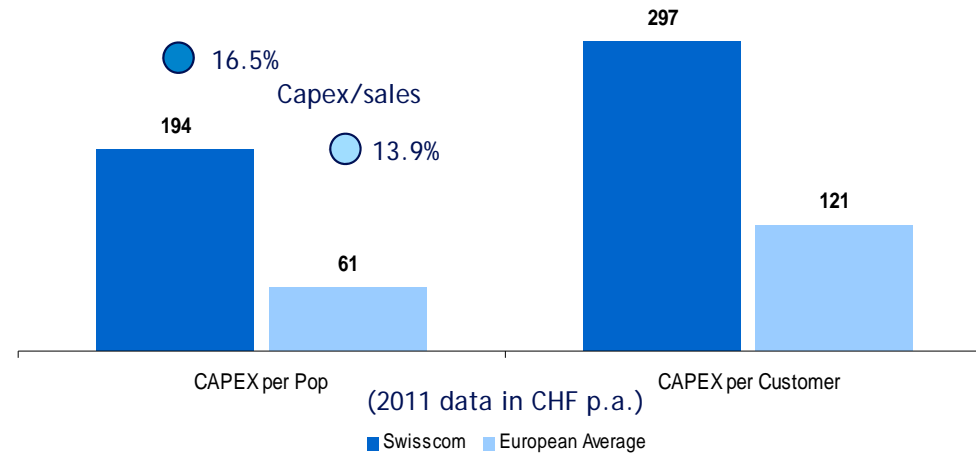
— What is important if Access is going to be core business? —

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To create higher customer demand, telco's must especially focus on their core strength: to offer best network quality and (increasingly) cloud access.

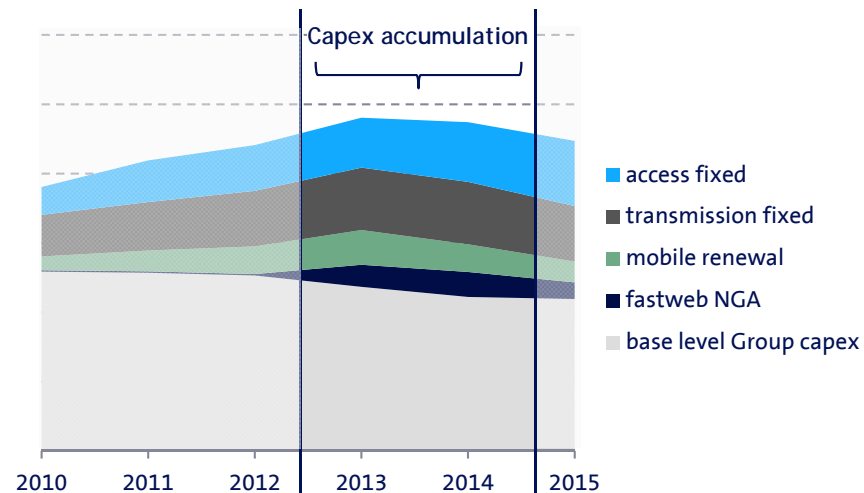
Enabling customers better service than competitors can, and further stimulating the vision of always-on

1. No under-investment historically. Certainly not in quality conscious markets, where sufficient investments ensure high market share - which is the prerequisite for generation of future FCF

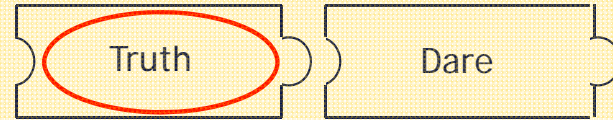


2. LONG TERM vision when it comes to investments, keeping quality second to none. Accumulation over next few years:

- Fibre in CH and Italy
- Transmission (VDSL, vectoring)
- Mobile renewal (single RAN + LTE)



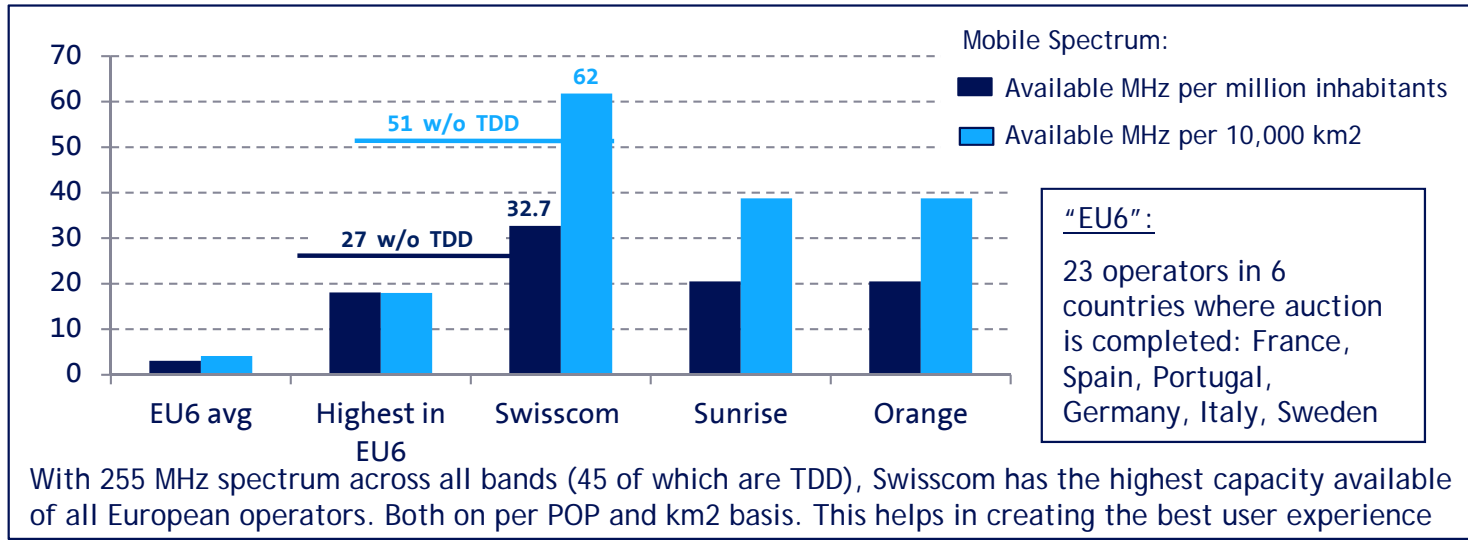
2. Investing into best access



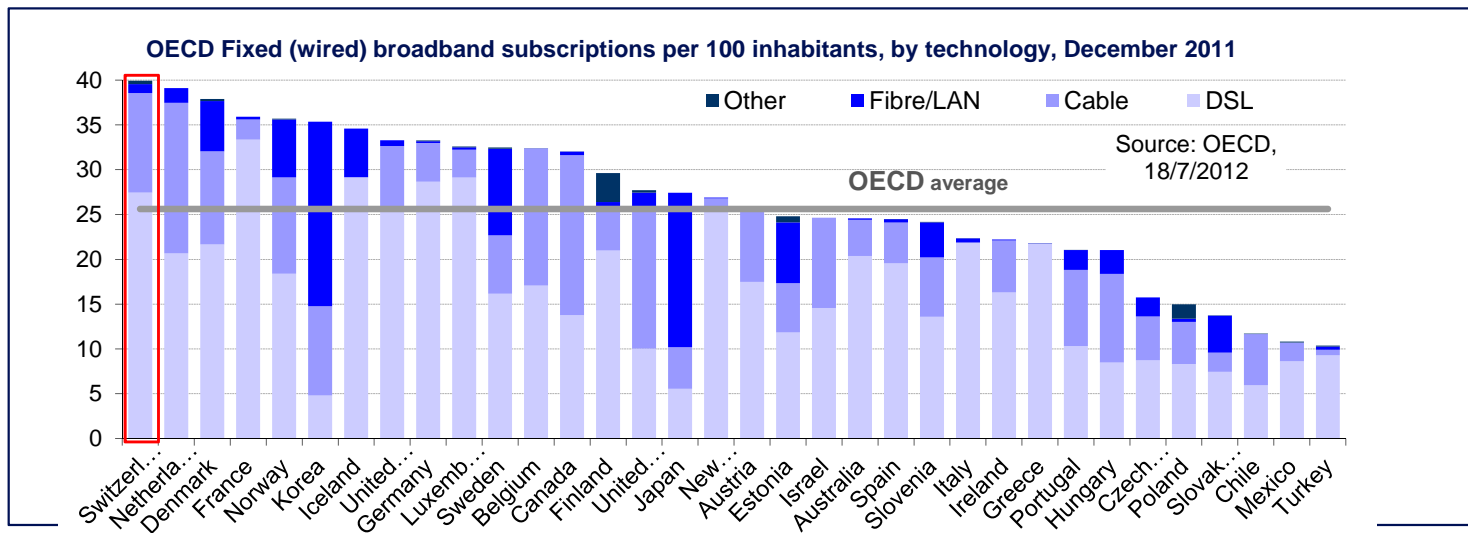
Spectrum & footprint

Investments have paid off in terms of quality / coverage

In a world where (content) competition is getting more global, the key for operators is to offer the best local access (networks). So that user experience will be the best. This requires investments into capacity....



...and footprint before penetration can be achieved



2. Investing into best access

Truth

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Speed delivered

— Akamai study confirms Swiss network strength

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Switzerland not just top ranking in terms of speed delivered, however also its year on year performance is growing very rapidly

Number 1 in Europe in delivery of average speed					Number 2 in Europe in delivery of peak speed				
Global Rank	Country	Q2 '12 Avg. Mbps	QoQ Change	YoY Change	Global Rank	Country	Q2 '12 Peak Mbps	QoQ Change	YoY Change
5	Switzerland	8.4	4.0%	16%	4	Romania	38.6	-0.6%	15%
6	Netherlands	8.0	-9.6%	-6.8%	6	Switzerland	29.9	4.3%	25%
7	Czech Republic	7.2	0.7%	-2.5%	7	Belgium	29.5	1.1%	10%
8	Denmark	6.7	-0.5%	9.1%	9	Hungary	28.0	0.3%	15%
10	Finland	6.6	-4.1%	16%	11	Netherlands	27.9	-5.0%	10%
11	Romania	6.5	-0.9%	-3.6%	12	Portugal	27.8	-1.5%	6.2%
12	Belgium	6.5	-8.1%	1.5%	14	Israel	26.1	11%	18%
14	Austria	6.3	11%	20%	15	Czech Republic	25.8	5.6%	14%
15	Ireland	6.2	-15%	1.6%	19	United Kingdom	24.5	3.4%	28%
16	Sweden	5.9	-7.6%	10%	20	Germany	24.0	2.6%	20%

Global (EMEA, US and Asia) ranking for Switzerland also very strong

Number 1 in Europe on delivery above 10 and above 4 Mbps									
Global Rank	Country	% Above 10 Mbps	QoQ Change	YoY Change	Global Rank	Country	% Above 4 Mbps	QoQ Change	YoY Change
5	Switzerland	22%	15%	59%	2	Switzerland	79%	2.3%	14%
6	Netherlands	18%	-24%	-16%	3	Netherlands	79%	-5.0%	-2.0%
8	Czech Republic	14%	21%	19%	5	Belgium	69%	-4.7%	-6.3%
9	Belgium	14%	-24%	25%	9	Denmark	66%	5.2%	5.0%
10	Finland	14%	-16%	46%	10	Czech Republic	64%	-6.4%	-10%
11	Denmark	13%	-14%	32%	11	Romania	62%	-1.8%	-2.4%
12	Romania	13%	-2.9%	-2.5%	12	Hungary	57%	-5.2%	-4.1%
13	Sweden	11%	-19%	14%	14	Germany	57%	0.7%	7.8%
14	Norway	11%	-5.9%	26%	15	Austria	57%	22%	26%
15	Austria	11%	6.4%	34%	16	United Kingdom	56%	-3.3%	14%

source: Akamai

3. Leveraging new tariff paradigms

Truth

Dare

New tariff paradigms

– Dare to replace usage based tariff models

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Ability to differentiate depends again on network quality: without delivering upon expectation in terms of speed, availability or security will cause customers to downgrade or move away to competition

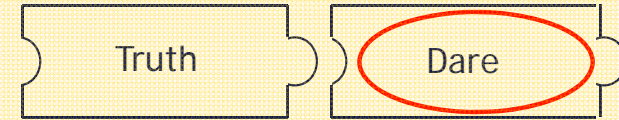
Future price differentiation can take place through 3 levers:

1. SPEED & LATENCY
2. AVAILABILITY
3. SECURITY & "LOCAL" SWISS CLOUD

Progress:

- Mobile Infinity plans introduced in June 2012 (speed based)
- Fixed (internet) access, TV and bundles. Here new tariff schemes can be expected later in 2013

3. Leveraging new tariff paradigms



New tariff paradigm Mobile

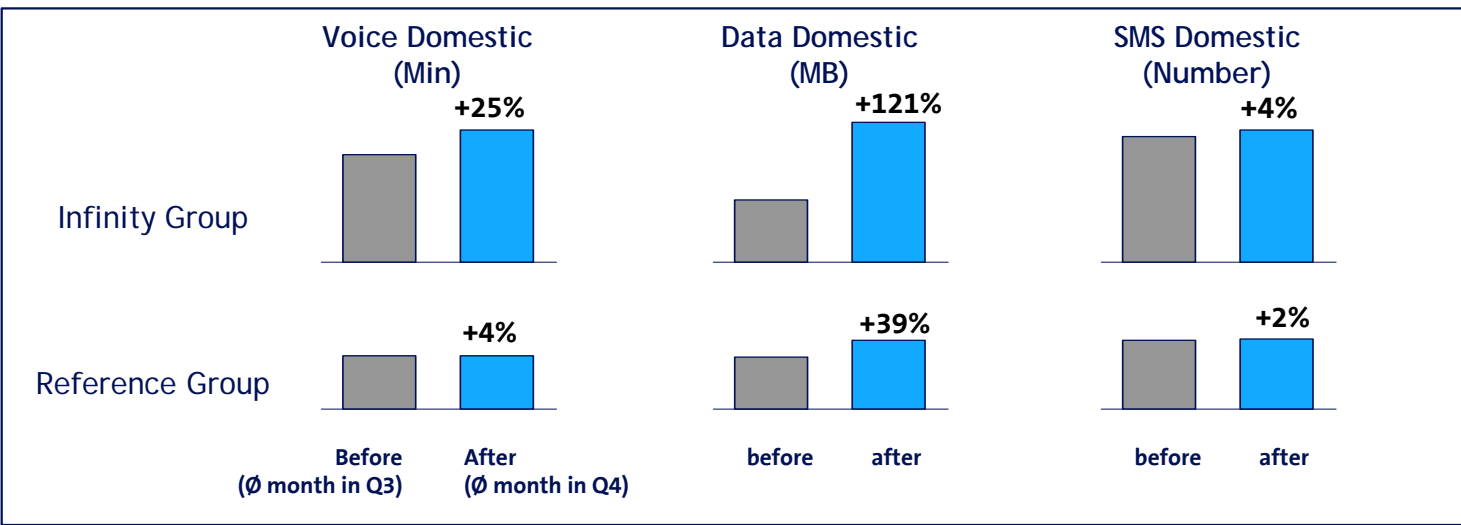
– Mobile Infinity plans, setup and impact

Simple pricing system with full transparency adds to cost control for customer, giving "peace of mind"

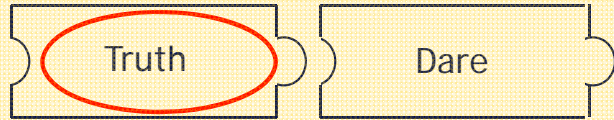
Infinity pricing only differentiates on the basis of speed offered. In each plan, all voice, SMS and data consumption is included

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

All-you-can-eat pricing causes higher usage, however in sum does not do more than accelerate total data usage by more than 3 months compared to what would have happened without these plans



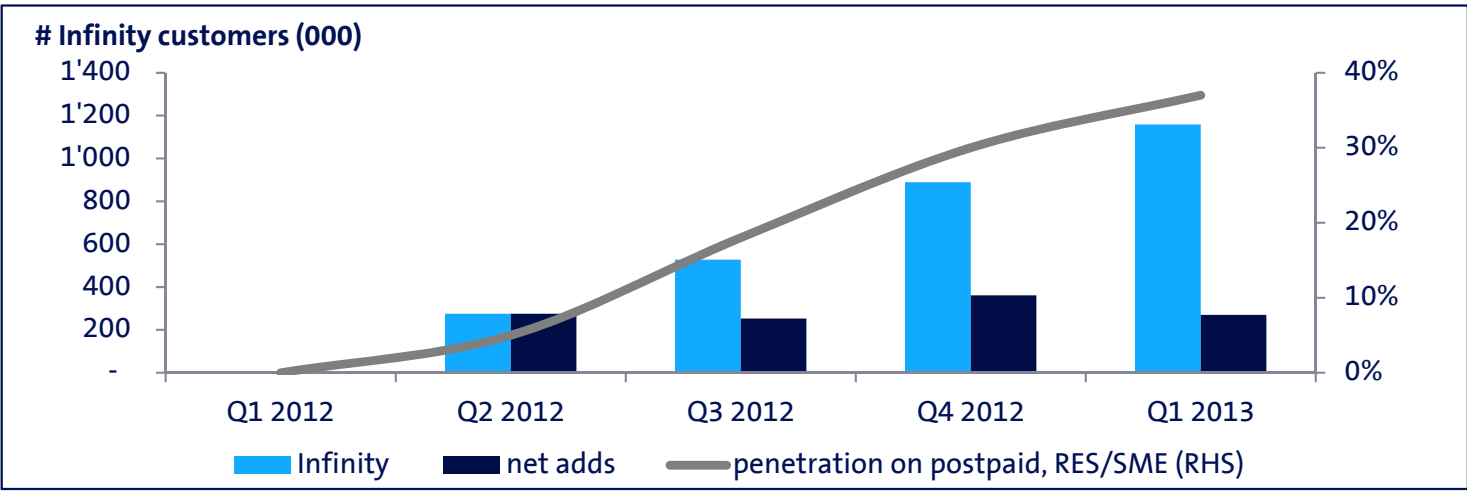
3. Leveraging new tariff paradigms



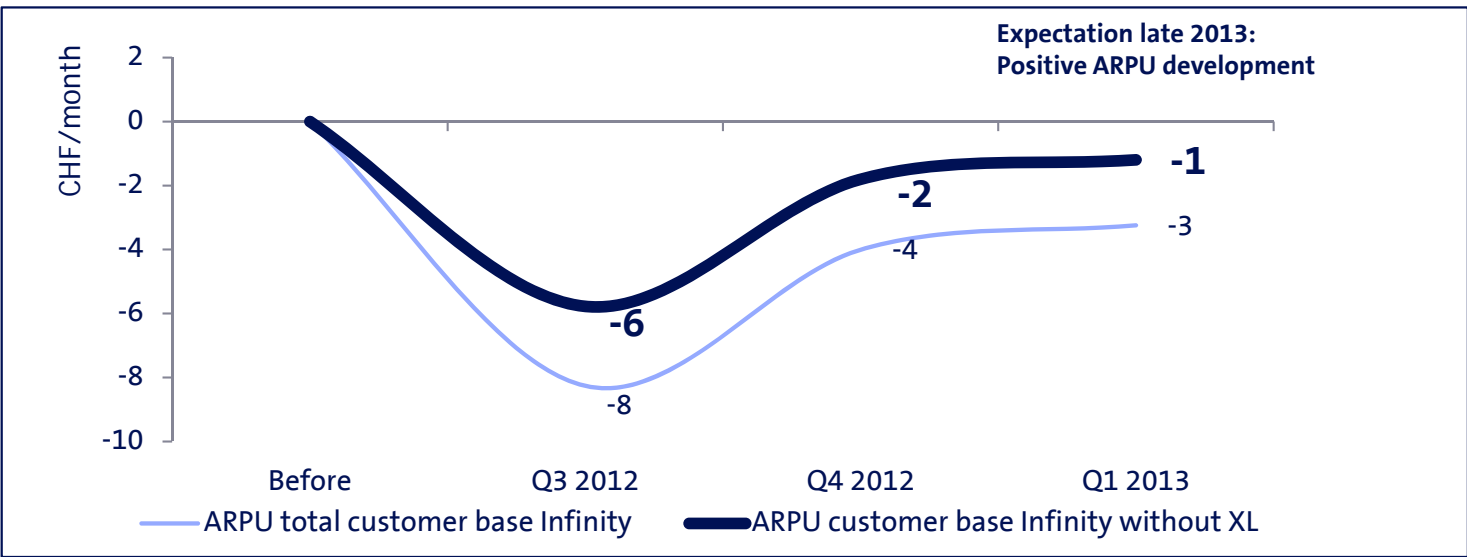
New tariff paradigm Mobile

– High response and rapidly improving dynamics

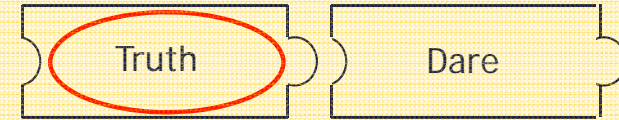
Simple pricing system with full transparency results in very rapid adoption



Initial expected ARPU decline (domestic) from "right graders" starts fading out, with new customers increasingly on higher value plans



4. Growing to drive FCF



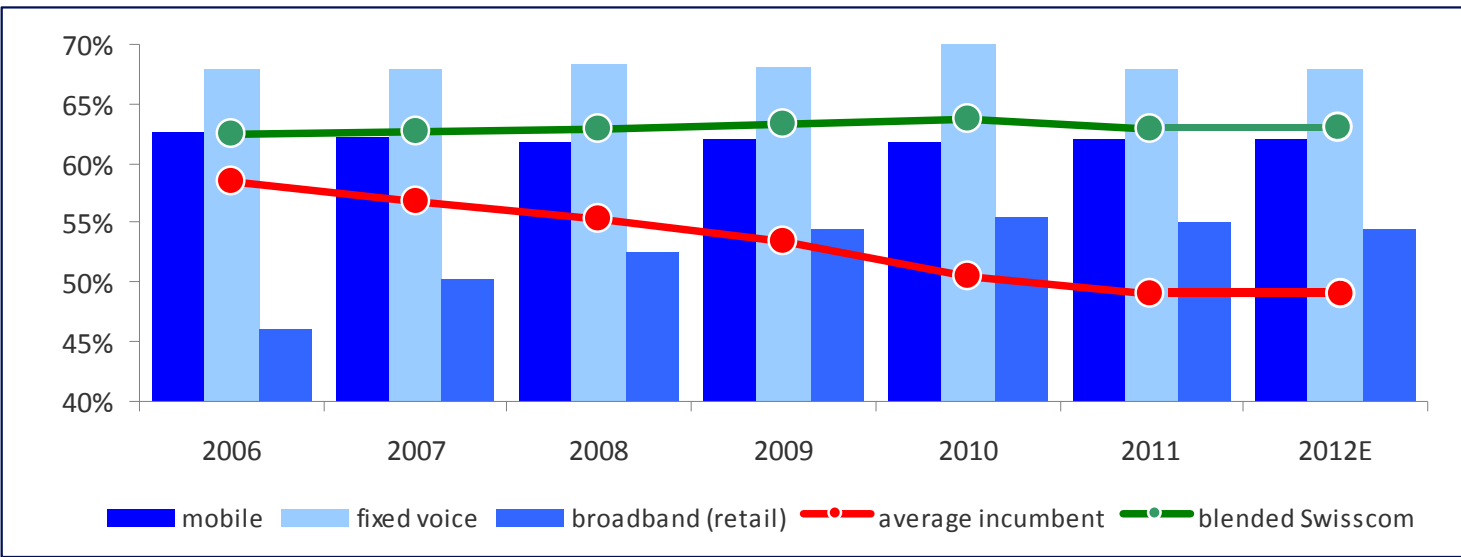
Market share comparatively stronger

– Truth: Swisscom share strong across the board

High market share*)
Swisscom across mobile and fixed. Rapidly growing in digital TV (from 0% six years ago to 27% now)

Provider, market share*)	Mobile	Fixed Voice	Fixed broadband	Digital TV
Swisscom	62.3%	74.1%	54%	21%
Sunrise	21.2%	13.4%	11%	1%
Orange	16.6%	-	-	-
Cablecom	-	12.5%	19%	20+15%**)
Other	-	-	16%	43% (Other cable and satellite)

Swisscom market share***) stable over multiple years, thereby increasing the gap with the average European incumbent



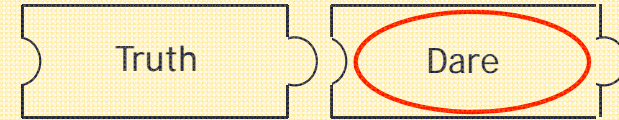
***) Source: broker research

*) Source: Swisscom estimates based on Q1 2013 publications

***) 20% without subscription (transferred analogue customers) and 15% digital TV with subscription



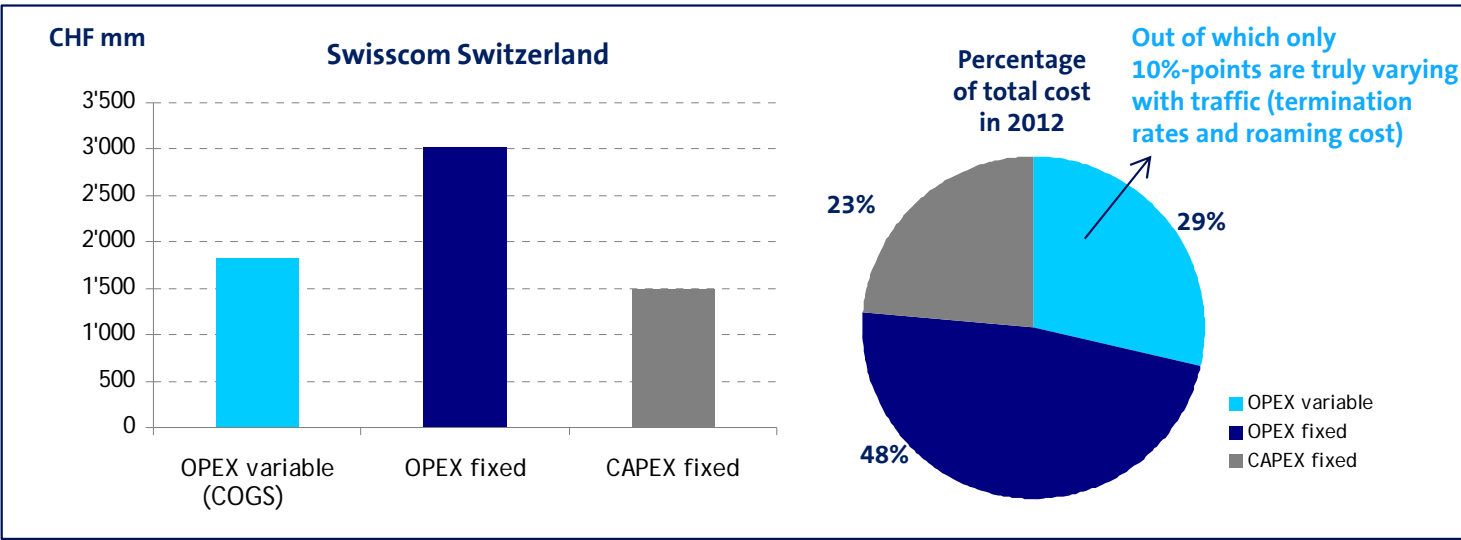
4. Growing to drive FCF



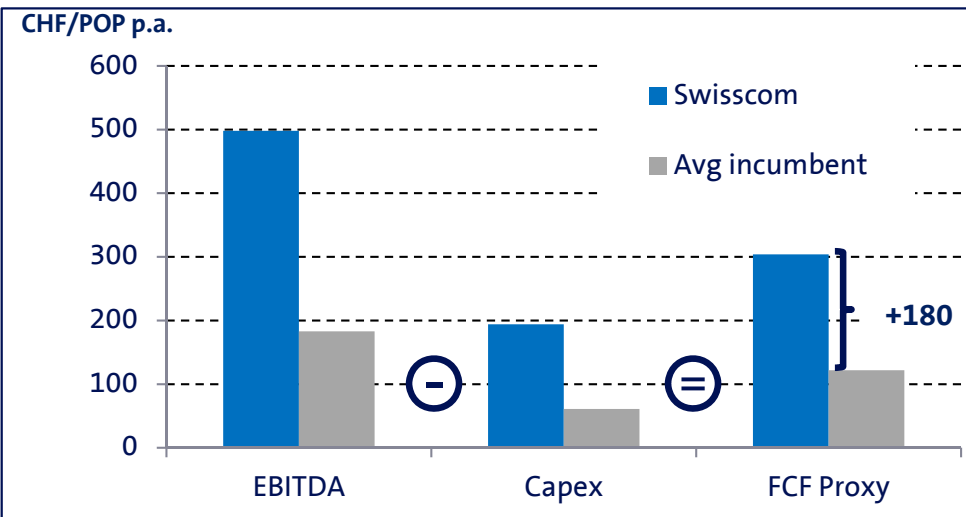
Superior FCF generation

- By Daring to invest more, Swisscom can generate higher FCF

In a fixed cost (scale) business...



...higher market share leads to higher Free Cash Flow generation with incremental customers delivering around 90% margin

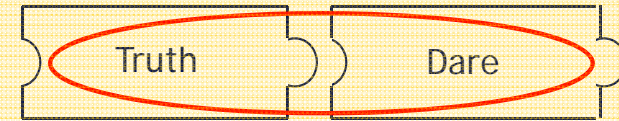


By investing 3x more per pop, Swisscom (through higher market share) generates 2.7x higher EBITDA.

The resulting FCF proxy (CHF 300 at Swisscom, CHF 120 at average incumbent) is CHF 180 (or 2.5x) higher

Delivering quality pays off

4. Growing to drive FCF



Investment & returns

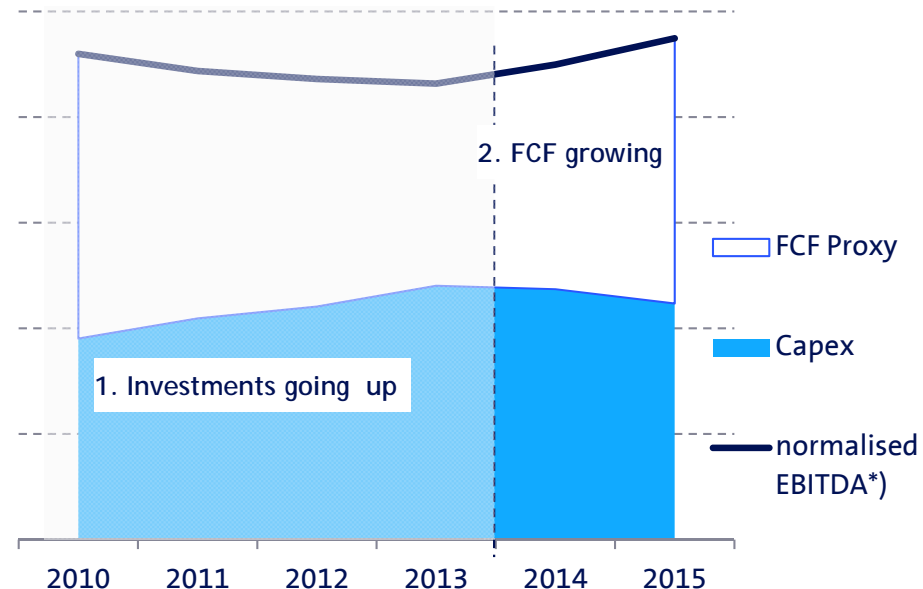
— In summary —

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First investments, then returns

- investments into network quality and capacity to take advantage of OTT rather than compete with it
- better quality to secure high(er) market share
- new pricing structures stimulating up-sell as customers desire ever higher speeds
- more accesses/sub and Cloud access will let the local access market return to growth

Although most investments have a horizon of 3 to 5 years, the initial pay off will start in around 2 years.



*) without exceptionals or one-offs

Q&A

