Press release

2015 Annual Report:

Swisscom holding its ground in a challenging environment

	2014	2015	Change (adjusted)
Net revenue (in CHF million)	11,703	11,678	-0.2% (0.7%)
Operating income before depreciation and amortisation, EBITDA (in CHF million)	4,413	4,098	-7.1% (2.3%)
Operating income EBIT (in CHF million)	2,322	2,012	-13.4%
Net income (in CHF million)	1,706	1,362	-20.2%
Swisscom TV access lines in Switzerland (as at 31 December in thousands)	1,165	1,331	14.2%
Mobile lines in Switzerland (as at 31 December in thousands)	6,540	6,625	1.3%
Revenue from bundled contracts (in CHF million)	1,921	2,234	16.3%
Broadband access lines Fastweb (as at 31 December, in thousands)	2,072	2,201	6.2%
Capital expenditure (in CHF million)	2,436	2,409	-1.1%
Of which capital expenditure Switzerland (in CHF million)	1,751	1,822	4.1%
Group employees (FTEs as at 31 December)	21,125	21,637	2.4%
Of which Switzerland (FTEs as at 31 December)	18,272	18,965	3.8%

- **Revenue falls by 0.2%, but increases by 0.7% when adjusted for company acquisitions, disposals and exchange rates**
- **EBITDA down by 7.1%, but rises 2.3% on a like-for-like basis**
- **Reduction in roaming fees of around CHF 100 million**
- **High level of capital expenditure in broadband networks and IT (+4.1% in Switzerland)**
- **Fastweb posts higher revenue in EUR (+2.8%) and an increase in EBITDA (+11.8%)**
- **Payment of an unchanged dividend of CHF 22 per share will be proposed to the Annual General Meeting**
- **For 2016, Swisscom expects revenue in excess of CHF 11.6 billion, EBITDA of around CHF 4.2 billion and capital expenditure of over CHF 2.3 billion**

- **The cost base is planned to be reduced by over CHF 300 million by 2020**

"Currency effects and more intense competition with stronger price dynamic characterised our business in the last year", said CEO Urs Schaeppi. "In view of the challenging environment in the ICT market, I am satisfied with our operating business. On a like-for-like basis, we achieved a slight increase in revenue as well as operating income (EBITDA). The expansion of the national infrastructure and new offerings according to the needs of our customers will continue to call for high capital expenditure. Fastweb recorded positive customer growth of 6.2% in the Italian market. As a result of strong competition and price pressure, we set ourselves the goal of reducing our costs by over CHF 300 million by 2020."

In 2015, Swisscom's net revenue fell by CHF 25 million or 0.2% year-on-year to CHF 11.678 million. Adjusted for company acquisitions and disposals and on the basis of constant exchange rates, revenue increased by CHF 83 million or 0.7%, of which CHF 57 million was attributable to the Swiss core business.

Higher adjusted EBITDA – additional provision for restructuring of CHF 70 million
Swisscom increased its adjusted operating income (EBITDA), but reported EBITDA fell as a result of non-recurring items by CHF 315 million or 7.1% to CHF 4,098 million. The main reason for this decline is the provision for ongoing proceedings. At the beginning of October 2015, the Federal Administrative Court confirmed in principle the ruling issued by the Competition Commission for the alleged improper pricing of broadband services in the period up until the end of 2007; however, it reduced the penalty to CHF 186 million. Swisscom therefore recognised a provision for this amount in its income statement. Swisscom does not consider the sanction justified and lodged an appeal with the Federal Court. Adjusted for this provision and other non-recurring items such as company acquisitions and disposals, a provision for redundancies (CHF 70 million), gains from the sale of real estate (CHF 40 million), pension costs not affecting cash flow (CHF 60 million), the settlement from a legal case (CHF 17 million), and on the basis of constant exchange rates (CHF 79 million), EBITDA increased by CHF 103 million or 2.3%. Net income declined by 20.2% to CHF 1,362 million, largely due to one-off items, which accounted for CHF 339 million.

Group headcount increased by 512 FTEs to 21.637, an increase of 2.4%. Excluding acquisitions and disposals, the number of staff increased by 277 FTEs or 1.3%. This increase was the result of new services such as Cloud Services or solutions for the healthcare sector.

Greater investment in network expansion in Switzerland
Group-wide capital expenditure fell by CHF 27 million or 1.1% to CHF 2,409 million; in Switzerland, it rose by CHF 71 million or 4.1% to CHF 1,822 million due to the expansion of broadband networks. As at the end of 2015, Swisscom had connected around 2.9 million homes and businesses to its ultra-fast broadband service (speeds in excess of 50 Mbps). Of this number, around 2.0 million lines were equipped with the latest fibre-optic technology. This makes Swisscom a market leader by international standards.

Progress is continuing to be made on expanding the high-speed 4G/LTE network. 98% of all Swisscom customers are able to enjoy the advantages of the latest-generation mobile network.

With the launch of Advanced Calling, Swisscom significantly improved voice quality and coverage indoors in the last year, increasing 4G/LTE network capacity. Today, 73% of mobile data traffic at Swisscom is already transmitted on the 4G/LTE network. Swisscom will discontinue the outdated 2G network in Switzerland at the end of 2020, in order to free up frequencies for the new 5G technology. Further developing and expanding the mobile network is essential, since mobile data traffic continues to increase at a rapid pace. In 2015, the volume of mobile data transmitted doubled in comparison with the prior-year period.

The number of mobile access lines increased year-on-year by 85,000 or 1.3% to 6.6 million. The growth of roaming data traffic has accelerated thanks to falling prices, with the volume increasing by a factor of 2.4 in 2015 in comparison with the prior-year. Customers with the Natel infinity plus package can also enjoy carefree use of their phones within the EU, with unlimited calls and SMS as well as 1 GB of mobile data for 30 days per year being included in all infinity plus subscriptions. The resulting price reduction amounted to around CHF 100 million in 2015. Swisscom is therefore much more affordable when compared with offerings from competitors that include roaming. At the end of 2015, Natel infinity plus had already attracted 909,000 customers.

The number of mobile postpaid access lines increased year-on-year by 124,000, while the number of prepaid access lines declined by 39,000 in comparison with 2014. The share of postpaid customers using a smartphone increased from 73% to 76% within the space of a year.

Strong growth at Swisscom TV despite intense competition
Despite fierce competition with cable network operators, the number of Swisscom TV access lines rose year-on-year by 166,000 or 14.2% to 1.33 million, over 60% of which use the cloud-based service Swisscom TV 2.0. The number of fixed-line broadband connections (retail) enjoyed a year-on-year increase of 68,000 or 3.6% to 1.96 million. The growth in the number of TV and broadband connections (+149,000) more than offset the decline in the number of fixed network telephone connections. The number of revenue generating units (RGUs) increased year-on-year by 170,000 or 1.4% to 12.5 million.

The great demand for bundled offerings with flat-rate tariffs continues: by the end of 2015, the number of customers using a bundled package had increased year-on-year by 207,000 or 17.1% to 1.42 million. Revenue from bundled contracts rose year-on-year by CHF 313 million or 16.3% to CHF 2,234 million.

Incoming orders in the Enterprise Customers division climb 11.5%
The new Enterprise Customers division that grew out of the merger of Swisscom's IT and telecoms activities in 2014 increased revenue with external customers by CHF 105 million or 4.5% year-on-year to CHF 2,449 million. Adjusted for company acquisitions, revenue fell by 0.7% as a result of lower volumes in project business and strong price pressure. Swisscom gained well-known corporate customers for the implementation of cloud and digitisation strategies. Incoming orders rose by 11.5% year-on-year.

Fastweb attracts 6.2% more broadband customers – making 2015 a successful business year

Fastweb's revenue in Italy increased by EUR 48 million or 2.8% to EUR 1,736 million thanks to customer growth. The customer base in the broadband business grew by 129,000 or 6.2% to 2.20 million within the period of a year. Average revenue per broadband customer in the Residential Customers segment fell by around 3% year-on-year due to the fierce competition. Nevertheless, this decline was outweighed by customer growth, with revenue from residential customers rising accordingly by EUR 36 million or 4.8% year-on-year to EUR 789 million. Revenue from corporate business increased by EUR 11 million or 1.4% to EUR 800 million, while wholesale business revenue remained stable at EUR 143 million.

The segment result before depreciation and amortisation (EBITDA) increased by EUR 61 million year-on-year or 11.8% to EUR 576 million. Excluding a received compensation of EUR 15 million from legal proceedings, EBITDA increased by EUR 46 million or 8.9%. Adjusted EBITDA margin increased by 1.8 percentage points to 32.3%. Capital expenditure of EUR 541 million was recorded, after a year-on-year decrease of EUR 21 million or 3.7%. Fastweb achieved a free cash flow of EUR 77 million in 2015.

Looking ahead: a challenging 2016 – reducing costs by 2020
For 2016, Swisscom expects net revenue of over CHF 11.6 billion, EBITDA of around CHF 4.2 billion and capital expenditure of over CHF 2.3 billion. Due to strong competition and price pressure, Swisscom expects revenue to be slightly lower without Fastweb and slightly higher if Fastweb is included. Adjusted for the provisions drawn up in 2015 for proceedings with regard to broadband services and for a headcount reduction, Swisscom expects EBITDA to be about CHF 200 million lower (excluding Fastweb) compared to the previous year. In addition to the price-related decline in revenue, the costs for roaming in particular are expected to increase. EBITDA is expected to be positively affected by cost savings of around CHF 50 million and growth at Fastweb. Slightly reduced capital expenditure in Switzerland of over CHF 1.7 billion will result in lower overall capital expenditure of over 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.

In 2016, Swisscom will continue to operate in a highly competitive market, which is characterised by significant upheavals, fierce competition and strong price pressure. Swisscom has set itself the goal of reducing its 2015 cost base by over CHF 300 million by 2020, which it hopes to achieve with the organisational changes implemented on 1 January 2016, headcount reductions, process optimisation measures and the migration to All-IP technology. This will release funds, enabling Swisscom to continue investing in infrastructure and new business areas and to make targeted use of the opportunities offered by digitisation.

Reduction of call centre sites from 14 to 8
Swisscom will reduce its call centres for customers, currently distributed over 14 sites, to eight sites by the end of 2016. The employees at the sites in Zurich, Berne, Basel, Geneva, Lucerne and Rapperswil will be concentrated at the remaining eight sites in Lausanne, Neuenburg, Biel, Olten, Sion, St. Gallen, Chur and Bellinzona. Headcount at the Olten, St. Gallen and Biel sites will increase by more than 50% in some cases. For the majority of employees, switching to a new site will be reasonable in terms of their journey to and from work.

To increase flexibility and the ability to cope with peak loads, Swisscom is stepping up its collaboration with call-centre partner companies in Switzerland. Activities that are not part of the core business and whose contents are less complex, will be increasingly handled by the partners in the future. Swisscom will continue to operate the call centre services from Switzerland. As before, the aim of the measures will be to offer the best customer service in the sector.

Structural change in the workplace

The way business continues to change has been transforming the jobs offered by the company for many years: some posts in traditional business areas are being lost and are replaced by jobs in new, innovative areas. Overall, Swisscom will create up to 500 jobs in growth areas in Switzerland in the current year; however, it will also reduce the workforce in other areas by several hundred posts, mainly in supporting units.

A very well-established social plan is in place for the employees concerned. It offers higher benefits than the Swiss average and factors in the personal situation of the affected employee. Swisscom assumes that, in the current year, around 700 employees, mainly in supporting units, will call on the social plan as a result of the redundancies. The costs associated with the social plan will be recognised in Swisscom's income statement in the 2015 Annual Report with a one-off cost of CHF 70 million. Overall, Swisscom expects the headcount in Switzerland at the end of 2016 to be slightly lower than at the end of 2015.

Unchanged dividend proposed – change on the Board of Directors

Payment of an unchanged ordinary dividend of CHF 22 per share will be proposed to the Annual General Meeting on 6 April 2016. The one-year term of office of all members of the Board of Directors expires at the Annual General Meeting. Torsten Kreindl and the two employee representatives Michel Gobet and Hugo Gerber will be retiring from the Board of Directors on that date. The Chairman and all other members of the Board of Directors will be standing for re-election. The Board of Directors thanks the outgoing members for their many years of service to Swisscom.

The Board of Directors is proposing Valérie Berset Bircher and Alain Carrupt as employee representatives, as well as Roland Abt. Valérie Berset Bircher (1976), Dr. iur., Swiss, has been Deputy Head of the Labour Affairs Unit of the State Secretariat for Economic Affairs (SECO) in Berne since 2007. Alain Carrupt (1955), Swiss, has been Chairman of the trade union syndicom since 2014. He will step down from this role in February. Roland Abt (1957), Dr. oec., Swiss, has been Head of Finance and member of the Executive Committee of Georg Fischer Corporation since 2004.

The Board of Directors proposes that the current member Frank Esser be elected to the Remuneration Committee in place of Torsten Kreindl.

The detailed annual report:

www.swisscom.ch/report2015

Related documents:

http://www.swisscom.ch/ir

Berne, 4 February 2016

Disclaimer
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