

Annual Report 2013:

Investment pays off: strong customer growth and moderate revenue growth

	2012	2013	Change
Net revenue (in CHF million)	11,384	11,434	0.4%
Operating income before depreciation and amortisation, EBITDA (in CHF million)	4,477	4,302	-3.9%
Operating income, EBIT (in CHF million)	2,527	2,258	-10.6%
Net income (in CHF million)	1,815	1,695	-6.6%
Swisscom TV connections in Switzerland (in thousands as at 31.12)	791	1,000	26.4%
Mobile access lines in Switzerland (in thousands as at 31.12)	6,217	6,407	3.1%
Revenue from bundled offerings (in CHF million)	1,172	1,553	32.5%
Fastweb broadband access lines (in thousands as at 31.12)	1,767	1,942	9.9%
Capital expenditure (in CHF million) excluding mobile frequencies	2,169	2,396	10.5%
Of which, capital expenditure in Switzerland (in CHF million) excluding mobile frequencies	1,634	1,686	3.2%
Group headcount (FTEs as at 31.12)	19,514	20,108	3.0%
Headcount Switzerland (FTEs as at 31.12)	16,269	17,362	6.7%

- **Investment and innovations drive customer growth:**
 - **1.7 million mobile customers benefit from unlimited usage (infinity)**
 - **Swisscom TV customer base grows by 26% to one million**
 - **Record volume of incoming orders at Swisscom IT Services worth CHF 786 million**
 - **Fastweb gains 175,000 new broadband customers year-on-year and is growing at a faster pace than the market**
- **Price erosion of CHF 560 million benefit customers**
- **Adjusted EBITDA in second half-year up CHF 44 million on prior-year figure**
- **Increased investment leads to higher depreciation and amortisation and lower net income**
- **Payment of an unchanged ordinary dividend of CHF 22 per share will be proposed to the Annual General Meeting**

- **Swisscom expects to close the 2014 financial year with moderate growth in net revenue (CHF 11.5 billion), EBITDA (CHF 4.35 billion) and continuing very high capital expenditure of CHF 2.4 billion**

“Our business performed solidly in 2013. Despite strong competition, we consolidated our market position,” said CEO Urs Schaeppi. “We continued to gain many new customers in the fourth quarter for our television service (+57,000), in mobile communications (+61,000) and at Fastweb (+31,000 broadband access lines).”

In 2013, Swisscom’s net revenue rose by CHF 50 million or 0.4% to CHF 11,434 million, while EBITDA declined by CHF 175 million or 3.9% to CHF 4,302 million. At constant exchange rates and excluding company acquisitions as well as Fastweb’s wholesale revenue from interconnection services (hubbing), revenue fell by 0.8%. This slight decrease was mainly due to price erosion in Swiss core business of around CHF 350 million and reductions in roaming charges of around CHF 210 million. The total fall of around CHF 560 million was largely offset by customer and volume growth of around CHF 480 million.

EBITDA fell by 2.0% on a like-for-like basis, due primarily to the fall in revenue in Swiss core business. Expenses were also higher in Switzerland for network maintenance and IT, while customer growth in Italy led to higher acquisition costs. In the second half of 2013, adjusted EBITDA rose by CHF 44 million year-on-year.

Net income declined by 6.6% or CHF 120 million to CHF 1,695 million, which was mainly attributable to lower EBITDA and a CHF 94 million increase in depreciation and amortisation due to increased capital expenditure on infrastructure. Overall headcount rose by 594 FTEs to 20,108 FTEs. While headcount was higher in Switzerland as a result of corporate acquisitions, the insourcing of external staff and the expansion of customer service in Swiss business, the number of Fastweb employees was lower due to outsourcing.

Excluding costs of CHF 360 million for mobile frequencies acquired in 2012, total capital expenditure rose by 10.5% to CHF 2,396 million and in Switzerland by CHF 52 million or 3.2% to CHF 1,686 million, with the bulk of the spending going on Switzerland’s broadband infrastructure. In terms of mobile communication, over 85% of the population already have access to fourth-generation LTE technology, which means that the original expansion target has been greatly exceeded. Around 1 million Swisscom customers now own a 4G/LTE-enabled device and are able to benefit from the fastest mobile technology available at the moment. By the end of December, 750,000 households and businesses were already connected to the fibre-optic network.

More and more customers switching to bundled offerings – driven by TV and mobile communication

The trend towards bundled offerings and new pricing models such as flat-rate tariffs continues unabated. By the end of 2013, one million customers were benefiting from one of the popular packages, which corresponds to an increase of 27.0% or 213,000 versus the prior year. Revenue from bundled contracts recorded a 32.5% increase to CHF 1,553 million, with the main driver being television and mobile communications. In the third and fourth quarters, the increase in revenue from bundled contracts exceeded the fall in revenue from individual contracts. The number of

bundled contracts taken out together with a mobile communications offering rose from 40.1% to 41.9% in comparison with the previous year. The number of revenue-generating units (RGUs) grew by 349,000 or 3.0% to 12.1 million.

The NATEL infinity mobile subscriptions launched in June 2012, which offer customers unlimited calls, SMS messages and surfing, are very popular. By the end of 2013, approximately 1.7 million customers, or roughly half of all subscriber customers (excluding corporate customers), were using infinity offerings. In the fourth quarter, customers that switched to NATEL infinity transferred larger volumes of data than previously and at the same time also generated higher revenues (ARPU). In comparison to the previous year, the number of mobile customers rose by 190,000 or 3.1% to 6.4 millions. Postpaid customers increased by 213,000 (individual and bundled offerings), compared with a fall of 23,000 in the number of prepaid customers.

Rapid growth in mobile data traffic continues

Mobile data traffic continues to soar, accelerated by the launch of NATEL infinity: in 2013, the volume of mobile data traffic jumped by 116% compared with the prior-year period. On 1 July, Swisscom made massive reductions to data-roaming charges and thus stimulated international usage – Swisscom transmitted six times the volume of data in the second half of the year than in the previous year. In 2013, Swisscom sold 1,595,000 mobile handsets (+2.6%), 65% of which were smartphones.

With the launch of iO at the end of June, Swisscom became the first Swiss provider to offer an app for making telephone calls and sending messages free of charge via the Internet. The smartphone app allows every user around the world to communicate with each other free of charge via the Internet in a simple and secure manner. By the end of 2013, approximately 400,000 users had installed the app – this total has now risen to 450,000 users. iO customers send around one million messages per month. Thanks to iO, many customers abroad are also able to keep in touch with Switzerland, with iO being used in practically every country worldwide. When used in combination with network access, for example in a hotel, iO facilitates free communication with users in Switzerland.

Virtually every third Swiss household uses Swisscom TV

The number of Swisscom TV connections increased year-on-year by 209,000 or 26.4% to 1 million, of which 939,000 subscribed to the basic packages. Virtually every third Swiss household uses Swisscom TV. 410,000 Swisscom TV customers make use of the Replay function, which allows users to watch programmes from around 70 channels up to 30 hours after they have been broadcast. In 2013, total viewings of live sporting events and films (VoD) increased by 10.7% to 8.8 million, while the number of fixed-network broadband access lines grew year-on-year by 84,000 or 4.9% to 1.81 million.

High volume of incoming orders worth CHF 786 million at Swisscom IT Services

The Group's subsidiary Swisscom IT Services, which offers a broad portfolio of IT services, has been going from strength to strength over the past few years. In IT outsourcing, the company is now one

of the largest providers on the Swiss market. Swisscom IT Services saw incoming orders (total contract value) grow by CHF 273 million or 53% to a record high of CHF 786 million in comparison with 2012. In addition to strong operational business, the new Enterprise Customers division, which was formed on 1 January 2014, is working under great pressure to set up a new cloud platform and aims to have 70% of the infrastructure located there by 2016.

Fastweb is on track and gains 175,000 customers in a difficult market

Fastweb is on track in Italy despite strong competition and price pressure and will continue to pursue the same strategy. In 2013 Fastweb reduced its low-margin wholesale revenue from interconnection services (hubbing) by a further EUR 42 million, as planned. Excluding hubbing business, revenue dipped slightly by EUR 16 million to EUR 1,597 million. Fastweb is growing at a faster pace than the Italian broadband market. Fastweb's customer base grew year-on-year by 175,000 or 9.9% to 1.94 million, thanks in part to its bundled TV and broadband package offered in partnership with Sky Italia.

The segment result before depreciation and amortisation totalled EUR 505 million, corresponding to a year-on-year rise of EUR 5 million or 1.0%, and reflecting the sharp growth in customers. Capital expenditure was EUR 124 million or 28.1% higher at EUR 565 million due to expansion of the fibre-optic network. Around 40% of investment spending was directly related to customer growth.

Frank Esser proposed for election to the Board of Directors

As already announced, the Deputy Chairman of the Board of Directors, Richard Roy, will not run for re-election at the forthcoming Annual General Meeting on 7 April 2014 after having spent eleven years in office. Fifty-five-year-old Frank Esser, a telecommunications expert renowned throughout Europe, has been proposed for election to the Board. Esser has a post-doctorate degree in economics, was one of the driving forces behind the expansion of mobile communications for Mannesmann in Germany, and also set up the mobile business for SFR in France. He was also a member of the Vivendi Group Board from 2005 to 2012. The other members of the Swisscom Board of Directors will stand for re-election.

Annual General Meeting: amendments to the Articles of Incorporation due to the "Minder Initiative"

In order to implement the Ordinance on the "Minder Initiative", the Board of Directors proposed that amendments be made to various provisions in the Articles of Incorporation at the next Annual General Meeting (including, among other things, future approval of remuneration for the Board of Directors and Group Executive Board for the following financial year while continuing to put the Remuneration Report to a consultative vote, as well as amendments to the description of the remuneration system). These amendments are intended to make minor changes to the remuneration components on a like-for-like basis in the salaries of the Executive Board members (capping the variable performance-related component at 100% of the basic salary).

The members of the Board of Directors, the Chairman and the members of the Compensation Committee will all be individually elected at the next Annual General Meeting for a term of one year. Swisscom will also allow shareholders to issue their powers of attorney and instructions electronically to the independent voting proxy as of the next Annual General Meeting. The total

remuneration for members of the Board of Directors and the Group Executive Board will be put to the vote for the first time at the 2015 Annual General Meeting for the 2016 financial year.

Moderate growth expected for 2014

Swisscom expects moderate growth in revenue and EBITDA in 2014 and is targeting net revenue of CHF 11.5 billion and EBITDA of CHF 4.35 billion. Network infrastructure in both Switzerland and Italy will continue to call for very high capital expenditure totalling an expected CHF 2.4 billion, of which CHF 1.75 billion in Switzerland. If all targets are met, Swisscom will once again propose a dividend of CHF 22 per share for the 2014 financial year to the 2015 Annual General Meeting.

Detailed Annual Report:

<http://www.swisscom.ch/report2013>

Further documents:

<http://www.swisscom.ch/ir>

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