Press release

2018 annual financial statements

Good performance – solid results

- **Swisscom's revenue at the prior-year level; EBITDA practically stable on a like-for-like basis**
- **Fastweb attracts more fixed-line and mobile customers; revenue and adjusted EBITDA higher year-on-year**
- **Successful bundled offerings: inOne continues to grow**
- **Growing demand for cloud and IT outsourcing services, but margins under pressure in the business customers segment**
- **Capital expenditure in the networks remains high**
- **Proposal of an unchanged dividend of CHF 22 per share**
- **Forecast for 2019: net revenue of around CHF 11.4 billion, EBITDA of over CHF 4.3 billion and capital expenditure of around CHF 2.3 billion**
- **The key figures at a glance**

"Swisscom achieved its targets and once again turned in a solid performance in a challenging market environment. Demand for our inOne bundled offering continues unabated," said CEO Urs Schaeppi. He added: "We were one of the first providers worldwide to present a 5G smartphone prototype under real conditions on our 5G network and to further develop our TV offering. In the business customers segment, we have a strong position as a full-service provider and are pleased with the growing demand for cloud and security solutions. The progress made with 5G and the fact that we once again took first place in the "connect" network test show that our high capital expenditure in network infrastructure is paying off. The biggest challenges in 2019 will remain market saturation, increasingly fierce competition and high price pressure. In the current year, we aim to further consolidate our market position with attractive offers such as inOne mobile go with integrated roaming in the EU. The quality of our networks and our customer service remain important cornerstones of our success. In addition to this, we are driving forward our company's transformation and rigorously continuing to pursue our cost targets."

Solid business figures, declining Swiss core business, growth at Fastweb

At CHF 11,714 million, Group revenue was stable at the prior-year level (+0.4%). In its saturated Swiss core business, Swisscom generated revenue of CHF 8,817 million (–2.7%). The CHF 242 million decline in revenue from telecommunications services can be largely attributed to persistent price pressure in various segments and to the downward trend in fixed-line telephony. Business in Italy developed positively – Fastweb reported revenue growth of EUR 160 million (+8.2%).

Consolidated operating income before depreciation and amortisation (EBITDA) totalled CHF 4,213 million, 1.9% below that of the previous year. This included exchange rate developments and a number of non-recurring items. In the previous year, Fastweb had received CHF 102 million in income from legal proceedings, while Swisscom's results had been affected by the formation of provisions for restructuring measures. Furthermore, in the 2018 reporting year, EBITDA was impacted by new requirements governing the revenue recognition of customer contracts (IFRS 15). After adjustment, the decline in Swisscom's EBITDA was 0.8%. EBITDA excluding non-recurring items fell by 3.9% on the core Swiss market, while that of Fastweb increased by 5.6%. In overall terms, Swisscom generated solid net profit of CHF 1,521 million, which was only slightly below the prior-year level (–3.0%).

The decline in core business was largely offset by ongoing cost-cutting measures. In 2018, Swisscom exceeded its target of cutting its cost base in Switzerland by CHF 100 million each year until 2020. The number of full-time equivalents (FTEs) in the Group declined to 19,845 in the year under review. As at the end of 2018, Swisscom employed 17,147 FTEs in Switzerland, which equates to 541 or 3.1% fewer employees than at the end of 2017. More than half of the headcount reduction could be absorbed through natural fluctuation thanks to prudent planning and active vacancy management. Around 200 jobs were cut through the existing social plan, which offers higher benefits than the Swiss average and factors in the personal situation of each affected employee. In 2018, 88% of the employees who were supported by the social plan found a new job internally or externally before the social plan benefits stopped.

Network infrastructure: 5G is developing at a lightning pace

Once again, Swisscom won a number of prizes for performance, quality and Swiss network coverage in 2018, and it recently took first place in the Ookla speed test and "connect" network test for mobile services. Swisscom has been investing a lot in its technological leadership for years now. Group-wide capital expenditure remains high, accounting for a fifth of revenue (20.5%) and totalling CHF 2,404 million (+1.1%) in 2018. Of this, CHF 1,645 million (–2.0%) was invested in Switzerland.

Broadband expansion proceeding according to plan

As at the end of 2018, Swisscom had connected around 4.2 million homes and businesses to its ultra-fast broadband service (speeds in excess of 50 Mbps). Some 2.9 million homes and offices benefit from connections with bandwidths of more than 100 Mbps. Swisscom intends to make ultra-fast broadband available in every Swiss municipality by the end of 2021, even in remote locations.

Switch to IP – the final sprint
The switch to IP technology is proceeding as planned. By the end of 2018, 99% of residential customer connections had been migrated. The migration of residential and SME mass market business is to be completed by the end of the first quarter of 2019. Four major regions of Switzerland were fully migrated to IP by the end of 2018.

Broadband on the mobile network – first 5G applications successfully tested
By the end of 2018, 5G test networks were already in operation in Burgdorf, Lausanne, Geneva, Zurich, Berne, Davos and Lucerne. This makes Swisscom one of the first providers worldwide to have fully standardised 5G networks. Expansion is planned to around 60 selected cities and municipalities by the end of 2019.

As at the end of 2018, the nationwide coverage of Swisscom's 4G/LTE network was 99%. Coverage improved significantly again in the past quarter. 95% of the Swiss population can already surf at speeds of up to 300 Mbps, over 72% at speeds of up to 500 Mbps, and some 27% at speeds of 700 Mbps.

More than half of residential customers opt for inOne subscriptions
The number of TV and broadband connections continues to increase, while demand for bundled offerings remains high. inOne's flexible, modular offering meets the needs of residential customers.

Bundled offerings – nearly one million customers using inOne
The number of inOne customers continues to grow rapidly. At the end of the year, Swisscom's inOne customers numbered 2.33 million, which is 988,000 more than in the previous year. This means that inOne covers 54% of all mobile subscriptions and 57% of fixed-line broadband connections. Also, Swisscom once again significantly increased the speed of inOne subscriptions in 2018.

Fixed-line broadband and TV in constant demand
Although the markets for broadband and TV are saturated, Swisscom was able to raise the number of its fixed-line broadband and TV connections further. The number of fixed-line broadband connections rose by 19,000 or 0.9% to 2.03 million, while TV connections increased by 52,000 or 3.5% to 1.52 million.

The decline in traditional fixed-line telephony continues, but has flattened out somewhat. As at the end of 2018, the number of fixed-line telephony connections in the Residential Customers segment totalled 1.64 million. This is 199,000 connections fewer than in 2017.

Mobile communications: increasing use of mobile data and roaming
The number of mobile lines declined by 86,000 or 1.3% to 6.55 million. In a saturated market, the number of postpaid lines grew by 34,000 year-on-year, while the number of prepaid lines fell by 120,000. The use of mobile data services is still increasing. In 2018, 28% more mobile data traffic was transmitted than in the prior-year period. Roaming data volume also increased by 54%. This was due to further price reductions and inclusive services with mobile subscriptions. A large number of customers phone, surf and send SMS messages within Europe without incurring any additional costs.

Enterprise Customers: growth in cloud and outsourcing services
The corporate customer market is fiercely contested and very challenging, with price pressure having increased further and the switch to IP fully under way. Swisscom's offerings meet customers' needs, and customer satisfaction is high. This is reflected in the successful business transactions concluded with corporate customers. Demand for cloud, IT outsourcing and security services also continued to develop positively. The number of mobile connections increased further. Results are, however, under pressure given the highly dynamic market environment. Revenue from telecommunication services fell by CHF 69 million or 6.3%, while revenue in solutions business was down by CHF 42 million or 3.9% year-on-year due to lower volumes in the banking sector. At CHF 2,478 million, incoming orders were down 8.0% year-on-year.

Fastweb grows in all customer segments
Fastweb can look back on a successful 2018 in which it delivered sound financial results in all segments. The number of its mobile customers increased in 2018 by 34.5% to 1.43 million year-on-year, despite market saturation but thanks in no small part to Fastweb's attractive mobile subscriptions with even more services. Fixed-line broadband business also developed positively; as at the end of 2018, Fastweb had 2.55 million (+3.9%) broadband customers. The company's corporate business segment also continued to grow, with revenue up a substantial EUR 70 million (+9.9%).

Overall, Fastweb increased revenue by 8.2% to EUR 2,104 million in 2018. Operating income before depreciation and amortisation (EBITDA) totalled EUR 674 million. Adjusted for one-off income from legal proceedings in the previous year and other non-recurring items, EBITDA increased by 5.6%.

Outlook for 2019: EBITDA of over CHF 4.3 billion
For 2019, Swisscom expects net revenue of around CHF 11.4 billion, EBITDA of over CHF 4.3 billion and capital expenditure of around CHF 2.3 billion. The outlook for EBITDA

is influenced by a new accounting standard for leasing (IFRS 16). From 2019 onwards, rental and leasing costs in the income statement will not be reported in EBITDA, which will raise this figure by some CHF 200 million. The costs of acquiring mobile frequencies at auction are not included in the capital expenditure forecast. Subject to achieving its targets, Swisscom will propose payment of an unchanged, attractive dividend of CHF 22 per share for the 2019 financial year at the 2020 Annual General Meeting.

The entire industry is being transformed by digitisation. At the same time, Swisscom is increasingly competing with global, Internet-based companies with low costs. As already announced, Swisscom aims to continue to reduce its cost base after 2018, by some CHF 100 million annually in 2019 and 2020. The company aims to continue to realise savings mainly by simplifying work processes, using more reasonably priced systems and reducing the number of vacancies in divisions with declining business. In contrast, new jobs will generally be created in growth areas such as the cloud or security.

Overall, Swisscom expects vacancies in Switzerland to decline slightly in 2019, depending on market development. By means of long-term planning, Swisscom aims to continue to cushion the reduction in headcount through natural fluctuation and retirements as much as possible, or to find alternative solutions. Swisscom pays special attention to employees' training and education. The collective employment agreement concluded in 2018 addresses this point by allowing every employee five training days. The goal is to maintain and strengthen the employability of Swisscom employees. As in the past, Swisscom is also firmly committed to the training of apprentices and will be making 960 apprenticeships available in 2019.

Two members of the Board of Directors proposed for re-election
The one-year term of office of all members of the Board of Directors expires at the Annual General Meeting. Catherine Mühlemann has exceeded the maximum term of office and will retire from the Board of Directors at the Annual General Meeting. Valérie Berset Bircher stepped down as employee representative on 31 December 2018 for professional reasons. The Board of Directors would like to thank Catherine Mühlemann and Valérie Berset Bircher for their commitment to Swisscom. The Chairman and all other members of the Board of Directors will be standing for re-election. The Board of Directors proposes Michael Rechsteiner (1963) for election. Michael Rechsteiner is the head of Power Services and Gas Power Europe at General Electric. He has a Master of Mechanical Engineering from ETH Zurich and a Master of Business Administration from the University of St. Gallen, as well as many years of management experience at international corporations. As a new employee representative, the Board of Directors proposes Sandra Lathion-Zweifel (1976). Sandra Lathion-Zweifel is counsel for the Lenz &

Staehelin law firm in Geneva. She has a licentiate degree in law, a Master of Laws from Columbia University, New York, and a trader's licence from the SIX Swiss Exchange, as well as many years of management experience in the financial industry and as a lawyer. Sandra Lathion-Zweifel and Michael Rechsteiner are ideal additions to the Board of Directors. The representative of the Swiss Confederation, Renzo Simoni, is not elected by the Annual General Meeting and is instead appointed by the Federal Council.

The election of PricewaterhouseCoopers (PwC) as the new auditor will also be proposed to the Annual General Meeting. This is in keeping with the announcement one year ago that the auditor's mandate would be put out to tender.

Key figures at a glance

	1.1.– 31.12.2017	1.1.– 31.12.2018	Change (adjusted*)
Net revenue (in CHF million)	11,662	11,714	0.4% (–0.3%)
Operating income before depreciation and amortisation, EBITDA (in CHF million)	4,295	4,213	–1.9% (–0.8%)
Operating income, EBIT (in CHF million)	2,131	2,069	–2.9%
Net income (in CHF million)	1,568	1,521	–3.0%
Swisscom TV connections in Switzerland (on Dec. 31, in thousands)	1,467	1,519	3.5%
Retail broadband connections in Switzerland (on Dec. 31, in thousand)	2,014	2,033	0.9%
Mobile access lines in Switzerland (on Dec. 31, in thousands)	6,637	6,551	–1.3%
Fastweb broadband connections (on Dec. 31, in thousands)	2,451	2,547	3.9%
Fastweb mobile lines (on Dec. 31, in thousands)	1,065	1,432	34.5%
Capital expenditure (in CHF million)	2,378	2,404	1.1%
Of which capital expenditure Switzerland (in CHF million)	1,678	1,645	–2.0%

Group employees (FTEs on Dec. 31)	20,506	19,845	−3.2%
Of which employees in Switzerland (FTEs on Dec. 31)	17,688	17,147	−3.1%

* On a like-for-like basis and at constant exchange rates

Detailed annual report:

http://www.swisscom.ch/report2018

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

Pictures

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