

Interim report for the first half of 2014:

Swisscom sees growth in revenue and operating income

	1.1- 30.6.2013	1.1- 30.6.2014	Change (Q2)
Net revenue (in CHF millions)	5,596	5,700	1.9% (0.6%)
Operating income before depreciation and amortisation, EBITDA (in CHF millions)	2,102	2,182	3.8% (4.7%)
Operating income EBIT (in CHF millions)	1,110	1,160	4.5% (6.8%)
Net income (in CHF millions)	819	806	-1.6% (0.9%)
Swisscom TV connections Switzerland (as at 30 June in thousands)	902	1,091	21.0%
Mobile lines in Switzerland (as at 30 June in thousands)	6,307	6,460	2.4%
Revenue from bundled contracts (in CHF millions)	725	909	25.4%
Broadband lines Fastweb (as at 30 June in thousands)	1,887	1,994	5.7%
Capital expenditure (in CHF millions)	1,021	1,117	9.4%
Capital expenditure Switzerland (in CHF millions)	706	769	8.9%
Full-time equivalent employees (FTEs as at 30 June)	19,859	20,228	1.9%
Full-time equivalent employees Switzerland (FTEs as at 30 June)	17,099	17,545	2.6%

- **Sustained growth in revenue (+1.9%) and EBITDA (+3.8%)**
- **Large number of innovations underpin solid market performance**
- **1.9 million mobile customers benefit from unlimited usage (infinity)**
- **Number of Swisscom TV customers grows by 91,000 to 1.09 million in the first half of 2014**
- **Fastweb posts further growth, with EBITDA up by EUR 26 million**



- **Net income remains stable despite higher depreciation and amortisation and an increase in financial and tax expense**
- **Swisscom now expects to close 2014 with EBITDA in excess of CHF 4.4 billion (previously CHF 4.35 billion)**

"Our business has shown a very pleasing development over the first half of the year," says Urs Schaeppi, CEO. "Revenue and operating income continued to grow. We were able to set important benchmarks on the market over recent months thanks to a large number of innovations, including the launch of Swisscom TV 2.0, the Docsafe cloud service and LTE Advanced. Based on the positive business development, we are adjusting our EBITDA expectations for 2014 upwards."

Price erosion more than offset by growth in customer numbers and volumes

In the first half of 2014, Swisscom's net revenue increased by CHF 104 million to CHF 5,700 million, which corresponds to an increase of 1.9% compared with the prior-year period. Adjusted for acquisitions and currency effects, and excluding Fastweb's hubbing (wholesale revenue from interconnection services), revenue increased by CHF 65 million or 1.2%, of which CHF 52 million was attributable to the Swiss business. Price erosion of CHF 160 million in the Swiss core business (CHF 60 million of which was attributable to lower roaming charges) was more than offset by customer and volume growth of CHF 212 million.

EBITDA rose 3.8% or CHF 80 million. Adjusted for company acquisitions, retirement provisions and gains from the sale of real estate, growth was 2.5% or CHF 53 million. Despite higher depreciation and amortisation and an increase in financial and tax expense, net income was stable at CHF 806 million. Depreciation rose by CHF 30 million due to increased investment in infrastructure.

The overall Group headcount increased by 369 FTEs to 20,228, an increase of 1.9%. Adjusted for company acquisitions, headcount increased by 204 FTEs or 1.0% due primarily to the insourcing of external staff and measures aimed at strengthening customer service.

Higher investment in broadband infrastructure

Group-wide capital expenditure increased by CHF 96 million or 9.4% to CHF 1,117 million, in Switzerland by CHF 63 million or 8.9% to CHF 769 million. Capital expenditure in Switzerland was primarily on broadband infrastructure: 94% of the population already have access to fourth-generation 4G/LTE services. At the end of July, in excess of a million homes and businesses were connected to ultra-fast broadband via their fixed lines, allowing them to benefit from high bandwidths of up to 1 Gbps.

More than a million customers using bundled offerings

The trend towards bundled offerings and new pricing models such as flat-rate tariffs continues unabated. By the end of June, the number of customers using one of the popular bundled packages had increased year-on-year by 221,000 or 24.9 % to 1.11 million. Revenue from bundled contracts rose by CHF 184 million or 25.4% to CHF 909 million, with the main drivers of this business being television and mobile. The number of revenue generating units (RGUs) increased year-on-year by 324,000 or 2.7% to 12.2 million.

Introduced in June 2012, the NATEL infinity mobile subscriptions, which offer customers unlimited phone calls and SMS messages to all Swiss networks as well as unlimited web browsing, remain highly popular. At the end of June 2014, 1.9 million customers, or roughly 58% of all subscription customers (excluding corporate customers), were using infinity offerings. The number of mobile lines increased year-on-year by 153,000 or 2.4% to 6.5 million. The trend from prepaid offerings to subscriptions continues, with the number of postpaid customers increasing by 168,000 (individual and bundled offerings) and the number of prepaid customers declining by 15,000.

High-speed 4G/LTE network expanded further

The further expansion of the high-speed 4G/LTE network was continued in the past months. 94% of all Swisscom customers are already able to enjoy the advantages of the latest-generation mobile network, whether it is via higher speeds or larger capacities. This means that Swisscom offers the best mobile network coverage of all Swiss mobile network operators. Over the coming months, 4G/LTE coverage will be expanded to 98%. In addition, Swisscom has introduced LTE Advanced, a new technology with which even higher bandwidths can be achieved in the mobile phone network. Expanding the mobile network is essential, since mobile data traffic continues to increase at a rapid pace: in the first half of 2014, the volume of mobile data jumped by over 85% compared with the prior-year period.

Swisscom TV 2.0 generates further increase in TV connections

Fixed network business is also enjoying sustained growth, with the number of Swisscom TV access lines in the second quarter increasing by 39,000 to 1.09 million. On an annual basis, this equates to growth of 189,000 or 21.0%. Swisscom TV 2.0 was launched at the beginning of April 2014 and offers a number of extended features. By the end of June, it had already attracted 77,000 customers, most of whom had upgraded from a previous Swisscom offering. The Cloud-based recording feature allows users to record any number of programmes in parallel and access the recordings on a variety of devices; the Replay feature has been extended from 30 hours to seven days. The number of broadband access lines grew in the second quarter by 22,000 to 1.86 million. On an annual basis, this equals growth of 88,000 or 5.0%.

Fastweb posts further growth and gains 107,000 new customers year-on-year

Fastweb's revenue in Italy fell by EUR 4 million or 0.5% to EUR 806 million. As planned, Fastweb further reduced its wholesale revenue from low-margin interconnection services (hubbing). The hubbing business excluded, revenue rose by EUR 7 million or 0.9% to EUR 792 million. Despite a difficult market environment, Fastweb's customer base grew year-on-year by 107,000 or 5.7% to 1.99 million.

The segment result before depreciation and amortisation (EBITDA) increased year-on-year by EUR 26 million or 12.4% to EUR 236 million. Fastweb benefited from non-recurring regulatory items and reduced operating costs. Adjusted for these items, EBITDA increased by EUR 11 million or 5%. Capital expenditure rose by EUR 28 million or 10.9% to EUR 284 million due to spending on expanding the fibre-optic network.

Acquisition of PubliGroupe Ltd making good progress

When the bid period for the public takeover of PubliGroupe Ltd expired on 5 August 2014, Swisscom's holding exceeded 90%. The extension period for the tendering of shares runs until 25 August 2014. The takeover is aimed primarily at the directories service local.ch, which is already 50%-owned by Swisscom. After the purchase, Swisscom intends to sell off PubliGroupe's media participations, while all options are being examined with regard to the other participations.

Higher operating income (EBITDA) expected for 2014

Swisscom's expectations of achieving moderate growth in revenue remain unchanged, but have been adjusted upwards for operating income (EBITDA): the Group aims to close the year with revenue of CHF 11.5 billion and EBITDA in excess of CHF 4.4 billion (previously CHF 4.35 billion). The network infrastructure expansion in Switzerland and Italy calls for a high level of investment: Swisscom continues to anticipate investment spending to total CHF 2.4 billion, CHF 1.75 billion of which will be in Switzerland. Subject to achieving its targets, Swisscom will again propose a dividend of CHF 22 per share for the 2014 financial year at the 2015 Annual General Meeting.

Detailed interim report:

<http://www.swisscom.ch/q2-report-2014>

Related documents:

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

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