swisscom

Press release

Financial year 2017: market success, market pressure continued

- **Practically stable revenue, EBITDA and net income**
- **Market success with TV connections, bundled offerings and solutions business with corporate customers as well as at Fastweb**
- **Sustained high investment in the networks**
- **Proposed dividend unchanged at CHF 22 per share for financial year 2017**
- **Forecast for 2018: revenue of around CHF 11.6 billion, EBITDA of around CHF 4.2 billion and capital expenditure of less than CHF 2.4 billion**
- **Cost base is set to be reduced from 2018 to 2020 by CHF 100 million per year**
- **The key figures at a glance**

“Despite fierce competition, we managed to assert ourselves well on the market and we achieved the targets set. The inOne bundled offerings were a particular hit with our customers; we’ve never had such a successful product,” is CEO Urs Schaeppi’s concise assessment of the 2017 annual results. “Even if we didn’t always deliver our accustomed quality at the beginning of 2018, our customers tell us in surveys that we provide them with outstanding customer service and the best network. The German trade magazine Chip has nominated the Swisscom network as the best one, and Connect has given our mobile network the grade “Phenomenal”. Investment in the networks is paying off; competition is working. The pressure on the market will continue to increase in 2018. We will need to continue to cut costs due to a slight decline in our Swiss core business. And it will become all the more important to further develop the current regulatory framework with sound judgement. This is the only way that Swisscom and Switzerland will be able to carry on playing at the top level.”

Solid results, slight decline in Swiss core business

At CHF 11,662 million (+0.2%), Swisscom’s consolidated net revenue was practically on a par with the previous year. In the Swiss core business, Swisscom’s revenue sank by 2.1% to CHF 9,058 million, primarily as a result of falling revenue with fixed-line telephony and lower income from roaming services.

Swisscom’s consolidated operating income before depreciation and amortisation (EBITDA) was similarly stable at CHF 4,295 million. This included a burden on income for restructuring and one-off income from legal disputes at Fastweb. After adjustment, EBITDA fell slightly by 0.5%. The Swiss core business was down 2.4%, due to the decline in fixed-line telephony connections, pressure on pricing, increased inclusion of roaming in the basic charge and low subscription growth in a saturated market. EBITDA was positively affected, however, by cost savings and growth at Fastweb. Net income was down 2.2% to CHF 1,568 million.

The Group-wide headcount fell to 20,506 year-on-year. At the end of 2017, Swisscom employed 17,688 FTEs in Switzerland, which equates to 684 fewer employees than at the end of 2016. Anticipatory planning, careful vacancy management and retraining ensured that around two thirds of this downsizing was through normal fluctuation. Around 100 jobs were cut through the existing social plan. It offers higher benefits than the Swiss average and factors in the personal situation of each affected employee. In recent years, an average of 85% of employees who were supported by the social plan found a new job internally or externally even before the social plan benefits stopped.

Capital expenditure on infrastructure: remains high

The performance, coverage and quality of Swisscom's networks are well-proven because Swisscom keeps its network infrastructure future-proof with sustained high capital expenditure. At CHF 2,378 million, Group-wide capital expenditure remained high. Of this, Swisscom invested CHF 1,678 million or 71% in Switzerland and was therefore on budget. The share of capital expenditure as a proportion of revenue continues to stand at around one fifth (20.4%; in the previous year: 20.8%).

Coverage with broadband Internet: progressing

At the end of 2017, Swisscom had connected some 3.9 million households and businesses with ultra-fast broadband (with speeds of more than 50 Mbps), around 2.5 million of which benefit from speeds of more than 100 Mbps. Swisscom intends to make fibre-optic technology available to every Swiss municipality by the end of 2021, and thus enable even remote locations to access ultra-fast broadband.

Migration to All-IP: on track

Digitisation of the fixed telephone network (All-IP technology) is running according to plan. Over two million customers are already profiting from HD voice quality, personalised block lists, automatic caller identification and an automatic filter for blocking unwanted advertising calls. Work begin on the full migration of customer lines to IP in the larger regions of Switzerland at the start of 2018, which will allow us to push forward with the decommissioning of the old infrastructure in these locations.

Broadband on the mobile network: "Phenomenal" according to Connect network test

In the mobile telecommunications sector, more than 99% of all Swisscom customers benefit from the modern 4G/LTE network. The expansion of LTE advanced is taking giant strides forwards, with Swisscom now covering 80% of the Swiss population with LTE advanced with speeds of up to 300 Mbps. 60% of the Swiss population can also achieve speeds of up to 450 Mbps. In 2017, Swisscom increased surfing speeds to as high as

1 Gbps, creating additional capacities. Eleven Swiss cities are already selectively taking advantage of this. Swisscom won Connect's network test this year for the eighth time, in the process achieving an even higher total score and the grade "phenomenal". In the mobile network test conducted by the German trade magazine Chip Swisscom's network also came out on top. The results impressively confirm the effect of high capital expenditure: Swisscom will augment its mobile phone network with 5G from 2020 onwards.

Market performance: inOne has over 1.3 million customers
TV and broadband connections continue to enjoy growing popularity. Swisscom has hit the ground running with the inOne bundled offerings.

Bundled offerings: demand up by 14.1%
The new inOne offerings are proving to be extremely popular, having attracted more than 1.3 million customers to Swisscom by the end of 2017. By the end of 2017, the number of customers using a bundled offering had increased year-on-year by 235,000 or 14.1% to some 1.91 million (growth in Q4: +57,000 customers). Revenue from bundled contracts rose year-on-year by CHF 335 million or 13.4% to CHF 2,837 million.

Offers on the fixed network: telephony continues to decline
The demand for purely fixed-line telephony is falling, and many customers are abandoning their connection as part of service optimisations; as a result, the number of fixed-line telephone connections fell by 320,000 connections year-on-year to around 2.0 million. Swisscom is the only provider to offer a call filter since December 2017 not just for fixed-line telephony, but also for mobile access lines. Unwanted advertising calls are now falling on deaf ears.

The number of fixed-line broadband connections rose year-on-year by 22,000 or 1.1% to around 2.0 million. A strong driver for this is Swisscom TV. With a market share of 33% (prior year: 32%), it is Switzerland's most popular digital TV offering. The number of Swisscom TV connections rose by 49,000 or 3.5% year-on-year to 1.47 million in spite of strong competition from cable network providers. The most popular television in Switzerland was upgraded in November with Entertainment OS3, a fully overhauled operating system with a simplified user interface. This will offer even more content from even more providers, while also making the process of locating programmes and videos even more convenient and personalised.

Offers on the mobile phone network: 74% growth in data roaming
The number of Swisscom mobile lines remained virtually unchanged year-on-year at 6.6 million (+0.4%). The number of postpaid lines rose year-on-year by 90,000, while the number of prepaid lines fell by 65,000. Here too, there is clear evidence of increasing market saturation. However, Swisscom managed to keep its mobile telephony market share essentially stable. Swisscom will introduce new functionalities for the mobile phone network in 2018 with the Rich Communication Suite. This will make communication easier and more varied, allowing customers to exchange content before the call and also to share pictures, videos or locations during the call. The demand for mobile data services remains high: in 2017, around 55% more mobile data traffic was transmitted compared with the prior-year period. Mobiles are increasingly being used to surf the web outside of Switzerland, too, Year-on-year, data traffic generated abroad grew by 74%, while voice traffic grew by 5%. Around three quarters of roaming data volume was no longer billed to residential customers since it was included as part of the mobile service. Constant price reductions and inclusive services impacted the 2017 results by around CHF 50 million.

Corporate business: cloud services facing rising demand
In a very competitive environment, Enterprise Customers posted an increase in incoming orders of 7% (around CHF 2,700 million), successfully defending its market position. With external customers there was a slight fall in revenue (-0.8%) at CHF 2,402 million. Revenue from telecommunications services fell by 3.8%, whereas the solutions business grew by 1.1% (+12 million, of which CHF 5 million in the fourth quarter). The corporate business exceeded the revenue targets set. In October, Swisscom supplemented its own cloud with global solutions from Amazon Web Services and Microsoft Azure. In this way, companies benefit simultaneously from the extensive service offering of a global provider coupled with the personal expertise of a local partner.

Business performance at Fastweb: strong growth in mobile telephony
2017 was an extremely successful year for Fastweb: the company registered around 1.1 million mobile phone customers (+58% year-on-year, in a stagnating market). Fastweb also gained numerous new customers (+4.1% to 2.45 million) in its broadband business, where it holds a market share of 16%, and even one of 23% in ultra-fast broadband connections. Incoming orders increased 31% in a fiercely contested B2B market. Fastweb also held its own in the strongly fragmented wholesale market and consolidated its position as number two. Thanks to its sound business performance, Fastweb’s revenue rose by EUR 149 million or 8.3% to EUR 1,944 million. This resulted in a segment result before depreciation and amortisation (EBITDA) of EUR 759 million, which corresponds to a 14.8% increase. Excluding non-recurring items, the increase was

EUR 58 million or 9.6%.

Capital expenditure at Fastweb grew by 7.1% to EUR 622 million due to accelerated broadband expansion. Fastweb continues to make progress on the expansion of its network. Fastweb's network now extends to eight million households (+500,000 year-on-year) in some 100 Italian towns and cities.

Outlook for 2018

In view of challenging market trends, Swisscom expects net revenue of around CHF 11.6 billion, EBITDA of around CHF 4.2 billion and capital expenditure of less than CHF 2.4 billion for 2018. The figures reveal the following: Swisscom will continue to invest heavily in networks and infrastructure, but will profit increasingly from efficiency improvement measures in its network expansion thanks to the use of different technologies. Subject to achieving its targets, Swisscom will propose payment of an unchanged dividend of CHF 22 per share for financial year 2018 at the 2019 Annual General Meeting.

Swisscom must get ready for the future, especially since the company is facing increasing competition from global, Internet-based companies with competitive cost structures. In February 2016, Swisscom announced that it would be cutting its annual cost base in Switzerland by around CHF 60 million per year by 2020. In view of the persistent market pressure in its core business, Swisscom is raising this target to CHF 100 million per year between the years 2018 and 2020. Swisscom continues to cut costs mainly by simplifying workflows and reducing the number of positions in declining divisions. In contrast, new positions are to be created in growth areas such as the cloud and security.

By the end of 2018, Swisscom expects to have a headcount of around 17,000 FTEs in Switzerland, around 700 fewer than at the end of 2017. This includes, as already announced, the reduction in headcount at Billag Ltd of around 100 jobs. With long-term planning Swisscom wishes to continue to cushion the fall in headcount through natural staff turnover and retirements as much as possible, or to find alternative solutions. Swisscom pays special attention to employees' training and education – in part for the purpose of enhancing their employability. The new collective employment agreement (CEA) concluded in January 2018 reflects this focus. As in the past, Swisscom will heavily rely on training through apprenticeships and will be making around 1,000 apprenticeships available in 2018.

Payment of an unchanged dividend of CHF 22 per share for financial year 2017 will be proposed to the Annual General Meeting on 4 April 2018. The one-year term of office of all members of the Board of Directors expires at the Annual General Meeting. The Chairman and members of the Board of Directors will be standing for re-election. With one exception: Theophil Schlatter will be stepping down from the Board of Directors at the Annual General Meeting. The certified public account is currently Vice-Chairman of the Board of Directors. The Board of Directors sincerely thanks Theophil Schlatter for his many years of service to Swisscom. The Board of Directors has earmarked Roland Abt as his replacement on the Compensation Committee. The Board of Directors proposes 45-year-old Swedish citizen Anna Mossberg as a new member of the Board of Directors and replacement for Theophil Schlatter. Anna Mossberg held an executive position at TeliaSonera for many years and in August 2015 was appointed a member of the Management Team of Google Sweden and made responsible for digitisation in a number of sectors in her capacity as Industry Leader. Thanks to her many years of management experience in the telecommunications and IT sectors as well as her in-depth knowledge of Internet-based services and digitisation, Anna Mossberg will make an ideal enhancement to the Swisscom Board of Directors.

Key figures for 2017 at a glance

	2016	2017	Change
Net revenue (in CHF million)	11,643	11,662	0.2%
Operating income before depreciation and amortisation, EBITDA (in CHF million)	4,293	4,295	0.0%
Operating income, EBIT (in CHF million)	2,148	2,131	-0.8%
Net income (in CHF million)	1,604	1,568	-2.2%
Swisscom TV connections in Switzerland (as at 31 December in thousands)	1,418	1,467	3.5%
Mobile lines in Switzerland (as at 31 December in thousands)	6,612	6,637	0.4%
Revenue from bundled contracts (in CHF million)	2,502	2,837	13.4%
Broadband access lines Fastweb (as at 31 December in thousands)	2,355	2,451	4.1%
Capital expenditure (in CHF million)	2,416	2,378	-1.6%
Of which capital expenditure Switzerland (in CHF million)	1,774	1,678	-5.4%

Group employees (FTEs as at 31 December)	21,127	20,506	-2.9%
Of which Switzerland (FTEs as at 31 December)	18,372	17,688	-3.7%

The detailed Annual Report:
http://www.swisscom.ch/rapport2017

Related documents:
http://www.swisscom.ch/ir

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