swisscom

Press release

Swisscom holds its ground during a challenging 2016

Revenue stable, a slight increase in EBITDA, an impressive market performance +++ Reduction in roaming fees of around CHF 100 million and a saturated mobile communications market +++ Market success in TV connections, bundled products and solutions business with corporate customers +++ Sustained high level of capital expenditure in networks +++ Record sales posted at Fastweb +++ Payment of an unchanged dividend of CHF 22 per share will be proposed to the Annual General Meeting +++ Forecast for 2017: revenue of around CHF 11.6 billion, EBITDA of around CHF 4.2 billion and capital expenditure of around CHF 2.4 billion +++ The key figures at a glance

CEO Urs Schaeppi is delighted with the results: "We have lived up to our promise and achieved the forecast for 2016. It was certainly hard going and the pressure on prices and the reduction in roaming fees presented us with a real challenge. But we worked on cutting our costs and performed well on the market. I am especially pleased with innovations such as the G.fast data transmission standard, the further development of our TV offering and the progress we have made in the corporate business. I was also impressed by the market performance of Fastweb in Italy. In future we will do our utmost to ensure Swisscom's entrepreneurial freedom and ability to invest and innovate in an extremely competitive market."

Swisscom's consolidated net revenue remained practically unchanged compared with the previous year at CHF 11,643 million, which is quite remarkable considering the price pressure and market environment. In the Swiss core business, its revenue sank by 1.1% to CHF 9,440 million, primarily as a result of falling revenue from telecommunications services and included roaming services. Fastweb ensured revenue remained stable overall, however. The Italian company impressed with a strong market performance and successfully boosted its revenue by 3.4% to EUR 1,795 million.

Compared with the prior year, Swisscom increased its consolidated operating income before depreciation and amortisation (EBITDA) by 4.8% in overall terms to CHF 4,293 million; however EBITDA fell slightly, by 1.2%, on an adjusted basis. This is attributable in particular to a declining result in the Swiss core business (-3.2%), due to pressure on pricing, the cost of roaming and winning new customers as well as low subscription growth. EBITDA is positively affected, however, by cost savings of around CHF 50 million and growth at Fastweb. EBITDA for the Group's Italian subsidiary increased sharply on a like-for-like basis by 8.0%, which was thanks to a good operational performance. Overall, Swisscom successfully exceeded its own EBITDA forecast. Net income rose by 17.8% to CHF 1,604 million, largely due to non-recurring items.

At CHF 2,416 million, Group-wide capital expenditure was roughly on a par with last year (+0.3%). This is attributable to a slight decrease in capital expenditure in Switzerland (-2.6%) and a sharper increase in capital expenditure in the infrastructure of Fastweb in Italy (+7.4%).

Swisscom reduced its headcount in Switzerland by around 3% in 2016. Anticipatory planning, careful vacancy management and retraining ensured that this downsizing involved normal fluctuation wherever possible. The Group's headcount came to 21,127 FTEs at the end of 2016.

More than 18% growth: demand remains high for bundled offerings
The fixed-network business (retail) is being affected by two opposing trends: demand for TV and broadband connections continues to grow on the one hand, while at the same time more and more customers are opting out of fixed-line telephony. As a result, the number of fixed-line telephone connections fell by 262,000 connections to around 2.4 million in 2016. Conversely, the number of fixed-network broadband connections rose by 34,000 or 1.7% to around 2.0 million.

The number of Swisscom mobile lines remained virtually unchanged year-on-year at 6.6 million (-0.2%). The number of postpaid lines rose year-on-year by 51,000, while the number of prepaid lines fell by 64,000. This is a clear reflection of the increasing market saturation. Swisscom managed to keep its mobile telephony market share essentially stable, however. The success of Natel infinity 2.0 played a significant role here: Swisscom's latest subscription offer reported more than a million customers just nine months after its launch and offers at least 30 days of roaming usage within the EU in addition to unlimited mobile communication in Switzerland.

The demand for mobile data services remains high: in 2016, around 78% 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, with data traffic rising by a factor of 2.2 and voice traffic by 11% year-on-year. 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 2016 result by around CHF 100 million.

With a market share of 32% (prior year: 29%), Swisscom TV is Switzerland's most popular digital TV offering. The number of Swisscom TV connections rose year-on-year by 145,000 or 10.9% to 1.48 million despite fierce competition with cable network operators. Swisscom TV is a key driver of bundled offerings, the popularity of which continued to rise in 2016. Practically all new fixed-network customers nowadays opt for a bundled offering so that they get all their telecommunications services from a single source. By the end of 2016, the number of customers using bundled packages had increased year-on-year by 256,000 or 18.1% to 1.67 million. Revenue from bundled contracts increased by CHF 268 million or 12.0% to CHF 2,502 million. For the third-party brands Wingo and M-Budget, Swisscom has provided a comprehensive range of fixed-network and mobile connections since 2016.

Solutions business for corporate customers posts further growth
The Enterprise Customers segment posted a 5.1% decline in the volume of incoming orders but was still able to successfully defend its market position. This resulted in a slight fall in revenue (-1.6%) of CHF 2,611 million. Revenue from telecommunications services fell by 4.4%, while the solutions business grew by 2.2%, which was above all down to managed network services and large IT outsourcing projects. Demand for security products to protect company networks – managed security solutions – increased by 17% compared with the previous year. Swisscom also gained well-known business customers for the implementation of cloud and digitisation strategies.

Broadband expansion making good progress, switchover to IP technology proceeding according to plan

Sustained large investments ensure that the Swisscom network infrastructure stays fit for the future. The performance, coverage and quality of Swisscom's mobile and fixed networks are equally high. As at the end of December, Swisscom had connected more than 3.5 million homes and businesses to its ultra-fast broadband service (speeds in excess of 50 Mbps), thus reaching more than two thirds of the population. To this end, Swisscom relies on a mix of technologies comprising fibre-optic and copper networks and on transmission standards such as G.fast. Swisscom began operating this technology for enhancing the performance of existing copper networks in September 2016, becoming the first European telecommunications provider to do so. Innovative network architectures in conjunction with G.fast enable Swisscom to expand its network twice as quickly and at a third of the cost of using only fibre-optic technology. The bottom line is that this makes it possible to expand the network at an accelerated rate, meaning Swisscom will have modernised the majority of the fixed broadband network infrastructure in every Swiss municipality by the end of 2021. Around 90% of the population will then benefit from extremely fast broadband access (speeds in excess of 80 Mbps).

Regarding the fixed network's switchover to IP technology, Swisscom is on track. By the end of 2016, Swisscom had migrated the lines of around 1.5 million customers – corresponding to roughly two thirds of its customer base – to IP technology. Swisscom intends to transition all of its services – including voice telephony, TV and data – to All IP by the end of 2017. The old telephony infrastructure will be gradually taken out of operation from 2018 onwards. Swisscom will of course work closely with any customers that have not switched their equipment over at this time.

In the mobile telecommunications sector, 99% of all Swisscom customers benefit from the modern 4G network, enabling them to surf the Internet at speeds of up to 450 Mbps while on the move. Excellent coverage across Switzerland is ensured by more than 8,000 base stations, around 2,500 of which are installed within buildings. In 2017, Swisscom will increase surfing speeds to as high as 1 Gbps and allow for additional capacity, and in the medium term, the mobile network will be expanded to include 5G. To this end, Swisscom is collaborating closely with Ericsson and the École polytechnique fédérale de Lausanne (EPFL).

Fastweb attracts 7.0% more broadband customers – making 2016 a successful business year

2016 was an extremely successful year for Fastweb: it acquired many new customers in the broadband business (+7.0% to 2.36 million) and boosted its revenue by EUR 59 million to EUR 1,795 million (+3.4%) as a result. The segment result before depreciation and amortisation (EBITDA) totalled EUR 661 million, corresponding to an increase of 14.8%. Excluding non-recurring items, the increase was EUR 45 million, or 8.0%.

Fastweb continues to make progress on the expansion of its network. 810,000 customers were connected to the company's own ultra-fast broadband network at the end of 2016 (+25%), which represents around one-third of all Fastweb broadband customers. The Fastweb network now extends to around 100 towns and cities in Italy, thus covering 30% of the population or 7.5 million households. Capital expenditure at Fastweb grew by 7.4% to EUR 581 million due to accelerated broadband expansion.

Looking ahead: a challenging 2017, a sustained high level of capital expenditure

For 2017, Swisscom expects a net revenue of around CHF 11.6 billion, EBITDA of around CHF 4.2 billion and capital expenditure of around CHF 2.4 billion. If the targets are met, Swisscom will propose to the 2018 Annual General Meeting payment of an unchanged dividend of CHF 22 per share for the 2017 financial year.

Payment of an unchanged dividend of CHF 22 per share will be proposed to the Annual General Meeting on 3 April 2017. The one-year term of office of all members of the Board of Directors expires at the Annual General Meeting. Hans Werder will be stepping down from the Board of Directors as of the date of the next Annual General Meeting. The Board of Directors thanks Hans Werder for his many years of service to Swisscom. As already announced, the Board of Directors has chosen Dr Renzo Simoni (born 1961), who has been Chairman of the Management Board at AlpTransit Gotthard AG since 2007, to represent the government on Swisscom's Board of Directors. The Chairman and all other members of the Board of Directors will be standing for re-election. The Board of Directors proposes that the Dr Renzo Simoni be elected to the Compensation Committee in place of the outgoing Hans Werder.

The regulatory environment will continue to be a challenge in 2017. Entrepreneurial freedom, innovations and a high level of investments continue to be of central importance for Swisscom in an increasingly globalised environment. This is also true with regard to a potential revision of the Federal Telecommunications Act and various other upcoming antitrust and legislative proceedings.

"For 2017 I am expecting a continued high level of pressure on prices. Nevertheless, we will continue to maintain the high levels of investment in our infrastructure. We will be investing around CHF 1.75 billion in Switzerland, more than CHF 500 million of which will be going to the expansion of our fibre-optic networks. This is our trump card for the future – but it does cost a lot of money. We must therefore continue to be a successful player on the market and will put all of our energy into supporting each and every one of our customers. We want to be the best companion for our customers in today's networked world," explains CEO Urs Schaeppi.

Swisscom will therefore

- continue to defend its core business, particularly by expanding its attractive bundled offerings.
- develop new growth areas, in the solutions business with corporate customers and for ICT applications for the health and finance industries.
- help Fastweb to achieve further success, particularly by expanding its networks and the new mobile phone offering, both in cooperation with Telecom Italia.
- continue to increase its efficiency. As has already been announced, Swisscom plans to reduce its cost base by over CHF 300 million between 2015 and 2020. With this in mind, the reorganisation of Swisscom will continue into 2017. By the end of 2017, Swisscom expects to have a headcount of around 17,900 FTEs in Switzerland, around 500 fewer than at the end of 2016. As ever, Swisscom strongly relies on training through apprenticeships and will be making around 900 apprenticeships available in 2017.
- prepare for new business models and technologies and make use of the opportunities that these offer, such as the virtualisation of infrastructure.

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Key figures for 2016 at a glance

	2015	2016	Change
Net revenue (in CHF million)	11,678	11,643	-0.3%
Operating income before depreciation and amortisation, EBITDA (in CHF million)	4,098	4,293	4.8%
Operating income EBIT (in CHF million)	2,012	2,148	6.8%
Net income (in CHF million)	1,362	1,604	17.8%
Swisscom TV connections in Switzerland (as at 31 December in thousands)	1,331	1,476	10.9%
Mobile lines in Switzerland (as at 31 December in thousands)	6,625	6,612	-0.2%
Revenue from bundled contracts (in CHF million)	2,234	2,502	12.0%
Broadband access lines Fastweb (as at 31 December, in thousands)	2,201	2,355	7.0%
Capital expenditure (in CHF million)	2,409	2,416	0.3%
Of which capital expenditure Switzerland (in CHF million)	1,822	1,774	-2.6%
Group employees (FTEs as at 31 December)	21,637	21,127	-2.4%
Of which Switzerland (FTEs as at 31 December)	18,965	18,372	-3.1%

The detailed Annual Report:
http://www.swisscom.ch/report2016

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

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