

## Swisscom resists price pressure and strong competition – growth at Fastweb

**Interim Report for first half of 2016 +++ Revenue stable year-on-year +++ EBITDA increases primarily due to Fastweb +++ Drop in roaming fees +++ Trend for bundled products continues +++ Solutions business with corporate customers is performing well +++ Sustained high level of capital expenditure in broadband networks and IT +++ Fastweb with solid market performance +++ [Click here to view the table of key figures](#)**

CEO Urs Schaeppi comments on the half-year results as follows: “Swisscom achieved good figures in the first half of 2016. Despite strong competition, we were able to maintain our revenue and income and even saw growth for bundled offerings and TV access lines. Our solutions business with corporate customers is also performing very well, as is Fastweb, which made a significant contribution to our EBITDA growth over the past six months. The strong price pressure in mobile telecommunications and the increasingly cut-throat competition in the core business make it necessary to deal with costs in a prudent manner and to further increase efficiency within the company. Doing so will enable us to maintain the high levels of capital expenditure in future-oriented networks and IT infrastructure and continue to keep our customers happy in future.”

### **Forecast for 2016: higher capital expenditure in Switzerland and improved operating result due to non-recurring item at Fastweb**

In total, Swisscom's net revenue for the first half of 2016 was slightly higher than the prior-year level at CHF 5,769 million (CHF +11 million or +0.2%). While Switzerland saw revenue from telecommunications services fall by CHF 46 million (-1.4%) as a result of high price pressure and increasing market saturation, revenue from the solutions business with corporate customers increased by CHF 29 million. EBITDA rose by 4.4% or CHF 94 million to CHF 2,227 million. The EBITDA increase is primarily due to Fastweb: In addition to good operating income, the company received compensation from Telecom Italia to the tune of EUR 55 million as a result of an out-of-court settlement following a legal dispute. Swisscom's net income rose by CHF 4 million or 0.5% to CHF 788 million.

In view of the compensation from Telecom Italia and higher levels of capital expenditure in the broadband network in Switzerland, Swisscom is adjusting its forecast for 2016. While Swisscom continues to expect net revenue of more than CHF 11.6 billion, it now anticipates EBITDA of around CHF 4.25 billion (previously: around CHF 4.2 billion) and capital expenditure of around CHF 2.4 billion (previously: more than CHF 2.3 billion). Subject to achieving its targets, Swisscom will propose an unchanged dividend of CHF 22 per share for the 2016 financial year at the 2017 Annual General Meeting.

Since 1 January 2016, Swisscom has reorganised its Group structure, which is now geared more firmly towards the challenges and opportunities of digitisation. In the wake of the efficiency improvement measures, Swisscom has announced a slightly lower headcount for 2016. The Group's headcount fell accordingly, by 43 FTEs or 0.2% to 21,443 FTEs. Adjusted for company acquisitions,

headcount fell by 0.7%. At the end of June, Swisscom had a headcount of 18,754 FTEs (-0.4%) in Switzerland.

**Infrastructure: Sustained high level of capital expenditure, switch to IP proceeding according to plan**

According to a recent study by the Federal Institute of Technology Lausanne (EPFL), Switzerland is operating at an extremely competitive level in the area of ICT infrastructure. This has a lot to do with Swisscom and its capital expenditure, Group-wide capital expenditure increased by CHF 51 million or 4.5% to CHF 1,193 million in total. In Switzerland, capital expenditure rose by CHF 34 million or 4.0% to CHF 876 million. At the end of June, around 2.3 million lines were equipped with the latest fibre-optic technology. In total, Swisscom has connected around 3.3 million homes and offices with ultra-fast broadband (with speeds of more than 50 Mbps). This makes Swisscom a market leader by international standards.

Rapid headway is also being made with the switch from fixed network connections to IP technology. To date, Swisscom has already migrated the lines of 1.3 million customers – more than half of all its customers – to IP technology. Swisscom expects that around three-quarters of its customers will be using IP technology by the end of 2016. At this point, Swisscom is expected to offer All IP customers an automatic spam filter for blocking unwanted calls from telemarketers – a highly sought-after benefit of the new technology – as an optional service. Swisscom intends to complete the migration to All IP by the end of 2017.

Since the volume of mobile data traffic is doubling every year, Swisscom is continuing to further expand the high-speed 4G/LTE network. Over 98% of all Swisscom customers are already able to enjoy the advantages of the latest-generation mobile network. Swisscom, together with its partner Ericsson, became the first provider in Europe to successfully transfer data at 1 Gbps over the mobile broadband network back in April. The commercial launch of this technology is planned for early 2017. Swisscom is expected to augment its network with 5G by 2020. 5G will not only guarantee much higher speeds and extremely short response times in future, but also a greater degree of reliability and stability. This is why Swisscom has teamed up with EPFL and Ericsson to launch the initiative “5G for Switzerland”, aimed at developing the potential of 5G together with industry partners. The results will be taken into account in the definition of the globally recognised common standardisation for 5G, which is expected to be completed by 2019.

**Roaming: Three-quarters of global data volume is inclusive**

The new mobile telecommunications subscription launched in March, Natel infinity 2.0, offers higher surfing speeds, more roaming and unlimited online storage. Already, 632,000 customers have opted for the new subscriptions. The number of customers for all Natel infinity subscriptions is 2.33 million, which is equal to 70% of postpaid lines (excluding corporate customers). The increasingly saturated market is reflected in the growing number of subscribers. Year-on-year, the number of mobile lines increased by 31,000 or 0.5% to 6.6 million; however, this figure fell by 2,000 in the first half of 2016 as a result of market saturation. Nevertheless, bundled products offering a fixed network, TV and mobile phone use continue to enjoy enormous popularity. By the end of June 2016, the number of customers using a bundled offering had increased year-on-year by 208,000 or 15.9% to 1.52 million. Revenue from bundled contracts rose year-on-year by CHF 136 million or 12.6% to CHF 1,213 million.

Roaming is continuing to enjoy strong growth, boosted by price reductions and inclusive services for Natel infinity subscriptions. In the first half of 2016, data traffic rose by a factor of 2.4 year-on-year, and voice traffic rose by 13%. Thanks to the inclusive data volume, the reduction in fees remains virtually unchanged year-on-year at around CHF 100 million, with a very positive impact for customers: Three-quarters of global data volume was no longer billed to residential customers in the second quarter of 2016, and this figure is still rising.

The first half of 2016 saw many new developments relating to digital television: Swisscom has contested the CHF 71.8 million penalty imposed by the Competition Commission (COMCO) due to alleged prohibited marketing of sports content via pay TV with the Federal Administrative Court. Swisscom denies the allegations, considers its chances in the appeal procedure as good and based on its current assessment is not therefore setting aside any provisions. With regard to the tenders for sports broadcasting rights for 2017/18 to 2020/21, Swisscom recorded a partial success: While one of our competitors enforced its ice hockey broadcasting rights, Swisscom was the victor regarding football broadcasting rights with Teleclub. Swisscom will spare no effort to continue to offer its customers a comprehensive range of products in future; negotiations on ice hockey broadcasting rights are ongoing. On the market, Swisscom TV is performing well. Despite fierce competition with cable network operators, the number of Swisscom TV access lines rose year-on-year by 162,000 or 13.1% to 1.40 million (+33,000 in the second quarter), three-quarters of which use the cloud-based Swisscom TV 2.0 service. A new TV offering aimed specifically at corporate customers has provided entertainment in public spaces since June 2016. Swisscom TV Public allows venues such as bars and restaurants to offer public screening.

#### **Business with corporate customers and in related business areas is underpinned by digitisation**

The Enterprise Customers division's revenue from external customers remained virtually stable at CHF 1,202 million (-0.2%). The price-related decline in revenue in the mobile market was offset by higher revenue in the solutions business, albeit it with a lower margin. Incoming orders in the corporate business fell by 2.0% to CHF 1,028 million as a result of heavy competition. Swisscom gained a number of well-known corporate customers, however, and is implementing cloud, digitisation and outsourcing strategies for these. In addition to business with corporate customers, Swisscom is also committed to areas in which digitisation opens up opportunities for Swisscom that are not far from its core business activity. This is why advertising marketer Admeira – which was founded jointly by Swisscom, Ringier and SRG – and the online marketplace siroop.ch went into regular operation in the first half of 2016. Siroop is a joint venture by Swisscom and Coop and the first entirely open online marketplace in Switzerland, offering products from local, regional and national retailers from a single source. Around 130 retailers are now selling their products through the platform, with over 1,300 more interested in doing so. The product range has grown to around 250,000 items in a very short time.

#### **Fastweb: Growth in revenue, EBITDA and customer base**

Fastweb performed very well in a difficult market environment. The revenue reported by Fastweb in Italy rose by EUR 19 million or 2.2% to EUR 881 million owing to customer growth. Fastweb's customer base in the broadband business grew by 100,000 or 4.6% year-on-year to 2.26 million (+56,000 in the first half of the year). Fierce competition reduced average revenue per residential

broadband customer by around 3% versus the prior-year period. Nevertheless, this decline was outweighed by customer growth, with revenue from residential customers rising accordingly by EUR 15 million or 3.4% year-on-year to EUR 450 million. Revenue from corporate business increased by EUR 3 million or 0.9% to EUR 348 million, while wholesale business revenue remained stable at EUR 79 million. Overall, Fastweb recorded a segment result before depreciation and amortisation (EBITDA) of EUR 335 million in the first half of the year. This figure includes a payment of EUR 55 million from Telecom Italia resulting from an out-of-court settlement. Adjusted for this non-recurring income, the segment result increased by EUR 20 million or 7.7%. The adjusted profit margin rose 1.6 percentage points to 31.8%. Capital expenditure of EUR 286 million was recorded, a year-on-year increase of EUR 7 million or 2.5%. The expansion of Italy's broadband network is continuing at full speed: Fastweb and Telecom Italia intend to cooperate on the rollout of Fibre to the Home (FTTH). The aim is for 13 million homes and businesses in Italy to be connected to the broadband network by 2020. Swisscom will be selling its share of 10.6% in network operator Metroweb, as announced in August 2016. Swisscom expects to book a gain of around CHF 40 million for this sale in the second half of 2016.

**Interim Report figures at a glance**

	<b>1.1.–30.6.2015</b>	<b>1.1.–30.6.2016</b>	<b>Change</b>
Net revenue (in CHF million)	5,758	5,769	0.2%
Operating income before depreciation and amortisation (EBITDA) (in CHF million)	2,133	2,227	4.4%
Operating income (EBIT) (in CHF million)	1,105	1,135	2.7%
Net income (in CHF million)	784	788	0.5%
Swisscom TV access lines in Switzerland (as at 30 June in thousands)	1,238	1,400	13.1%
Mobile lines in Switzerland (as at 30 June in thousands)	6,592	6,623	0.5%
Revenue from bundled contracts (in CHF million)	1,077	1,213	12.6%
Broadband lines Fastweb (as at 30 June in thousands)	2,157	2,257	4.6%
Capital expenditure (in CHF million)	1,142	1,193	4.5%
Of which capital expenditure in Switzerland (in CHF million)	842	876	4.0%
Group headcount (FTEs as at 30 June)	21,486	21,443	-0.2%
Of which Switzerland (FTEs as at 30 June)	18,828	18,754	-0.4%

**Detailed interim report:**

<http://www.swisscom.ch/q2-report-2016>

**Related documents:**

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

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