

On course: Swisscom holding its own successfully on the market

Interim report on first half of 2017 +++ Stable revenue in comparison with the previous year and an increase in EBITDA +++ Trend for bundled offerings continues – inOne has over 450,000 customers as at end of June+++ Solutions business with corporate customers stable+++ Consistently high levels of capital expenditure in the network of the future+++ Fastweb enjoying growth in customers, revenue and EBITDA +++ Revenue and capital expenditure forecast for the entire year confirmed, EBITDA set to increase+++ [Click here to view the table of key figures](#)

CEO Urs Schaeppi on the half-year results: “Swisscom recorded an extremely solid market performance in the second quarter. We successfully rolled out inOne while achieving growth in bundled offerings and in the TV business. Fastweb is also well on track and has increased its contribution to the Swisscom EBITDA. The decline in the use of fixed-line telephony has not slowed down, which in combination with intensive and heavily promotion-driven competition has resulted in a slight drop in revenue for telecommunication services. Thanks to the initiatives we have set up to lower costs, we have been able to offset a large part of the decrease in revenue and are on course to meet our objectives for full-year 2017 despite price competition and a saturated market. This means that we can continue to focus all of our energies on the expansion of our networks and thus into investing in the future of Switzerland. I am particularly pleased that the University of St. Gallen has recently named us as the one of the most innovative companies in Switzerland.”

Fiercer competition, downward trend in fixed-line telephony

In total, Swisscom’s net revenue for the first half of 2017 was practically at the same level as the prior-year at CHF 5,690 million (CHF -79 million or -1.4%). These figures include a slight drop in revenue from telecommunications services within Switzerland, which can be attributed to fierce competition and increasing market saturation. Approximately half of the CHF 76 million decline (-2.3%) was caused by the declining subscriber base in the fixed-line telephony business. In contrast, EBITDA grew by 1.5% or CHF 33 million to CHF 2,260 million and is primarily due to Fastweb (+20.3%). The EBITDA recorded by Fastweb included compensation from legal proceedings amounting to CHF 102 million. Net income posted by Swisscom grew CHF 51 million or 6.5% year-on-year to CHF 839 million.

Swisscom anticipates net revenue in 2017 to remain at approximately CHF 11.6 billion and capital expenditure of around CHF 2.4 billion. EBITDA is forecast to increase to some CHF 4.3 billion from around CHF 4.2 billion due to the compensation from legal proceedings recorded at Fastweb in the second quarter. Subject to achieving its targets, Swisscom will propose an unchanged dividend of CHF 22 per share for the 2017 financial year at the 2018 Annual General Meeting.

Thanks to prudent planning, Swisscom succeeded in compensating for most of the decline in revenue in the Swiss core business. As announced, Swisscom will reduce its cost base in Switzerland by over CHF 300 million from 2015 to 2020. On balance, the Group’s headcount fell by 1.7% to 20,775 FTEs in the first half. At the end of June, Swisscom had a headcount of 17,974 FTEs in Switzerland, which equates to 398 or 2.2% fewer positions than at the end of 2016. More than half of the reduction was offset by natural fluctuation and finding new employment internally. Over the course of summer

2017, 222 apprentices completed their training at Swisscom. 278 young people started their vocational training at Swisscom in August, mainly in the vocational areas of retail, mediamatics, IT and commerce. In total, more than 900 apprentices are currently undergoing training at Swisscom.

The network of the future – work continues on the expansion of the ultra-fast broadband network while the switch to All-IP is on schedule

Swisscom is currently working at maximum capacity on its flagship projects and is further modernising Switzerland's infrastructure. Although Group-wide capital expenditure fell as a result of delays in the network expansion (-11.4%), it remains at a high level at CHF 1,057 million. This figure was CHF 728 million or 16.9% lower than the figure recorded in the previous year for the whole of Switzerland. At the end of June, more than 2.7 million lines were equipped with the latest fibre-optic technology. In total, Swisscom has connected around 3.7 million homes and businesses to its ultra-fast broadband service (speeds in excess of 50 Mbps). Swisscom intends to make fibre-optic technology available to every Swiss municipality by the end of 2021, and thus enable remote locations to access ultra-fast broadband.

This makes Swisscom a market leader by international standards. As part of its responsibility in this position, the company is also investing in the future of the young people of Switzerland. In collaboration with Swiss schools, Swisscom is massively expanding its "Schools on the Net" offering and consequently allowing completely different teaching methods to be used. Schools now have free access to Internet connections with speeds of up to 500 Mbps in addition to discounts on using the Cloud for data storage in Switzerland, e.g. for references, pupil reports and test samples. Schools will thus receive free services worth around 30 million francs per year.

The future-oriented digitisation of the fixed telephone network (All-IP technology) is likewise running on schedule. Over 1.7 million customers, i.e. 75% of all connections, are already profiting from HD voice quality, personalised blocks lists, automatic caller identification and an automatic spam filter for blocking unwanted advertising calls. Up to 40,000 connections are added to this figure every month. Work will begin on the full migration of customer lines to IP in the larger regions of Switzerland as of the start of 2018, which will allow us to push forward with the decommissioning of the old infrastructure in these locations.

Swisscom is also taking an innovative leap forwards with its mobile network. In the second quarter, the Swisscom Füssli shop in Zurich showcased smartphones that were able to achieve mobile Internet speeds of up to 800 Mbps on the Swisscom 4G network. Swisscom is thus on track to achieve speeds of 1 Gbps on its mobile network and intends to equip more locations with this ultra-fast technology this year. Every Swisscom customer is able to profit from an increase in capacity in the network. There is huge demand for this, as mobile data traffic continues to double every year. 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.

Products: inOne boosting demand for bundled offerings

In April, Swisscom radically simplified its price. inOne offers Internet, TV, telephone and mobile in a single package that can be tailored to individual customers. From the end of June, i.e. just three months after launch, over 450,000 customers opted for inOne with more than 920,000 connections,



boosting demand for bundled offerings. By the end of June 2017, the number of customers using a bundled offering had increased year-on-year by 269,000 or 17.8% to some 1.78 million (growth in Q2: +48,000 customers). Revenue from bundled contracts increased by CHF 157 million or 12.9% to CHF 1,370 million. Thanks to inOne, Swisscom has also been able to stabilise the decline in the number of broadband connections in the second quarter. In the mobile telecommunications business, Swisscom increased the number of subscribers to its postpaid lines (+19,000 in the first half-year). The downward trend in fixed-line telephony is continuing apace, with the drop being larger than expected (-12.3% from 2.2 million connections).

Roaming volumes are continuing to enjoy strong growth among mobile customers, boosted by price reductions and inclusive services with mobile phone subscriptions. When visiting other countries within Europe, the majority of Swisscom customers use their smartphones to the same extent that they use them at home, as there are no longer any additional costs. In the first half of 2017, data traffic outside of Switzerland increased by 89% year-on-year, while voice traffic grew by 7%. Swisscom expects that price adjustments and inclusive services will reduce 2017 results by some CHF 50 million.

The competition with cable network operators and other providers has ramped up. Nevertheless, Swisscom TV is continuing to enjoy great popularity, as the number of Swisscom TV connections increased year-on-year by 96,000 or 7.1% to 1.45 million (+9,000 in the second quarter). Swisscom and Teleclub are continuing to work on developing the appeal of their offering, particularly their sports offering.

Corporate customers: stable solutions business and price erosion in business with telecoms services

Revenue from external customers in Enterprise Customers fell year-on-year by 2.2% to CHF 1,185 million (-0.7% in the second quarter). The 2.8% drop in revenue for telecom services was mainly price-related. Revenue from the solutions business remains stable in comparison to the previous year (-0.9%), but enjoyed growth of CHF 10 million or 3.8% in the second quarter. Swisscom gained a number of well-known corporate customers and is implementing cloud, digitisation and outsourcing strategies for these. In the area of telecoms services, Swisscom is battling against price pressure, but has made a decision on around three-quarters of all of the tenders. In June, Urs Lehner took over the management of the Enterprise Customers division. This appointment will further boost the solutions business and at the same time help us to continue following the path we set ourselves towards digitisation and in developing new growth areas.

Fastweb sees 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 42 million or 4.8% to EUR 923 million. Its customer base in the broadband business grew by 154,000 or 6.8% year-on-year to 2.41 million (+11,000 in the second quarter). Fastweb is also growing in mobile telephony. Compared to the previous year, the number of mobile access lines increased by 274,000 or 45.2% to 880,000 (+117,000 in the second quarter). Fierce competition reduced average revenue per residential broadband customer by around 4% versus the prior-year period. Nevertheless, this decline was outweighed by customer growth, with revenue from residential customers rising accordingly by EUR 20 million or 4.4% year-on-year to EUR 470 million. Revenue from business customers fell by EUR 7 million or 2.0% to EUR 341 million, while revenue from wholesale business increased by EUR 29 million or 36.7% to EUR 108 million following a

cooperation agreement with Telecom Italia in relation to the expansion of the ultra-fast broadband network. Overall, Fastweb recorded a segment result before depreciation and amortisation (EBITDA) of EUR 403 million in the first half of the year. This figure includes compensation from legal proceedings of EUR 95 million (EUR 55 million in the previous year). Adjusted for this income, the segment result increased by EUR 28 million or 10.0%. This increase was mainly the result of higher revenue and improved regulatory conditions. The adjusted profit margin rose 1.6 percentage points to 33.4%. Capital expenditure increased by EUR 16 million, or 5.6%, to EUR 302 million. The increase in capital expenditure was largely customer-driven. The expansion of Italy's broadband network is continuing as planned.

Interim Report figures at a glance

| | 1.1.–30.6.2016 | 1.1.–30.6.2017 | Change |
|--|-----------------------|-----------------------|---------------|
| Net revenue (in CHF million) | 5,769 | 5,690 | -1.4% |
| Operating income before depreciation and amortisation, EBITDA (in CHF million) | 2,227 | 2,260 | 1.5% |
| Operating income EBIT (in CHF million) | 1,135 | 1,203 | 6.0% |
| Net income (in CHF million) | 788 | 839 | 6.5% |
| Swisscom TV access lines in Switzerland (as at 30 June in thousands) | 1,351 | 1,447 | 7.1% |
| Mobile lines in Switzerland (as at 30 June in thousands) | 6,623 | 6,589 | -0.5% |
| Revenue from bundled contracts (in CHF million) | 1,213 | 1,370 | 12.9% |
| Broadband lines Fastweb (as at 30 June in thousands) | 2,257 | 2,411 | 6.8% |
| Capital expenditure (in CHF million) | 1,193 | 1,057 | -11.4% |
| Of which capital expenditure Switzerland (in CHF million) | 876 | 728 | -16.9% |
| Group headcount (FTEs as at 30 June) | 21,443 | 20,775 | -3.1% |
| Of which Switzerland (FTEs as at 30 June) | 18,754 | 17,974 | -4.2% |

Detailed interim report:
<http://www.swisscom.ch/q2-report-2017>

Related documents:

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

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