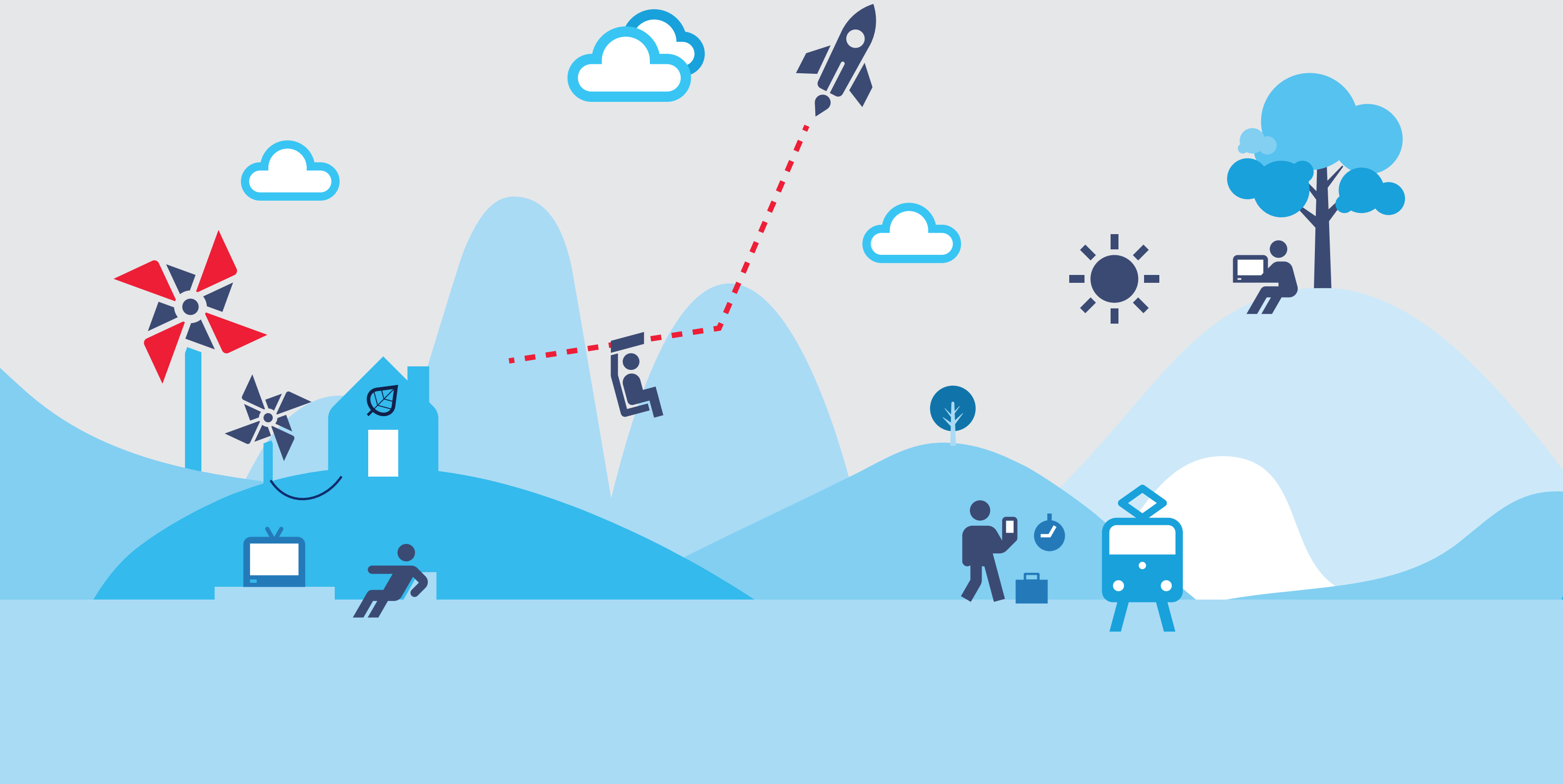
2014
Annual Report



Welcome to the country of possibilities

Swisscom is connecting Switzerland: Thanks to our network, products and services, our customers have a sense of independence and are able to use these in any way they please, regardless of the location and time.

Swisscom assumes responsibility: Together with the Swiss population, we are committed to our company.

Swisscom promotes skilled employees, i. e. people who want to work together to make things happen for the Switzerland of the future.

Shareholders’ letter

Dear Shareholders

Swisscom can look back on a successful year with strong customer growth and stable core business. Targeted capital expenditure in network and IT infrastructure is resulting in higher bandwidths and coverage. Swisscom is tapping into new business areas through innovation and the development of its core business, enabling it to guide its customers into a future where the real and virtual worlds are blending into one.
The launch of Swisscom TV 2.0 and the ongoing trend towards bundled offers and flat-rate fees are important success drivers. Despite continuing competition and price pressure, characterised by general price erosion and further price reductions for roaming services, operating income increased compared with the previous year. Fastweb is also developing nicely, with more than two million broadband customers.

Increase in Group revenue and operating income

In 2014, Swisscom’s net revenue rose by CHF 269 million or 2.4% to CHF 11,703 million, and operating income before depreciation and amortisation (EBITDA) grew by CHF 111 million or 2.6% to CHF 4,413 million. Excluding one-off items, and at constant exchange rates, net revenue and EBITDA increased by 1.9% and 0.9%, respectively. Net income increased by CHF 11 million or 0.6% to CHF 1,706 million. The increase in EBITDA was offset in part by higher depreciation and amortisation and higher income tax expense. Capital expenditure increased by CHF 40 million or 1.7% to CHF 2,436 million due to the expansion of network infrastructure.

Solid business performance in Switzerland

In its Swiss business, Swisscom generated net revenue of CHF 9,586 million (+2.4%) and EBITDA of CHF 3,788 million (+2.8%). Adjusted for one-off items, revenue and EBITDA were up 1.4% and 0.6%, respectively, year-on-year. Price erosion of CHF 360 million (of which CHF 170 million resulted from reductions in roaming fees) in the Swiss core business was outweighed by customer and volume growth. Capital expenditure in Switzerland rose by CHF 65 million or 3.9% to CHF 1,751 million. The higher capital expenditure is primarily due to the expansion and upgrading of mobile and fixed network infrastructure with the latest technologies. At the end of 2014, Swisscom had connected more than 1.4 million homes and offices to ultra-fast broadband. In Switzerland, headcount increased by 910 full-time equivalents or 5.2% to 18,272 as a result of company acquisitions, the hiring of new staff and the strengthening of customer service operations.

Fastweb developing nicely

As a result of the difficult economic situation, the Italian market is very challenging, but Italian subsidiary Fastweb is developing nicely. The high capital expenditure of previous years is paying off in 2014. Excluding hubbing, Fastweb’s net revenue was EUR 63 million or 3.9% higher at EUR 1,660 million. In 2014, Fastweb had more than two million broadband customers (+6.7%), gained market share and improved its market position among both residential customers and business customers. EBITDA increased by EUR 10 million or 2.0% year-on-year to EUR 515 million. Capital expenditure remained on a par with the previous year at EUR 562 million (–0.5%). Fastweb is continuing its expansion of the ultra-fast broadband network and by the end of 2016 aims to have covered around 7.5 million homes and offices in Italy, i.e. 30% of the population.

Swisscom share performance in 2014

The Swisscom share price rose by 11% in 2014, which is 1.5 percentage points higher than the average price gain of 9.5% posted by the 20 leading Swiss companies on the Swiss Exchange (SMI). In terms of total shareholder return (share price movement and dividend payout), Swisscom outperformed the SMI due to the high dividend yield. Payment of an unchanged ordinary dividend of CHF 22 per share will be proposed to the Annual General Meeting of Shareholders. This is equivalent to a total dividend payout of CHF 1,140 million. Swisscom is thus upholding the principle of continuity in its dividend policy.

Always and everywhere online – in the country of possibilities

The digital world is increasingly becoming a part of all aspects of the economy and society. The three trends “always online”, “Internet-based” and “global competition” grew stronger over the year.
Always online: in a few years, we will be accessing all personal and professional applications and data in real time, irrespective of the end device. And it’s not just people, but also intelligent applications and devices that are increasingly connected with one another and they will grow to be even more integrated in future. Digitisation and mobility are changing business models and allowing for better customer experiences.
Internet-based: in future, all products and services will be operated on the basis of Internet protocol. Storage space, processing power and software will increasingly be sourced from a secure cloud.
Global competition: digitisation and the spread of Internet-based communication services are creating international markets. Worldwide competitors benefit from global economies of scale and are changing business models in the telecoms market. Technical feasibility and changes in user behaviour are driving mobility. At the same time, the demands placed on our infrastructure with respect to availability, performance and security continue to rise. In order to prepare for the merging of the virtual and real world, Swisscom has enhanced its customer promise: Swisscom is the best companion in today’s networked world. Trusted, simple, inspiring – Swisscom puts people and their relationships at the heart of all it does.

Targeted capital expenditure for high bandwidth – the best infrastructure

The importance of the Internet for both personal and professional use continues to grow, which entails greater user demand for high-performance, secure and area-wide network access. In the high-investment competitive environment for the provision of networks among cable network operators, power utility companies and mobile network operators, Swisscom offers its customers the best network. For this reason, Swisscom invested CHF 1.75 billion in its network and IT infrastructure in Switzerland, most of which was used to expand the mobile network with 4G/LTE and the ultra-fast broadband fixed network.
Swisscom offers its customers mobile network access with a wide variety of service attributes at a fixed price, providing them with unlimited use of many communication services. The fundamental difference among Swisscom offerings is the access speed. The infinity mobile subscriptions launched in 2012 are popular: 2.1 million customers have already switched to one of them.
Similarly, in fixed-line services the focus is increasingly being placed on package offers that differ primarily in the bandwidth and range of services they offer. Swisscom has consistently focused on meeting customer needs with its Vivo packages. The Vivo packages, ranging from light to XL, combine TV, Internet and fixed-line access and offer the ideal subscription for individual needs.

Broader mix of the state-of-the-art ultra-fast broadband technologies

By the end of 2014, Swisscom had connected more than 1.4 million homes and offices with ultra-fast broadband – from Fibre-to-the-Home (FTTH) to the latest fibre-optic technology such as Fibre-to-the-Street (FTTS), Fibre-to-the-Building (FTTB) and vectoring technology. Thanks to vectoring and the use of G.fast, a new transmission standard on FTTS and FTTB, bandwidths of up to 500 Mbps will soon be possible on traditional copper connections. Swisscom will be supplying 2.3 million homes and offices with ultra-fast broadband by the end of 2015. Its goal is to provide the entire country with the highest possible bandwidth in the coming years.

More bandwidth in the mobile network

Swisscom has expanded and upgraded its entire mobile network in recent years. As the first mobile network operator in Switzerland, Swisscom commenced the commercial operation of 4G/LTE, the fourth-generation mobile network, in 2012. By the end of 2014, Swisscom had already provided 4G/LTE coverage to 97% of the Swiss population, and nearly a million Swisscom customers are regularly using the new high-speed LTE network. Around 99% of the Swiss population will benefit from mobile bandwidths of up to 150 Mbps by the end of 2016. Since summer 2014, Swisscom has introduced LTE-Advanced with speeds of up to 300 Mbps in major Swiss cities, and is already testing the next step of 450 Mbps in the laboratory. In 2015, it will also introduce WiFi Calling and Voice over LTE (VoLTE), which will improve the mobile communication experience and make customers easier to contact at home. Since April 2014 customers have enjoyed an additional reduction in prices for data roaming. New data packages for EU countries offer customers considerably cheaper surfing rates compared to EU regulated prices.

All IP – Internet protocol as a uniform language

Internet protocol (IP) is the most successful technology for data transmission in the world. The transition from traditional fixed-network technology to the new IP-based system environment is a global development. Swisscom, too, is gradually converting its infrastructure and driving the transition to All IP. This will create the basis for a more flexible and cost-effective market entry with the latest products and services, as well as for new customer experiences thanks to the ability to access data (images, voice, music, etc.) irrespective of time, device used and location. For Swisscom, operation and processes will also be simpler and more cost-effective. Swisscom will thus secure its own competitiveness as well as the competitiveness of its business customers and Switzerland as a business location. More than 588,000 customers already use the comprehensive IP technology. The aim is to migrate the entire Swisscom network to IP by the end of 2017.

Further development of core business and innovations – best experience

In a dynamic market environment, Swisscom continues to develop the traditional product portfolio in the private and business customer market. The marketing of bundled products and cloud-based Swisscom TV 2.0, which is already used by more than 300,000 customers, are important drivers. Swisscom's Teleclub Play video flat-rate service offers customers unlimited access to TV series, films, children's programmes, documentaries and a large sports archive at a fixed price. Swisscom also uses innovations to tap into new business areas. It inspires its customers, provides them with support in the digitised world and has successfully introduced new products to the market, e.g. Docsafe, a platform for digital file exchange. The iO communication app has been enhanced and now includes iO@home, which renders the fixed network mobile and ensures that users can be contacted free of charge on their fixed-network number anywhere in the world.

New opportunities for growth for Swisscom

The cloud is becoming increasingly important for both residential and business customers, which is why Swisscom opened a data centre in Berne Wankdorf in September 2014. It is one of the most modern data centres in Europe and sets a new standard in terms of its energy efficiency, reliability and availability. Any and all data stored in this data centre is and will remain in Switzerland. The new data centre is part of Swisscom's response to the growing demand for data protection and security among its customers arising in connection with increasing connectivity. New technical capabilities also offer vertical growth potential, for example through industry solutions in the banking, energy and healthcare sectors.

Internet-based services, such as search services and the marketing of advertising, are growing. In September 2014, Swisscom assumed control of PubliGroupe SA. The main goal of this takeover was to fully acquire and further develop the local group and thus to confront global competitors with a strong Swiss provider. Swisscom and Tamedia have agreed to a partnership in the directories business and are merging local.ch and search.ch into a joint subsidiary, of which Swisscom will hold 69% and Tamedia 31%. The merger is subject to the approval of the competition authority.

Bundling in the business customer market – ICT from a single source

The boundaries between our private and working lives are disappearing. The smartphone is a constant companion, and telecommunication and IT are coalescing into one information and communication technology (ICT). To boost the level of effectiveness in the business customer area, as well as to actively push ahead with convergence and single-source cloud-based solutions, Swisscom bundled the telecoms and IT corporate business into Enterprise Customers at the start of the year. This made Swisscom one of the largest integrated ICT providers in Switzerland. Since the beginning of 2014, corporate customers have received the full range of ICT portfolio services from a single source – Enterprise Customers. Christian Petit took over as head of the division Enterprise Customers as of 1 April 2014.

The best in the networked world – always and everywhere

The Board of Directors and management of Swisscom looked closely at the company's strategy and mission statement in 2014. This resulted in the new Swisscom mission statement. As the best companion in today's networked world, Swisscom wants its customers to feel secure and at ease, allowing them to concentrate on what is essential to them and discover new possibilities. In doing so, the focus is on people and their relationships. Customer focus, passion, sustainability, curiosity and reliability are the values that guide us in offering our customers the best in the networked world – always and everywhere.

Sustainability as an integral component of the corporate strategy

Swisscom's commitment to the environment, society and the economy is an integral component of its business strategy. The sustainability strategy is based on six core areas: climate protection, working and living, media skills, attractive employer, fair supply chain and networked Switzerland. Derived from these areas, Swisscom has set itself specific targets it aims to reach by 2020, such as saving twice as much CO_2 emissions as it produces throughout the company including the entire supply chain through the use of ICT services. As a leading company in the area of data security, Swisscom aims to provide a million people with support in using media in a safe and responsible manner. Another goal is to enable 99% of the Swiss population to benefit from ultra-fast mobile broadband connections and to provide 85% of homes and offices with ultra-fast internet access by 2020. Swisscom therefore indirectly contributes around CHF 30 billion to the country's Gross Domestic Product and helps to create and maintain some 100,000 jobs.

Financial outlook for 2015

Swisscom expects to close 2015 with net revenue in excess of CHF 11.4 billion and EBITDA of around CHF 4.2 billion. This outlook is based on an assumed euro exchange rate of CHF 1.00. It does not take account of the possible negative implications of the currency situation for the economy. The negative effects of the lower euro exchange rate will amount to almost CHF 400 million on net revenue and around CHF 100 million on EBITDA. In the case of EBITDA, the All IP transformation, higher pension costs and lower gains from the sale of real estate, will result in a reduction of more than CHF 100 million. At CHF 2.3 billion, capital expenditure is expected to be some CHF 100 million lower than in 2014, due to the lower euro exchange rate and a slight reduction in investment in Fastweb. Capital expenditure in Switzerland will remain unchanged at CHF 1.75 billion. Subject to achieving its targets, Swisscom will again propose a dividend of CHF 22 per share for the 2015 financial year at the 2016 Annual General Meeting.

Thank you

We can look back on a successful year. We owe our achievements in 2014 to the trust of our customers and the loyalty of our shareholders. A huge thank you to all of you. Special thanks also go to our employees again this year: it is thanks to your creative ideas, wholehearted dedication and commitment that Swisscom is able to offer its customers the very best every day of the year.

Yours sincerely

Hansueli Loosli
Chairman of the Board of Directors
Swisscom Ltd

U. Schaeppi

Urs Schaeppi
CEO Swisscom Ltd

Triple bottom line
Swisscom reports about the ecological, economic and social aspects and factors that shape its business activities and its role as a corporate citizen.

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"Confidential data is being transmitted more frequently via the smartphone. Our new app encrypts the data being transferred via public WLANs and blocks access to dangerous websites."

Carolin Latze
Team Lead Security
IT, Network & Innovation

Introduction

The best in today's net-worked world – everywhere and anytime.

11,703 million CHF

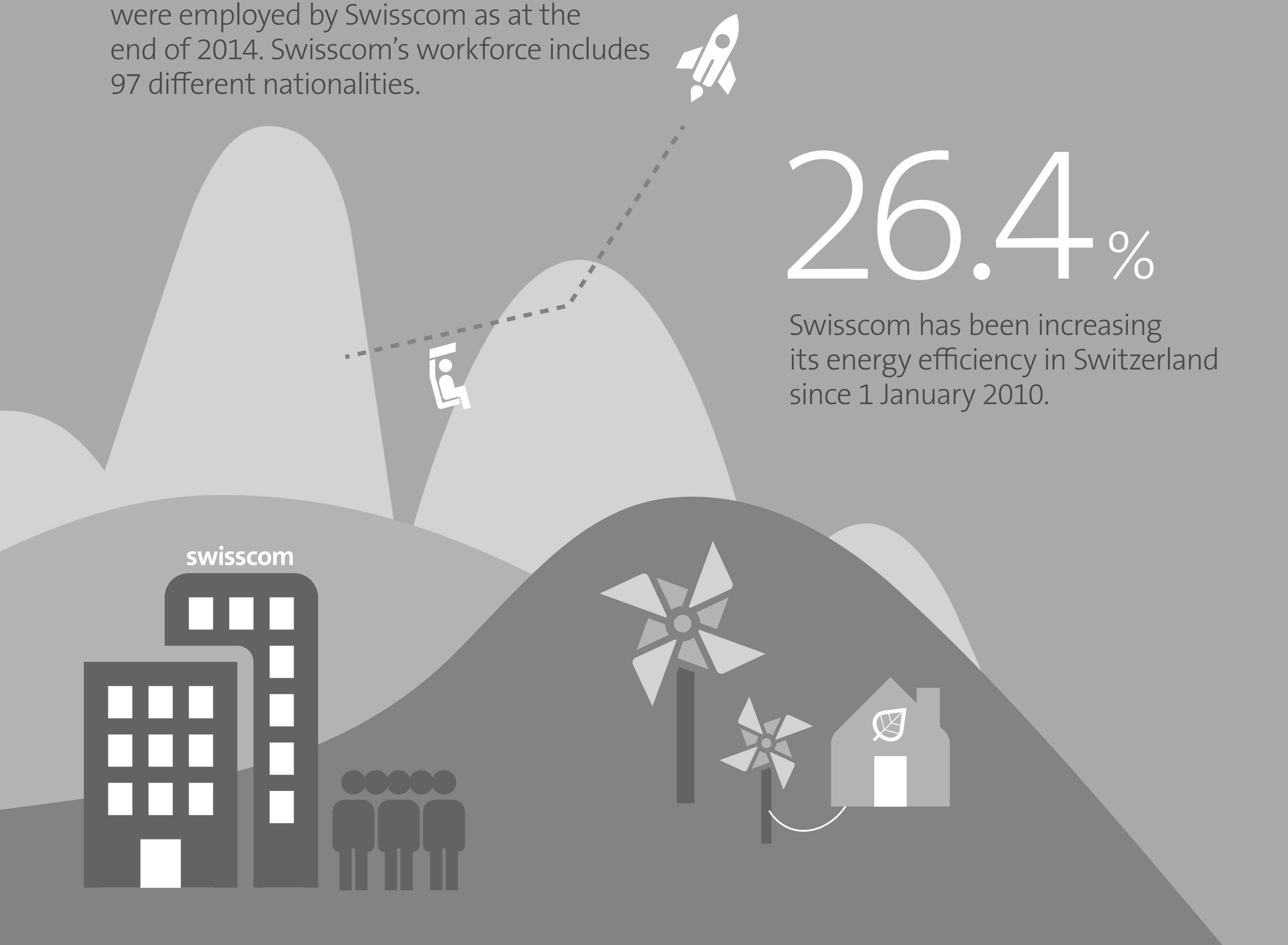
net revenue in 2014, which represents an increase of 2.4%.

21,125 employees

were employed by Swisscom as at the end of 2014. Swisscom’s workforce includes 97 different nationalities.

26.4 %

Swisscom has been increasing its energy efficiency in Switzerland since 1 January 2010.



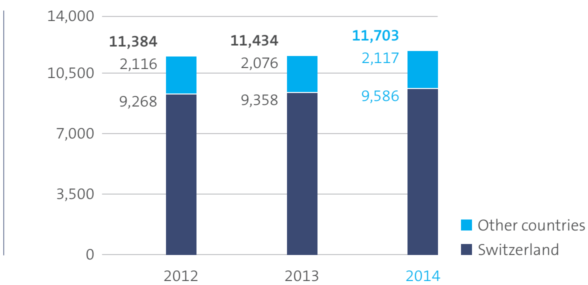
Introduction

KPIs of Swisscom Group

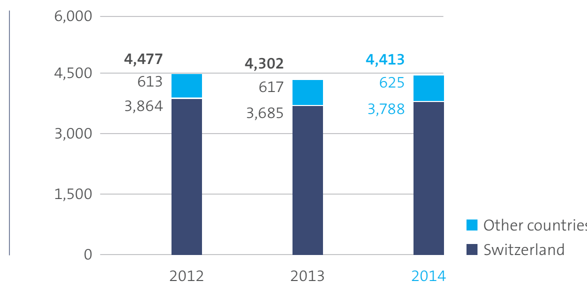
In CHF million, except where indicated		2014	2013	Change
Net revenue and results				
Net revenue		11,703	11,434	2.4%
Operating income before depreciation and amortisation (EBITDA)		4,413	4,302	2.6%
EBITDA as % of net revenue	%	37.7	37.6	
Operating income (EBIT)		2,322	2,258	2.8%
Net income		1,706	1,695	0.6%
Earnings per share	CHF	32.70	32.53	0.5%
Balance sheet and cash flows				
Equity at end of year		5,457	6,002	–9.1%
Equity ratio at end of year	%	26.1	29.3	
Operating free cash flow		1,860	1,978	–6.0%
Capital expenditure in property, plant and equipment and other intangible assets		2,436	2,396	1.7%
Net debt at end of period		8,120	7,812	3.9%
Operational data at end of period				
Fixed access lines in Switzerland	in thousand	2,778	2,879	–3.5%
Broadband access lines retail in Switzerland	in thousand	1,890	1,811	4.4%
Swisscom TV access lines in Switzerland	in thousand	1,165	1,000	16.5%
Mobile access lines in Switzerland	in thousand	6,540	6,407	2.1%
Revenue generating units (RGU) Switzerland	in thousand	12,373	12,097	2.3%
Unbundled fixed access lines in Switzerland	in thousand	180	256	–29.7%
Broadband access lines wholesale in Switzerland	in thousand	262	215	21.9%
Broadband access lines in Italy	in thousand	2,072	1,942	6.7%
Swisscom share				
Number of issued shares	in thousand	51,802	51,802	–
Closing price at end of period	CHF	522.50	470.90	11.0%
Market capitalisation at end of year		27,067	24,394	11.0%
Dividend per share	CHF	22.00 [1]	22.00	–
Environmental key figures in Switzerland				
Energy consumption	GWh	497	498	–0.2%
Energy efficiency increase since 1 January 2010	%	26.4	21.1	
Direct CO_2-emissions	tons	21,380	23,835	–10.3%
Reduction of direct CO_2-emissions since 1 January 2010	%	17.0	3.9	
Employees				
Full-time equivalent employees at end of year	number	21,125	20,108	5.1%
Full-time equivalent employees in Switzerland at end of year	number	18,272	17,362	5.2%

[1] In accordance with the proposal of the Board of Directors to the Annual General Meeting.

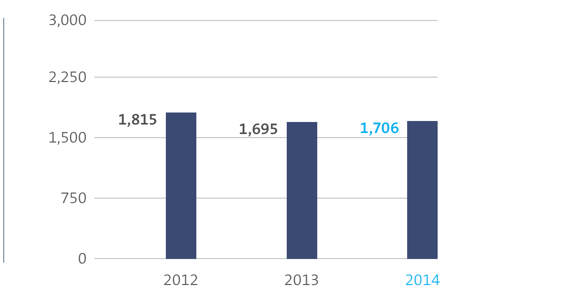
Net revenue in CHF million



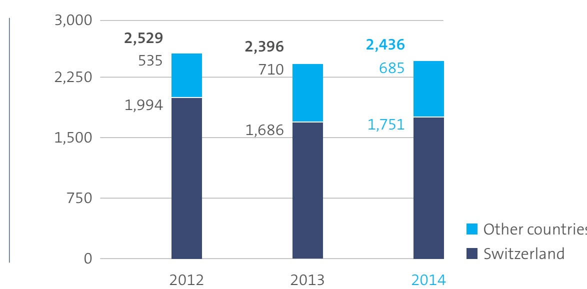
EBITDA in CHF million



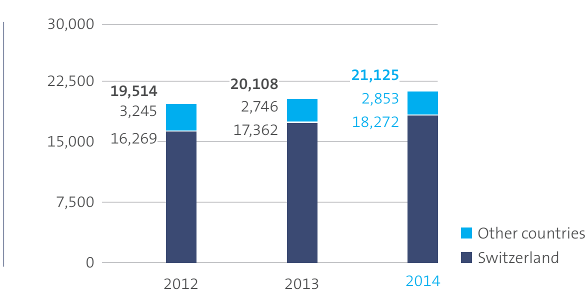
Net income in CHF million



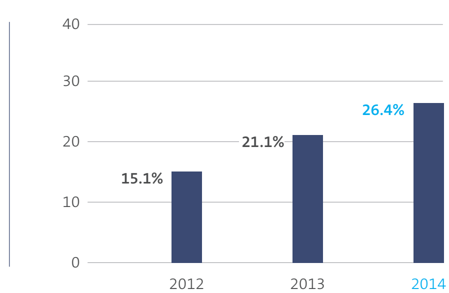
Capital expenditure in CHF million



Number of employees in full-time equivalent (FTE)



Energy efficiency increase in Switzerland since 1 January 2010 in %



Key events 2014

Market

- More than 1.4 million homes and businesses in Switzerland are already connected to ultra-fast broadband. Thanks to a mixture of fibre-optic technologies, customers are benefiting from more bandwidth – even outside the major conurbations.
- Fastweb expands its ultra-fast broadband network in Italy even further and has more than 2 million broadband customers.
- Swisscom is the first mobile provider in Switzerland to introduce LTE Advanced.
- Swisscom wins Connect magazine's network test for the sixth year in a row.
- Swisscom reduces mobile phone rates for calls in Europe. Mobile surfing rates in Europe and in many other countries are once again reduced for Swisscom customers.
- Swisscom customers use data packages with increasing frequency for mobile surfing abroad. Attractive roaming tariffs contribute to a doubling of data volumes transmitted abroad.
- The Swiss Federal Office of Energy includes Swisscom Energy Solutions' smart storage network in the list of its flagship projects. The solution, which now carries the name "tiko", is thus a forward-looking and important component for the implementation of the Swiss Confederation's 2050 energy strategy.

Products and services

- The completely new Swisscom TV 2.0 offers seven-day replay on over 250 channels. Thanks to a cloud-based solution, customers can record any number of programmes in parallel.
- Thanks to the flat-rate video service Teleclub Play, Swisscom TV 2.0 customers have access to several thousand hours of TV series, classic films, children's programmes, documentaries and sports content.
- The communications app iO makes fixed network numbers mobile. The new iO@home feature allows fixed network customers with a Vivo package to make calls at no charge via their fixed-line number to all Swiss networks, no matter whether they are phoning from Switzerland or abroad.
- Swisscom simplifies its prepaid products and offers phone service, SMS and mobile surfing at a single prepaid tariff.
- Tapit is the first smartphone app on the Swiss market that allows users to make payments, collect loyalty points and open doors in a single, neutral ecosystem.
- Swisscom launches Docsafe, the Swiss cloud storage solution for residential customers that enables them to store their documents simply and securely online.
- Business users can use Vidia, the cloud-based videoconferencing solution for companies, to attend meetings without being physically present.
- The Safe Connect app allows users to surf securely and easily, even when using other WLAN networks. It does so by encrypting the data traffic sent via the mobile phone network.

Sustainability

- The newly opened business park in Ittigen offers space for 2,000 employees. Its environmentally sustainable construction makes it one of the largest Minergie-P-Eco office buildings in Switzerland.
- Swisscom opens one of Europe's most advanced and efficient data centres in Berne Wankdorf. As one of very few data centres in Europe, it receives Tier-IV certification.
- Swisscom expands its course offering to promote media competency by more than 30%. More than 25,000 parents, teachers and students take advantage of the course offering in 2014.
- As the third issue of the JAMES study shows, smartphones are becoming more and more important for young people. This is because young people use their mobile phone to surf more than to make phone calls.
- Swisscom builds three new photovoltaic plants in Les Ordons, Haute Nendaz and La Chaux-de-Fonds: thus, Swisscom now operates seven photovoltaic plants in its transmitter locations and meets its entire energy consumption needs through renewable energies.
- Swisscom opens a Swisscom Shop in Düdingen that has an innovative new concept: the company's first Junior Shop is run independently by trainees.

Business review

- Frank Esser, a member of the Vivendi Group Board of Directors until 2012, is now a member of the Swisscom Board of Directors. He succeeds Richard Roy, who stepped down from the Board of Directors after 11 years.
- Theophil Schlatter takes over as Vice-Chairman of the Board of Directors.
- Christian Petit takes over as head of Enterprise Customers and thus becomes a member of the Swisscom Group Executive Board. Andreas König decided to resign his position and to leave the company for personal reasons.
- Swisscom takes over PubliGroupe SA. Its primary aim is to further develop the directories business of local.ch.
- Swisscom expands its ICT competence with the acquisition of Veltigroup.
- Swisscom bundles all workplace and collaboration competences in Enterprise Customers. It merges subsidiary Axept Webcall with the Solution Center Workspace & Collaboration.

Business overview

Swisscom provides financial reporting for the three operating divisions Swisscom Switzerland, Fastweb and Other operating segments as well as Group Headquarters.

Swisscom Switzerland

Swisscom Switzerland comprises the customer segments Residential Customers, Small and Medium-Sized Enterprises, Enterprise Customers and Wholesale as well as the IT, Network & Innovation division.

Residential Customers
The Residential Customers segment is the contact partner for mobile and fixed-line retail customers. It provides Switzerland with broadband access lines, serves a growing number of Swisscom TV customers and operates www.bluewin.ch, one of Switzerland's most frequently visited Internet portals. The Residential Customers segment offers all telephone, Internet and TV services, pay TV, transmissions of sporting events and video on demand from a single source, as well as the sale of end devices. In addition, Cinetrade operates one of the leading cinema chains in Switzerland.

Small and Medium-Sized Enterprises
The Small and Medium-Sized Enterprises segment offers a comprehensive range of products and services – from fixed-line and mobile telephony to Internet and data services to IT infrastructure maintenance and operation. Small and medium-sized enterprises receive integrated solutions tailored to their needs: suitable connections, secure access, professional services and intelligent networks. It also includes the directories business.

Enterprise Customers
Whether voice or data, mobile or fixed network, individual products or integrated solutions, as a leading provider in the field of business communications, the Enterprise Customers segment supports customers with the planning, implementation and operation of their IT and communications infrastructure, including the provision of cost-efficient solutions and reliable services. Enterprise Customers ranks as one of the leading providers specialising in the integration and operation of complex IT systems. In addition, its core competencies are in the fields of IT outsourcing services, workplace services, SAP services and services for the financial industry.

Wholesale
The Wholesale segment provides various services for other telecommunications providers, such as regulated access to the "last mile" as well as commercial voice, data and broadband products. The Wholesale segment also covers roaming with foreign providers.

IT, Network & Innovation
The IT, Network & Innovation (INI) segment builds, operates and maintains Swisscom's nationwide fixed network and mobile communications infrastructure in Switzerland. It is also responsible for the development and production of standardised IT and network services for the entire Group and for the operation of all IT systems. INI is also driving forward the migration of the networks to an integrated IT- and IP-based platform (All IP). The segment also includes the support functions for Swisscom Switzerland and Swisscom Real Estate Ltd. The expenses that are incurred are not charged to the individual segments. The IT, Network & Innovation segment therefore only reports expenses but no revenue.

Fastweb

Fastweb is one of Italy's largest broadband telecoms companies.

The Italian subsidiary is a leader in the development of multimedia and broadband communication services. It operates the second-largest network in Italy and offers voice, data, Internet and IP TV services. In addition, its offer includes comprehensive VPN and mobile services. Fastweb offers its services in all large towns and cities in Italy and in all market segments. The services are provided directly via the company's own fibre-optic network or via unbundled fixed access lines and wholesale products of Telecom Italia.

Other operating segments

Other operating segments includes, in particular, the Participations unit.

Other operating segments comprises the Participations, Health, Connected Living and Swisscom Hospitality Services units. Participations manages a portfolio of small and medium-sized enterprises whose activities are mainly related to or help support Swisscom's core business. Swisscom Health offers innovative ICT solutions for physicians, hospitals and insurers. Connected Living develops and operates intelligent solutions for energy management. Swisscom Hospitality Services supports the hotel industry worldwide with innovative network and communication solutions.

Group Headquarters

Group Headquarters chiefly comprises the Group divisions Group Business Steering, Group Strategy & Board Services, Group Communications & Responsibility and Group Human Resources as well as employment company Worklink AG.

“We install, splice and repair fibre-optic cables. We are constantly expanding the fibre-optic network in order to ensure that the whole of Switzerland can count on being able to use the best network.”

Adrian von Jenner
Network construction technician
cablex

Management Commentary

Helping customers find their way and enjoy the best experiences in the networked world.

Every 16 months

the volume of data
used in the fixed network
increases by 100%.

Every 12 months

the volume of data
used in the mobile network
increases by 100%.

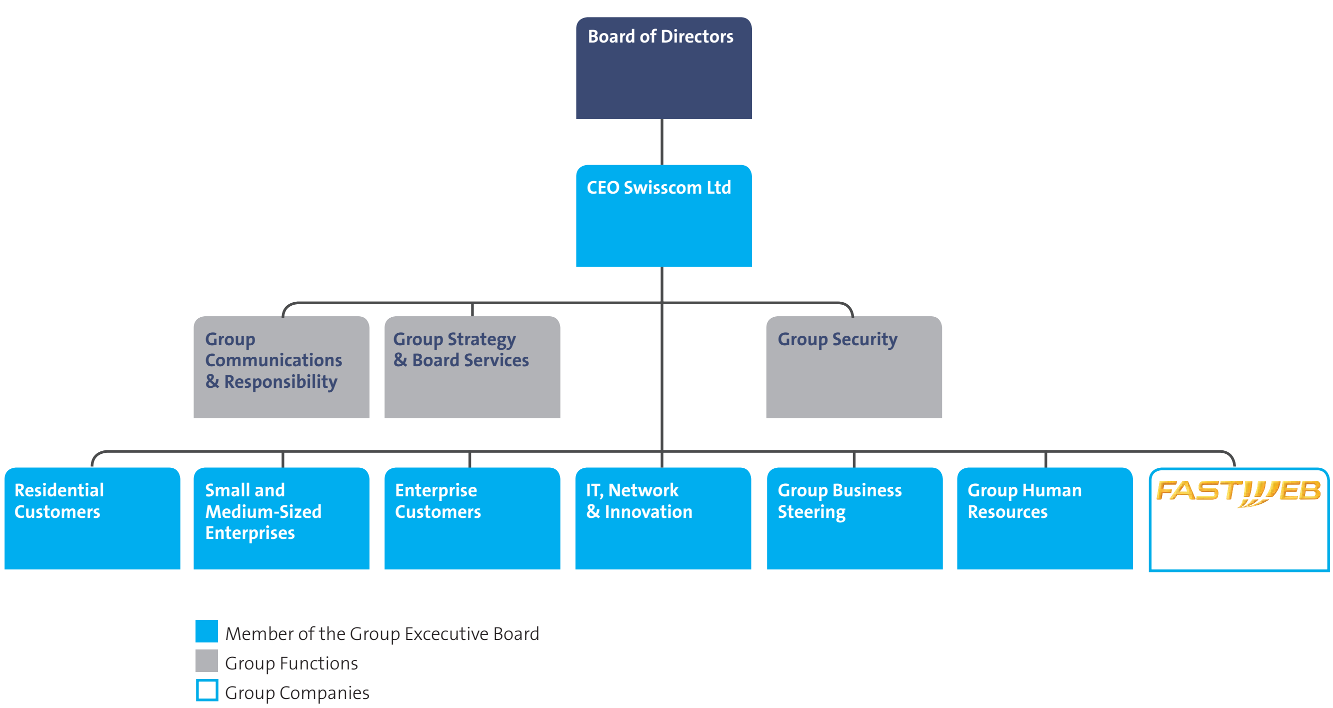
Strategy, organisation and environment

The corporate strategy “Swisscom 2020” is aimed at maintaining Swisscom’s position in the ICT market and offering customers only the best. Trusted, simple, inspiring.

Group structure and organisation

Management structure

Swisscom has merged the corporate customer activities of its Corporate Business, Network & IT and Swisscom IT Services divisions so it is able to provide business customers with one-stop offerings and speed up the delivery of cloud-based solutions. Since 1 January 2014, all corporate customers have been served by the new Enterprise Customers division, making it one of the biggest integrated ICT providers for large companies in Switzerland. The IT, Network & Innovation division is now responsible for the operation of all IT systems, including the IT platforms previously managed by Swisscom IT Services, and for the development and production of standardised IT and network services for the entire Swisscom Group. Swisscom IT Services will be integrated into Swisscom Switzerland, which will result in a simplified Group structure and shorter decision-making paths.
The Group organisation is based on the following management structure: the Board of Directors of Swisscom Ltd is responsible for overall management and for determining the Group’s strategic, organisational and budgetary principles. It delegates day-to-day business management to the CEO of Swisscom Ltd, Urs Schaeppi. The heads of the business divisions Residential Customers, Small and Medium-Sized Enterprises, Enterprise Customers and IT, Network & Innovation, along with the heads of the Group divisions, report directly to the CEO of Swisscom Ltd. Swisscom’s Italian subsidiary, Fastweb, is managed via the Board of Directors chaired by Swisscom’s CEO.



Group structure

The holding company Swisscom Ltd is responsible for overall management as well as the strategic and financial management of the Swisscom Group. By law, the Swiss Confederation must hold the majority of shares in Swisscom Ltd. At 31 December 2014, the Confederation held 51.0% of the shares in Swisscom Ltd.
At 31 December 2014, 28 Swiss subsidiaries (prior year: 27) and 32 foreign subsidiaries (prior year: 33) were fully consolidated in Swisscom's consolidated financial statements, while 7 associates (prior year: 7) were accounted for according to the equity method. Swisscom also holds various non-controlling interests in growth companies active in the IT, communications and entertainment markets. Swisscom Ltd mainly holds direct shareholdings in Swisscom (Switzerland) Ltd, Swisscom Broadcast Ltd and Swisscom Directories Ltd. Fastweb S.p.A. (Fastweb) is held indirectly via Swisscom (Switzerland) Ltd and intermediate companies in Belgium and Italy. Swisscom Re Ltd in Liechtenstein is the Group's own reinsurance company.
In September 2014, Swisscom acquired PubliGroupe Ltd for a purchase price of CHF 474 million. PubliGroupe Ltd mainly operates in the Swiss directory market. Prior to the takeover, it held half of the Local Group (Swisscom Directories Ltd, LTV Yellow Pages Ltd and local.ch Ltd), with Swisscom holding the other half. The main objective behind the acquisition of PubliGroupe is to gain full control over the Local Group and to develop it further. Following the takeover, LTV Yellow Pages Ltd and local.ch Ltd were merged with Swisscom Directories Ltd. Swisscom and Tamedia now intend to merge their directories business. The planned partnership between Swisscom and Tamedia is subject to the approval of the Competition Commission. Swisscom will hold 69% of the joint subsidiary and fully consolidate the company. PubliGroupe holds other interests in media companies and providers of media services. Swisscom is planning to sell the interests in the media companies and will evaluate all options for the other interests.
In January 2015, Swisscom acquired Veltigroup, thus expanding its ICT portfolio for business customers and its presence in western Switzerland. Veltigroup is domiciled in Lausanne and is a leading ICT service provider in western Switzerland. Veltigroup has around 480 employees in Switzerland and offers companies a comprehensive ICT range, from infrastructure to end-client services and solutions.

Segment reporting

For financial reporting purposes, the business divisions of Swisscom are allocated to individual segments based on the management structure. For practical reasons, segment reporting has not been changed for the 2014 financial year. Consequently, as in the past, the 2014 consolidated financial statements refer to the segments "Residential Customers", "Small and Medium-Sized Enterprises", "Corporate Business", "Wholesale" and "Network & IT", which are grouped together as "Swisscom Switzerland". Swisscom IT Services is accounted for under "Other Operating Segments". Segment reporting will be adjusted in line with the management structure from 2015. It will comprise the following: Swisscom Switzerland, Fastweb and Other Operating Segments. Swisscom Switzerland covers the segments Residential Customers, Small and Medium-Sized Enterprises, Enterprise Customers, Wholesale and IT, Network & Innovation. Group Headquarters, which primarily includes the Group divisions as well as the employment company Worklink AG, will continue to be reported separately.

Structure of 2015 segment reporting

	Swisscom Switzerland[1]	Fastweb	Other operating segments[2]	Group Headquarters
Subsidiaries	› Swisscom (Switzerland) Ltd[3] › CT Cinetrade Ltd[4] › DL-Groupe GMG AG › Swisscom Banking Provider Ltd › Swisscom Directories Ltd › Swisscom ITS Custom Solutions Ltd › Swisscom Immobilien Ltd › Veltigroup › Wingo Ltd	› Fastweb S.p.A.	› Alphapay Ltd › BFM Business Fleet Management Ltd › Billag Ltd › Cablex Ltd › Datasport Ltd › Swisscom Broadcast Ltd › Swisscom Energy Solutions Ltd › Swisscom Event & Media Solutions Ltd › Hospitality Services[5] › PubliGroupe Ltd[6] › Mona Lisa Capital Ltd[7]	› Swisscom Ltd › Swisscom Belgium N.V. › Swisscom Italia S.r.l. › Swisscom Re Ltd › Worklink AG
Associates	› Belgacom International Carrier SA	› Metroweb S.p.A.	› Medgate Holding Ltd › Zanox Ltd › Venturing Participations	

[1] Swisscom Switzerland comprises the operating segments Residential Customers, Small and Medium-Sized Enterprises, Enterprise Customers, Wholesale and IT, Network & Innovation.
[2] Other operating Segments comprises the operating segments Participations, Health, Connected Living and Hospitality Services.
[3] Swisscom (Switzerland) Ltd has operating subsidiaries in Austria, the Netherlands, Singapore, Switzerland and the USA.
[4] CT Cinetrade Ltd has subsidiaries in Switzerland: kitag kino-theater Ltd, PlazaVista Entertainment AG and Teleclub AG.
[5] Hospitality Services has subsidiaries in Austria, Belgium, Denmark, Finland, France, Germany, Italy, Luxembourg, the Netherlands, in Norway, Portugal, Romania, Spain, the UK and the USA.
[6] PubliGroupe Ltd has subsidiaries in France, Germany, the Netherlands, Sweden and Switzerland.
[7] Mona Lisa Capital Ltd is a venturing participation.

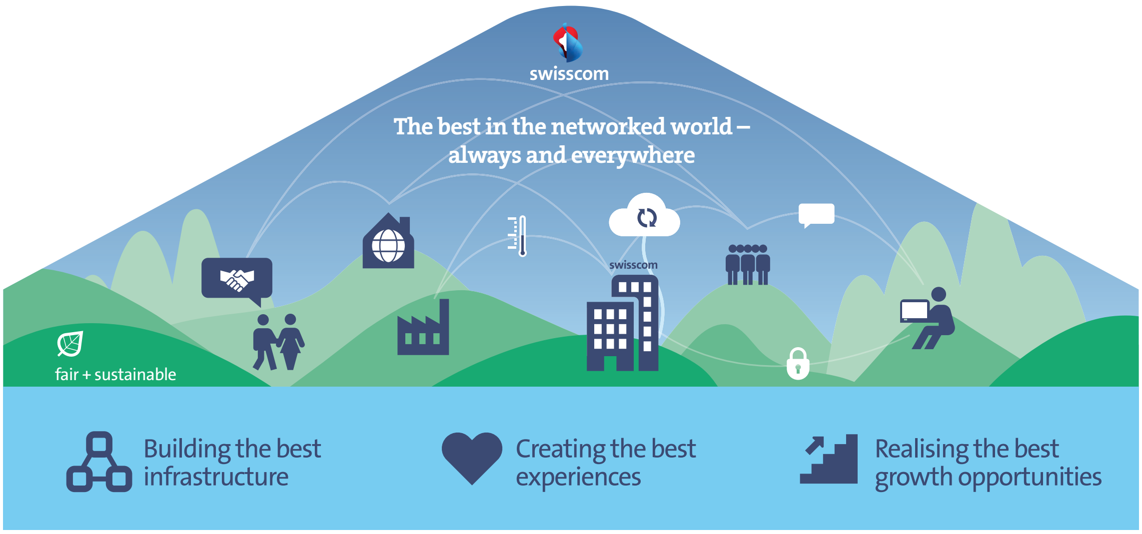
Corporate strategy and objectives

Corporate strategy

Swisscom commands a leading position in the mobile, fixed, broadband and digital TV submarkets. It is also one of the leading providers in the IT services market. Technological change coupled with intensive local and global competition and changing customer requirements are steadily eroding prices and volumes in the classical usage-based business. The resulting lower revenue and income need to be offset in order to ensure that sufficient financial resources are available for major investments in new technologies.
Three key trends are changing the ICT sector and exerting a significant influence on Swisscom's strategy:

- **Always online:** A few years from now, Swisscom customers will be able to access all their private and work-related applications and data in real time from any digital device. Technical innovations are fundamentally changing the way in which customers interact and communicate with each other and with devices. As a result of digitalisation, not only people but also smart applications and devices are becoming increasingly interconnected. Networking and digitalisation are revolutionising value chains, production processes and customer contacts in all sectors of the economy.
- **Internet-based:** In future, all products and services will be operated on the basis of Internet protocol. Storage space, processing power and software will increasingly be sourced from the Internet. This trend is driving new business models and generating better customer experiences.
- **Global competition:** Digitalisation and the spread of Internet-based services are creating international markets. Worldwide competitors are benefiting from global economies of scale and are transforming business models through enhanced use of customer data. In the telecommunications industry, too, the trend towards consolidation looks set to continue. Many telecommunications providers are expanding their business to include offerings in the IT, media and entertainment fields.

Swisscom firmly believes that a competent and trustworthy partner is needed in this increasingly interconnected and digitalised world. In this capacity Swisscom aims to inspire people and play a key role in turning Switzerland into a leading ICT centre. It wants to play an active part in shaping connectivity for the community at large, and to position itself successfully as an exemplary company in a digital world. This objective is reflected in Swisscom's vision and corporate strategy.



The vision of Swisscom: The best in the networked world – always and everywhere

At Swisscom, people and their relationships are at the heart of all our activities. Customer focus, sustainability, passion, curiosity and reliability are the values that guide our employees' actions. As the best partner in the networked world, Swisscom strives to ensure simplicity and is a trusted and inspiring partner for its customers. Swisscom helps customers feel secure and at ease, and enables them to find what they are looking for quickly and simply, and to experience and achieve extraordinary things. Swisscom also helps business customers to create a flexible ICT infrastructure, adjust their business processes to meet the new challenges of the digital world, and to optimise communication and collaboration among their employees. Due to the value that Swisscom creates and, indirectly, its high level of investment from which other companies in Switzerland benefit, Swisscom plays a major role in Switzerland's competitiveness and contributes significantly to the country's GDP and employment.
To be the best partner, Swisscom must meet the highest expectations in terms of infrastructure, customer experience and growth.

Building the best infrastructure

Infrastructure is the foundation that allows Swisscom to deliver its products and services and provide a consistently positive customer experience. Swisscom wants to offer its customers in Switzerland and Italy the leading IT and communications infrastructure: one that will generate the best experiences, enable Swisscom to differentiate itself from the competition, and enhance efficiency. Swisscom fulfils the ever-growing requirements of its customers with networks that are second to none in terms of security, availability and performance. In the fixed network area, Swisscom's focus is on driving forward the continuous expansion of the ultra-fast broadband network – both in Switzerland and in Italy – with Fibre to the Home (FTTH) and Fibre to the Street (FTTS). In the mobile area, Swisscom aims to further expand the LTE fourth-generation mobile network and deploy additional technologies (for example, Voice over LTE) in order to meet the demand for higher capacity and to further improve the mobile communication experience.
Swisscom intends to increase its efficiency through a scalable infrastructure, increasingly virtualised infrastructure and services, and continual improvement processes. The new cloud infrastructure offers high-level quality and security and will also be used for Swisscom systems. In addition, Swisscom wants to accelerate technological transformation and for this reason is switching from proprietary to open, more powerful technology systems and infrastructures. In the first place, Swisscom plans to build an open cloud, provide simple programming interfaces to functions and

drive forward both the technological transformation from traditional offerings to IP-based solutions and the related organisational transformation, so as to take full advantage of the available technological resources.

Creating the best experiences

To differentiate itself clearly in its core business, Swisscom is committed to delivering professional advice and first-class service to its customers, right along the entire experience chain. Swisscom aims to provide highly personalised and flexible customer care and offer an outstanding service experience to its customers.

By building full-service solutions and rolling out innovative digital services, Swisscom wants to inspire its customers and drive forward digitalisation and networking both for the business world and private individuals. Current examples include cloud products such as the successful, further-developed TV service (Swisscom TV 2.0), the storage solution Docsafe, the digital wallet Tapit, and the cross-platform communication application iO.

From the customer's standpoint, the key to contact with Swisscom should be simplicity. This is why, when creating new offerings, Swisscom focuses on customer needs right from the development stage. A streamlined product structure and new self-service options simplify customer interaction and enhance efficiency.

Realising the best growth opportunities

The telecoms markets in Switzerland and Italy are expected to see moderate growth over the next few years, driven primarily by a slight increase in population and the number of households, the growing number of networked devices per individual, and a rise in the use of ICT in many sectors of the economy. Added to this, there is still pent-up demand in Italy due to the relatively low level of broadband penetration.

Against this backdrop, Swisscom aims to ensure existing revenues in its core business through the further development of its product portfolio. One key factor in this context is the development of national and international offerings based on a modern, high-speed cloud infrastructure. Vertical solutions offer growth opportunities for Swisscom in the banking, healthcare and energy sectors. New related business fields also harbour promising revenue potential for Swisscom. Examples include the development of new services and business fields in the area of Internet services (for example Big Data) and the "Internet of Things" (for example Smart Home), and the further development of Swisscom Energy Solutions. Swisscom intends to cater to the changed framework conditions resulting from increasingly global competition by developing business models and by further developing its Natel infinity pricing plans, in order to ensure a sustained source of revenue.

Fastweb in Italy is focusing on new customer acquisition by extending its coverage of the optical fibre network, enlarging partnerships and offering new convergent products.

Forerunner in corporate responsibility

Swisscom's corporate responsibility activities focus on issues which have high relevance for stakeholder groups and at the same time are closely linked to the company's core business and thus entail market opportunities. Swisscom's vision is of a modern, forward-looking Switzerland: a country of great opportunities, particularly in the field of sustainability. Specifically, Swisscom focuses on the following six areas as strategic priorities. For each of these it has formulated a long-term target for 2020:

> **Climate protection:** With the help of its customers, Swisscom wants to save twice as much CO_2 as it emits throughout the entire Group and along the entire supply chain; for example, by avoiding commuting thanks to Home Office solutions, or by promoting the use of TV set-top boxes that consume less energy than older boxes.
> **Work-life balance:** Swisscom is aiming to support one million customers with its offerings in the healthcare sector; for example with the Swisscom health platform with fitness sensors included, electronic patient dossiers and products from its subsidiary Datasport.
> **Media expertise:** Swisscom aims to be the market leader in data security, helping one million people to use media safely and responsibly; for example, with a router that allows customers to set age-appropriate browsing times and protects minors against inappropriate use.
> **Attractive employer:** Swisscom wants to be one of the most attractive employers in Switzerland, offering employees the opportunity to develop their knowledge and skills and promoting work-life balance. Fair terms and conditions of employment are as important to Swisscom as an active social partnership and an above-average commitment to vocational training.

- **Fair supply chain:** In the interests of a fair supply chain, Swisscom is committed to improving employment conditions for more than two million people. To this end, Swisscom has forged international partnerships that will ensure the implementation of relevant measures in close collaboration with suppliers.
- **Networked Switzerland:** Swisscom will extend ultra-fast broadband coverage to 85% of all homes and offices and bring mobile ultra-fast broadband to 99% of the population.

Swisscom's targets

Based on the strategy, Swisscom has set itself various short- and long-term targets that take economic, ecological and social factors into consideration.

	Objectives	Effective 2014
Financial targets		
Net revenue	Group revenue for 2014 of around CHF 11.5 billion.	CHF 11,703 million
Operating income before depreciation and amortisation (EBITDA)	EBITDA for 2014 of more than CHF 4,4 billion	CHF 4,413 million
Capital expenditure in property, plant and equipment and other intangible assets	Capital expenditure for 2014 of around CHF 2.4 billion	CHF 2,436 million
Other targets		
Ultra–fast–broadband homes and offices Switzerland	Coverage of 85% by the end of 2020	41% or more than 1.4 million of homes and offices
Ultra–fast–broadband homes and offices Italy	Coverage of 30% or of around 7.5 million of homes and offices by the end of 2016	20% or 5.5 million of homes and offices
Mobile ultra–fast–broadband Switzerland	Coverage of 99% with 4G/LTE by the end of 2016	97%
Energy efficiency Switzerland	+25% by the end of 2015 to the efficiency of energy Switzerland 1 January 2010	+26%
CO_2–emissions Switzerland	–12% by the end of 2015 to 1 January 2010	–17%

The following sections describe the targets and key performance indicators.

Value-oriented business management

Key performance indicators for planning and managing the operating cash flows are operating income before depreciation and amortisation (EBITDA) and capital expenditure on property, plant and equipment and intangible assets. The enterprise value / EBITDA ratio is also used to compare Swisscom with other companies in the sector.
The ratio is primarily driven by revenue and margins as well as the growth expectations of equity investors. The remuneration system for Group Executive Board members contains a variable performance-related component, of which 25% is paid out in Swisscom shares subject to a three-year blocking period. Group Executive Board members may opt to receive up to 50% of the performance-related component in the form of shares. The variable performance-related component is based on factors including financial targets such as net revenue, EBITDA margin and operating free cash flow. The financial targets that determine the variable performance-related salary component and the Management Incentive Plan ensure that the interests of management are kept aligned with those of the shareholders.

Enterprise value

In CHF million, except where indicated	31.12.2014	31.12.2013
Enterprise value		
Market capitalisation	27,067	24,394
Net debt	8,120	7,812
Non-controlling interests in subsidiary companies	3	29
Enterprise value (EV)	**35,190**	**32,235**
Operating income before depreciation and amortisation (EBITDA)	4,413	4,302
Ratio enterprise value/EBITDA	**8.0**	**7.5**

The sum of market capitalisation, net debt and non-controlling interests in subsidiaries is the enterprise value (EV) derived from the share price. Non-controlling interests are stated at carrying amount. For the sake of simplicity, other non-operating assets and liabilities are not included. Swisscom's enterprise value increased year-on-year by CHF 3.0 billion or 9.2% to CHF 35.2 billion. Market capitalisation grew by CHF 2.7 billion, while net debt was CHF 0.3 billion higher. The ratio of enterprise value to EBITDA rose to 8.0 (prior year: 7.5). The increase is largely attributable to the higher relative share price valuation and only to a lesser extent to the higher EBITDA. With a ratio of 8.0, Swisscom is well above the average for comparable companies in Europe's telecoms sector. The higher ratio is supported by the solid market position Swisscom has achieved thanks to high-level investment, an attractive dividend policy and the Confederation's majority share of capital, as well as the general business conditions in Switzerland such as lower interest rates and lower corporate income tax rates.

General conditions

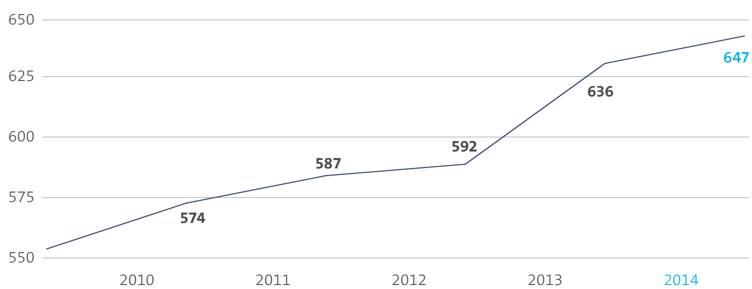
Macroeconomic environment

Swisscom's financial position, results of operations and cash flows are primarily influenced by macroeconomic factors, notably economic trends, interest rates, exchange rates and the capital markets.

Economy

Switzerland enjoyed robust economic growth in 2014, thanks in large measure to strong domestic demand. Gross domestic product (GDP) rose by 1.8%. In Europe, inflation rates are low and economic development has plateaued. The risk of a phase of consistently low growth is still present. Following the steep rise in the value of the Swiss franc in January 2015, the risk of a pronounced economic downturn or even a recession has increased.

Gross domestic product Switzerland, rolling in CHF billion

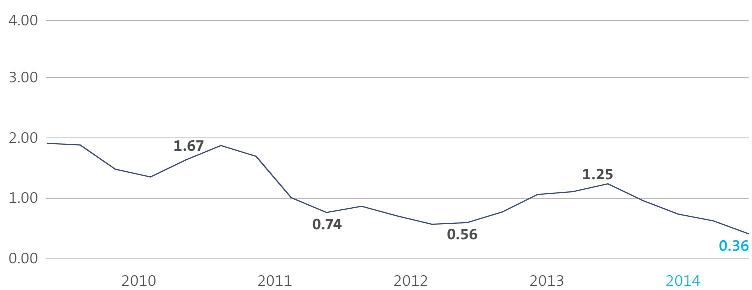


The bulk of Swisscom's revenue stems from telephony, broadband services and digital TV – services based on fixed monthly fees and subject to low cyclical fluctuations in demand. By contrast, project business with business customers and international roaming are affected by cyclical factors.

Interest rates

For many years, the general level of interest rates in Switzerland has been lower than in most other industrialised countries. In 2014, the main national banks adhered to their low-interest policy and, after edging up slightly in 2013, interest rates dropped relatively strongly during the reporting year. Consequently, the yield on ten-year Confederation bonds had fallen to only 0.36% by the end of 2014. In January 2015, the downward movement in interest rates resumed, and yields on ten-year Confederation bonds turned negative.

Development of interest rates in Switzerland Yield on government bonds for 10 years in %



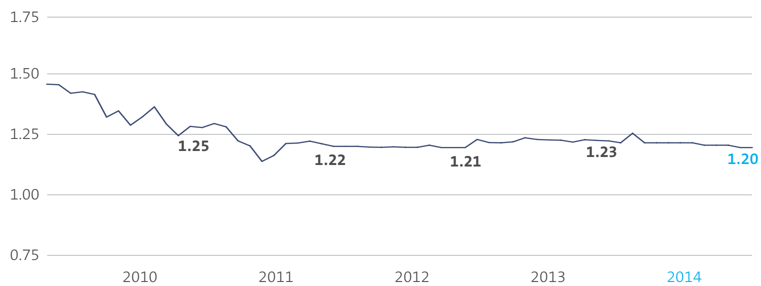
In the year under review, Swisscom capitalised once more on the continuing low-interest phase by entering into two financing transactions: Swisscom took out loans of EUR 500 million and CHF 360 on, with terms between 7.5 and 15 years, at advantageous interest rate conditions. Average interest rate expense on all financial liabilities in 2014 was 2.5%. Market-based interest rates influence the measurement of various items in the Swisscom consolidated financial statements, such as the weighted average cost of capital (WACC) used to measure goodwill impairment for the

Italian subsidiary Fastweb, the discount rates for defined benefit obligations, and non-current provisions for dismantlement and restoration costs. In addition, Swisscom has concluded in the past interest rate swaps with long terms to maturity which are not classified under hedge accounting. Changes in market interest rates can result in high fluctuations in fair values charged to income.

Exchange rates

There was only a minimal change in the value of the Swiss franc against currencies of key relevance for Swisscom's operations in 2014. On 15 January 2015, the Swiss National Bank (SNB) announced it would no longer defend the minimum CHF/EUR exchange rate of 1.20. As a consequence, the Swiss franc appreciated substantially against all major currencies.

Development of exchange rate at the end of period CHF/EUR



Swisscom's business activities in Switzerland are not materially influenced by currency movements. Only a small share of revenue is generated in foreign currencies. Handset and technical equipment procurement as well as roaming charges incurred for the use of fixed and mobile networks abroad by Swisscom customers give rise to transaction risks in foreign currencies (notably EUR and USD). These risks are partly hedged by forward foreign exchange transactions.

Swisscom finances itself primarily in Swiss francs. At the end of 2014, financial liabilities amounted to CHF 8.6 billion, of which 80% was in CHF, 18% in EUR and 2% in USD. Currency translations in respect of foreign Group companies, in particular Fastweb in Italy, affect the presentation of the financial position and results of operations in the consolidated financial statements. Cumulative currency translation adjustments in respect of foreign subsidiaries recognised in consolidated equity amounted before deduction of tax effects to CHF 2.0 billion in 2014 (prior year: CHF 1.9 billion). In 2015, there is a risk that with the abandonment of the minimum EUR exchange rate, cumulative currency translation adjustments not affecting income may increase and that the EBITDA contribution of Fastweb will be reduced by the currency conversion.

Capital market

International equity markets performed positively in 2014. The SMI rose by 9.5%. Swisscom holds surplus liquidity in the form of cash and cash equivalents and short-term money-market investments. There are only insignificant direct financial investments in equities or other non-current financial assets. comPlan, Swisscom's legally independent pension fund in Switzerland, has total assets of around CHF 9.0 billion invested in equities, bonds and other investment categories. These assets are exposed to capital market risks. This indirectly affects the financial position presented in Swisscom's consolidated financial statements. The prices of Swiss shares plummeted following the SNB's abandonment of the minimum EUR exchange rate in January 2015.

See www.swisscom.ch/investor

Legal and regulatory environment

Swisscom's legal framework

Swisscom is a public limited company with special status under Swiss law. It is organised in compliance with the Telecommunications Enterprise Act (TEA), company law and the company's Articles of Incorporation. Its business operations are governed primarily by telecommunications and broadcasting legislation. Swisscom is also subject to rules governing business as a whole, namely competition law. As a stock-exchange-listed company, Swisscom is also required to comply with capital market legislation as well as with the Federal Ordinance against Excessive Compensation in Listed Stock Companies.

Telecommunications Enterprise Act (TEA) and relationship with the Swiss Confederation

As of 1 January 1998, the former operations of Swiss Telecom PTT were legally transformed into "Swiss Post" and "Swisscom Ltd" (hence the term "public limited company with special status"). Under the terms of the TEA and the company's Articles of Incorporation, Swisscom is responsible for the provision of domestic and international telecommunications and broadcast services as well as related products and services. The TEA requires the Swiss Confederation to hold a majority of the capital and voting rights in Swisscom. For the Swiss Confederation to give up its majority shareholding, the TEA would need to be amended. Swisscom is also obliged to draw up a collective employment agreement in consultation with the employee associations. Every four years the Federal Council defines the goals which the Confederation as principal shareholder aims to achieve. These include strategic, financial and personnel policy goals as well as goals relating to partnerships and investments. To guarantee transparency, the goals are made public to other investors. The aims of the Confederation are incorporated in the strategic and operating targets set by the Swisscom Board of Directors. For the year under review, the goals for the period 2014 to 2017 are relevant. The Federal Council has set the following financial goals for Swisscom:

- Increase enterprise value over the long term. Deliver a total shareholder return (dividend payout and share performance) on a par with that of comparable telecoms companies in Europe.
- Pursue a dividend policy that follows the principle of consistency and guarantees an attractive dividend yield commensurate with other stock-exchange-listed companies in Switzerland. It should reflect the requirements of a sustainable investment policy, a risk-appropriate, industry-standard equity ratio and easy access to capital markets at all times.
- Aim for a maximum net debt of 2.1 times EBITDA (operating income before depreciation and amortisation). This ratio may be temporarily exceeded.

The Federal Council also expects Swisscom to enter into partnerships (participations, alliances, foundation of companies and other forms of cooperation) only if they promote a sustained increase in enterprise value, can be managed according to good practices and take sufficient account of the risk aspect. No interests may be held in foreign telecoms companies with a universal service obligation. Other interests in foreign companies may be acquired if they support the core business in Switzerland or are otherwise a strategic fit.

See
www.admin.ch

Telecommunications Act (TCA)

The Telecommunications Act governs the conditions under which market-dominant providers of telecoms services are required to make their network available to other providers. The Act covers a comprehensive catalogue of access types and in the connection area is restricted to copper cables. The access services cited in the Act must be offered at regulated conditions and above all at cost-based prices. In addition to network access, the Act governs universal service provision, laying down the framework for the reliable and affordable provision of basic telecommunications to all sections of the population in all regions of the country. The scope of services as well as the related quality and pricing requirements are determined periodically by the Federal Council. Among other things, universal service provision covers guaranteed nationwide access to a broadband connection with a download speed of at least 1 Mbps (2 Mbps as of 1 January 2015). The universal service provision licence granted to Swisscom in 2007 by the Federal Communications Commission (ComCom) runs until 2017. To date, Swisscom has fulfilled the requirements of the universal service provision licence according to the quality criteria laid down by the TCA without complaints and without financial compensation. The Telecommunications Act also governs conditions for use of the radio frequency spectrum.

See
www.admin.ch

Competition law/Federal Cartel Act

See www.admin.ch

The Cartel Act prohibits anti-competitive agreements between companies, provides for sanctions in the event of abuse by companies of their market-dominant position, and prohibits business combinations that result in the elimination of competition. Discrimination of trading partners with respect to prices or other business conditions is considered to be an example of abuse.

Capital market law

The shares of Swisscom Ltd are listed on the SIX Swiss Exchange in Zurich. In addition, Swisscom has issued debenture bonds which are traded on the SIX Swiss Exchange. Swisscom is therefore required to comply with Swiss stock market legislation and regulations. Among other things, it is subject to regulations governing accounting and financial reporting as well as rules relating to ad-hoc publicity and the disclosure of transactions in Swisscom securities by members of the Board of Directors and the Group Executive Board. Shareholdings in Swisscom must also be disclosed if they exceed, fall below or meet a certain limit.

Ordinance Against Excessive Compensation in Listed Stock Companies (OaEC)

The OaEC entered into force on 1 January 2014. Members of the Board of Directors (including the Chairman) as well as members of the Compensation Committee and the independent proxy must be elected on an annual basis by the Annual General Meeting. For members of the Board of Directors and the Group Executive Board it is prohibited to award severance payments, advance compensation and bonus payments for company acquisitions and disposals. The Board of Directors is required to prepare a written compensation report as of the 2014 financial year. Shareholders must vote on total compensation for the Board of Directors and the Group Executive Board starting from the 2015 Annual General Meeting. The Articles of Incorporation and regulations must be revised in line with the provisions of the Ordinance by no later than the 2015 Annual General Meeting. Swisscom amended the relevant Articles of Incorporation and regulations in the course of 2014. The OaEC stipulates certain types of abuse that constitute an offence punishable by law.

Regulatory developments in Switzerland in 2014

Ongoing proceedings relating to telecommunications and competition legislation

See report pages 180–181

In recent years, a number of proceedings relating to telecommunications and competition law have been initiated against Swisscom. Ongoing proceedings are described in Notes 28 and 29 to the consolidated financial statements.

"Pro Service Public" initiative

The people's initiative "Pro Service Public", submitted in June 2013 by a Swiss consumer magazine, calls for the Swiss Confederation to desist from seeking profit, cross-subsidising or pursuing fiscal interests and to bring the wages of employees in government-associated companies in line with those of federal employees. The Federal Council rejected the initiative in its message of May 2014, without counterproposal. The Council of States followed suit in the autumn of 2014.

2014 Telecommunications Report – revision of the Telecommunications Act (TCA)

In November 2014, the Federal Council published its third Telecommunications Report, the conclusions of which supported a revision of the Telecommunications Act. The Federal Council seeks to approach the revision in two stages. The first stage will be confined to the most pressing problems. The second stage will involve a system change in relation to the access regime and fundamental amendments regarding universal service. The 2014 Telecommunications Report underscores the good market conditions. Switzerland is regularly ranked among the leading countries in terms of investment, broadband penetration and effective transmission speeds. The report describes infrastructure competition (i. e. competition between the various networks) as the primary driver of market development. The Federal Office of Communications (OFCOM) is aiming to formulate the priority areas for the first stage of the revision and will prepare a draft bill by the end of 2015. The subject of this bill will be the introduction of an official (ex officio) option to regulate. This would constitute a deviation from the established primacy of negotiation, according to which regulation is resorted to only if the parties are unable to agree on the aspects of regulated access (ex post). In addition, roaming is to be billed by the second rather than by the minute. In terms of net neutrality, the Federal Council is aiming to introduce certain regulations governing the transparency of the bandwidth to which customers subscribe. With this in mind, at the beginning of November 2014, the main telecoms providers Swisscom, Orange, Sunrise, upc cablecom and the Swisscable Association signed a voluntary open Internet code of conduct under which all users are ensured the freedom to use the content, services, applications, hardware and software of their choice. No services or applications shall be blocked as a matter of principle. Moreover, the telecoms providers confirmed their support of unrestricted freedom of information and the free expression of opinion. The code of conduct also states that providers may continue network management for the purpose of quality assurance and provision of services tailored to end users' needs, and that users can ask their provider whether and to what extent the capacity available through their Internet connection is shared with services other than Internet services.

Revision of the Ordinance on Telecommunications Services (OTS)
The revised Ordinance on Telecommunications Services (OTS) came into force on 1 July 2014. It requires an amendment to the cost calculation models for regulated access services, resulting in a price reduction of around 10% for these services. In addition, as of 1 January 2015, the download speed for basic-service broadband provision was raised from a minimum of 1 Mbps to 2 Mbps.

Roaming
There are two pending motions in Parliament which aim to regulate roaming along the same lines as in the EU. They call for the Federal Council to fix binding maximum tariffs to be adopted by all telecoms providers for incoming and outgoing calls, SMS messages and data transfers via mobile devices when used abroad. The Council of States suspended both motions, which are similarly worded. After the 2014 Telecommunications Report was published, the debate on the two motions was resumed.

Net neutrality
In June 2014, the National Council voted in favour of a motion calling for net neutrality. The Advisory Commission of the Council of States suspended the motion in August 2014 in order to enable the findings of the Federal Council's Telecommunications Report to be included in the consultation. The motion calls for the Federal Council to enshrine net neutrality in law, in order to ensure the transparent and non-discriminatory transfer of data over the Internet.

Copyright protection – tariff proceedings
Joint tariff 12 for the recording of TV programmes and replay TV has been in force since mid-September 2014. The Federal Administrative Court rejected the objection to the tariff lodged by Pro7/Sat1, as a result of which catchup TV may continue to be offered in Switzerland without agreements with the channels, simply by paying a charge to the copyright collecting agencies.
Since 2009, the copyright collecting agencies had been negotiating with the user associations on Joint tariff 4e concerning a tariff as compensation for copyright-protected works stored on mobile phones. Despite the various proceedings pending before the Federal Administrative Court in this context, the parties came to an agreement in 2014. The agreement retrospectively covers the tariff for the period between July 2010 and the end of 2014 as well as the tariff valid from 1 January 2015. The pending proceedings have been settled.

Revision of the Federal Law on the Monitoring of Postal and Telecommunications Traffic (BÜPF)
In February 2013, the Federal Council submitted to Parliament its message proposing a revision of the BÜPF. The aim of the revision is to ensure that the required monitoring cannot be prevented through the use of modern technologies. The current fee and payment model for telecommunications services would be retained. The bill is still under discussion in Parliament.

Regulatory differences between Switzerland and the European Union
In the European Union (EU), the regulatory authorities have extensive powers to analyse markets and impose on market-dominant companies obligations relating to non-discrimination, transparency and forms of access ("ex-ante regulation"). The Swiss regulator has rejected this type of practice, opting instead for ex-post regulation (primacy of negotiation and appeal principle) on the grounds that market conditions in Switzerland differ from those in most EU member states. The Swiss market is characterised by virtually nationwide competition between Swisscom and the cable network operators. Municipal and regional power utility companies have also now entered the market. The market situation prevailing in Switzerland therefore necessitates a different set of regulations from those in place in countries such as France and Italy, where no platform competition has evolved due largely to the existence of a single network provider.

Legal and regulatory environment in Italy

Fastweb's legal framework

As a member of the European Union, Italy is required to bring national legislation into line with the European legislative framework. The Italian telecoms regulator Autorità per le Garanzie nelle Comunicazioni (AGCOM) has the task, based on an analysis of the markets defined by the European Commission, of imposing regulatory requirements on companies. Drafts of such requirements and corresponding regulations must be submitted to the European Commission and the regulatory authorities of the other member states, who have the right to comment on or veto the draft. The business operations of Swisscom's Italian subsidiary Fastweb are therefore heavily influenced by Italian and European telecommunications legislation and its application.

Regulatory developments in Italy in 2014

In 2014, AGCOM continued its work on the market analysis for wholesale markets, which will determine the regulatory guidelines for the next three years. A new consultation document is to be adopted in early 2015. The final decision will be taken in mid-2015.
AGCOM confirmed that the glide path would be applied for fixed network termination prices for 2013 to 2015. This glide path is based on the assumption of a migration to efficient, IP-based architectures. Since July 2013, the applicable price for all fixed network operators has been EUR/cent 0.104 per minute. From 1 July 2015, this will gradually decrease to EUR/cent 0.043 per minute. In 2014, the Italian Federal Administrative Court (Consiglio di Stato) partially annulled AGCOM's decision on applicable prices between May 2009 and December 2012. In response, AGCOM started consultations on a revision of wholesale prices. The Consiglio di Stato also questioned AGCOM's decision to impose no cost basis on WLR and bitstream services and found that some cost elements used for pricing unbundled subscriber connections (LLU) had been overestimated. A final decision is expected in 2015.
AGCOM also launched a new market analysis of mobile termination prices, which is scheduled for completion in 2015.

Swisscom stakeholder groups

Swisscom fosters dialogue with its most important stakeholder groups through various channels: via electronic media, over the phone, through surveys, information events, business meetings, road shows and conferences, as well as in customers' homes and in the Swisscom Shops.

Customers

Swisscom systematically consults residential customers in order to identify their needs and determine their satisfaction. Customer relationship managers, for example, gather information on customer needs in the course of direct contact with customers. Representative customer satisfaction surveys are also regularly conducted, among other things to determine the extent to which customers perceive Swisscom as an environmentally responsible, socially aware company. Quarterly surveys are conducted among business customers that include questions about sustainability. Swisscom also maintains regular contact with consumer organisations in all language regions of Switzerland and runs blogs as well as online discussion platforms. The overall findings show that Swisscom customers expect attractive pricing, good service, market transparency, responsible marketing, comprehensive network coverage, network stability, low-radiation communication technologies and sustainable products and services.

See **www.swisscom.ch/crblog**

Shareholders and external investors

Swisscom pursues an open and ongoing information policy vis-à-vis the general public and the capital markets. It publishes comprehensive financial information on a quarterly basis. Swisscom also meets investors regularly throughout the year, presents its financial results at analysts' meetings and road shows, attends expert conferences for financial analysts and investors, and keeps its shareholders regularly informed about its business through press releases. Swisscom also fosters contacts with numerous external investors and rating agencies. Shareholders and external investors expect above all profitability and innovation from Swisscom.

Authorities

Swisscom maintains regular, close contact with various public authorities. A key issue in its dealings with this stakeholder group concerns mobile network expansion. Mobile communications and mobile applications are growing in popularity, but acceptance of the expansion of the infrastructure that is required to provide them is sometimes lacking. Because of the different interests at stake, network expansion can give rise to tensions. For many years, Swisscom has therefore engaged in dialogue with residents and municipalities on network planning, which in the case of construction projects gives the parties affected an opportunity to suggest suitable alternative locations. Swisscom also liaises regularly with public authorities in other areas and on other occasions: for example, it invites ICT heads of the cantonal education authorities to an annual two-day seminar on the subject of "Internet for Schools". As a stakeholder group, public authorities expect Swisscom to act decisively in the way it honours its responsibility towards the public at large and towards young people in particular.

Legislators

Swisscom is required to deal with political and regulatory issues, advocating the company's interests vis-à-vis political parties, public authorities and associations. Legislators expect compliance, comprehensive network coverage and technology leadership from Swisscom.

Suppliers

Swisscom's procurement organisations regularly deal with suppliers and supplier relationships, analysing the results of evaluations, formulating target agreements and reviewing performance. Once a year, they invite their main suppliers to a Key Supplier Day. The focus of the event is on risk mitigation and responsibility in the supply chain. In the interests of maintaining dialogue with global suppliers, Swisscom also relies on international cooperation within the relevant sectors.

Media

Swisscom maintains close contact with the media, seven days a week. Its relationship with the media is informed by professional journalistic principles. In addition to the Media Office, representatives of management maintain a regular dialogue with journalists and make themselves available for interviews and more in-depth background discussions.

Employees and employee representation

In order to meet its mandate and live up to its customer promise, Swisscom relies on fully committed, responsibly-minded employees who think and act proactively. It is our employees who transform Swisscom into a tangible experience for customers. Swisscom gains valuable information from dialogue between employees and customers. The information gathered at the customer interfaces flows back to the company and allows Swisscom to continually improve its products and services. Using a wide range of communications platforms and activities, Swisscom promotes a corporate culture that encourages dialogue and cross-collaboration within the company. Every two years, Swisscom conducts an employee survey, the results of which provide ideas for new projects and measures. Helping to shape Swisscom's future is one of the most important tasks of the Employee Representation Committee. Twice a year, Swisscom organises a round-table meeting with the employee representatives. Employee concerns mainly relate to social partnership, training and development, diversity, and health and safety at work. Swisscom engages in dialogue with teams from all organisational units on sustainability issues, under the motto "Hello Future". Through this dialogue, Swisscom keeps its employees up to date on its commitments in the area of sustainability and motivates them to implement sustainability measures in their daily work and life.

Partners and NGOs

See **www.swisscom.ch/cr-partnerships**

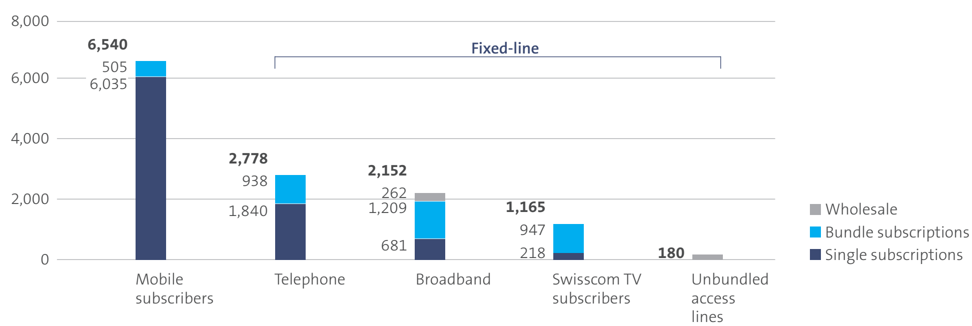
Swisscom believes in the importance of sharing insights and information with partners and NGOs within the framework of projects; for example, with WWF Climate Savers, myclimate, the Swiss Child Protection Foundation and organisations that address the specific needs of affected groups. Active partnerships and Swisscom's social and ecological commitment are especially relevant for this stakeholder group.

Market trends in telecoms and IT services

Swiss telecoms market

Switzerland has three mobile networks and several transport and access networks in the fixed network area. TV signals in Switzerland are transmitted terrestrially via antenna as well as satellite. The Swiss telecoms market is highly developed by international standards. It is characterised by innovation, a wide range of voice and data services and television signal broadcasting. Total revenue generated by the telecoms market in Switzerland is estimated at around CHF 13 billion. The market is in a state of transition, driven by the growing convergence of telecommunications, information technology, media and entertainment. More and more new global competitors are entering the Swiss telecoms market, offering free and paying Internet-based services including telephony, SMS messaging and TV. Cloud solutions are also playing an ever more important role, with storage capacity, processing power, software and services all relocating to an increasing degree to the Internet. Customers' needs also continue to change as more and more switch to flat-rate monthly subscriptions. Increasingly, they are accessing data and applications from just about anywhere and at any time using a whole range of different Internet-enabled devices. The result is a rapid growth in demand for high bandwidths that enable fast, high-quality access. To address this trend, Swisscom is building the network infrastructure of the future. Swisscom is tackling the relentless growth in data traffic by continuously expanding fixed broadband access and further expanding new technologies in the mobile network such as 4G/LTE (Long Term Evolution). In addition, Swisscom's bundled offerings combine different technologies such as fixed-line access with telephony, Internet and TV, plus the option of a mobile line. The Swiss telecoms market can thus be broken down into the following submarkets of relevance to Swisscom: mobile, fixed-line, broadband and TV.

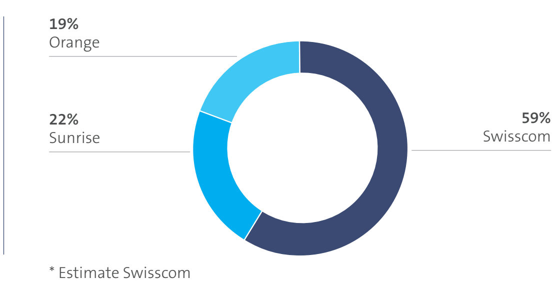
Swisscom Switzerland access lines in thousand



Mobile communications market

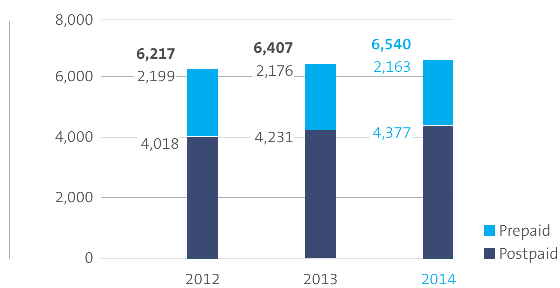
Three companies operate their own wide-area mobile networks in Switzerland: Swisscom, Orange Switzerland and Sunrise. In December 2014, Apax Partners announced that it would consent to the sale of Orange Switzerland to NJJ Capital, the private holding company of Xavier Niel, subject to the approval of the responsible authorities. In early 2015, Sunrise announced that it plans to list the company on the Swiss stock exchange (SIX Swiss Exchange). Another major market player, upc cablecom, has been offering its own mobile services (MVNO, mobile virtual network operator) via Orange Switzerland's networks since the spring of 2014. However, these offerings are currently limited to existing and new upc cablecom customers with at least one additional digital product. While GSM network coverage is close to 100% of the population, the demands on mobile networks continue to grow. To continue offering customers optimum data connectivity, Swisscom is investing in new mobile technologies such as 4G/LTE. At the end of 2014, 97% of the Swiss population had access to the latest-generation mobile network. At 0.8%, growth in mobile lines (SIM cards) in Switzerland was once again slow in 2014 due to the already high market penetration. Together, the three network operators have a combined total of more than 11 million mobile lines; penetration in Switzerland is around 136%. The technical possibilities offered by mobile communications are increasing due to the rapid spread of smartphones. Swisscom's infinity tariffs reflect customers' changing needs. These subscriptions allow Swisscom customers to make unlimited phone calls and send unlimited SMS messages to all Swiss networks, as well as unlimited Internet surfing at flat rates. The individual subscriptions mainly differ in terms of mobile data speeds. At the end of 2014, 2.1 million customers were using the new infinity offerings. For occasional mobile network users, Swisscom provides prepaid offerings with no monthly subscription fee, so that they are charged only as and when they access the network. Swisscom makes its mobile network available to third-party providers (MVNO, mobile virtual network operators) so that they can offer their customers proprietary products and services via the Swisscom network.

Market shares mobile subscribers in Switzerland* in %



* Estimate Swisscom

Swisscom mobile access lines in thousand



In 2014, Swisscom's market share remained relatively stable at 59% (postpaid 64%, prepaid 50%). The 60% market share reported by Swisscom for 2013 is not comparable with the 2014 figure due to the application of different measurement methods. The percentage of postpaid customers in Switzerland is around 61%. As in previous years, prices for mobile services continued to be squeezed by competition.

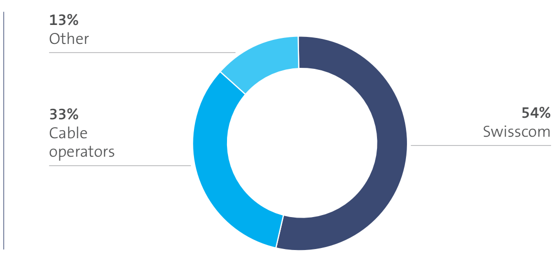
Fixed-line market

Fixed-line telephony is mainly based on lines running over the telephone network and cable networks. The number of Swisscom fixed lines is steadily declining. This trend continued in 2014, with the number of fixed lines falling by around 4% to 2.8 million mainly due to the substitution of fixed lines by mobile communications and the slight reduction in market share. At the end of 2014, the number of unbundled fixed lines totalled 180,000. As a result of rapid technological developments and the changeover to IP telephony, fixed-line telephony will in future more often be offered on the basis of a broadband access line.

Broadband market

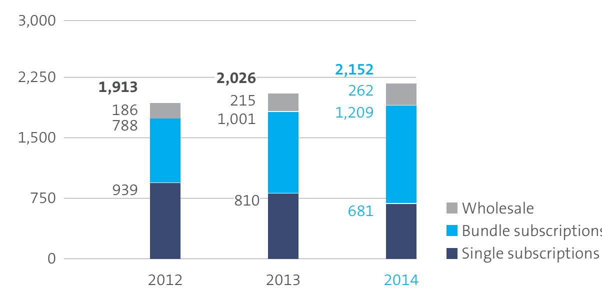
The most widespread access technologies for fixed broadband in Switzerland are telephone-network-based infrastructures and cable networks. Like in the mobile communications market, the broadband market's demands on networks are also increasing. To meet these expectations, Swisscom is upgrading its network infrastructure with state-of-the-art fibre-optic technology. At the regional level, this important technological change is attracting new market players such as municipal utilities. At the end of 2014, the number of retail broadband lines in Switzerland totalled 3.5 million or around 73% of all Swiss homes and offices. Switzerland therefore leads the way internationally in terms of broadband access market penetration. Swisscom's offerings reach more than 98% of the Swiss population.

Market shares broadband access lines in Switzerland* in %



* Estimate Swisscom

Swisscom Broadband access lines in thousand

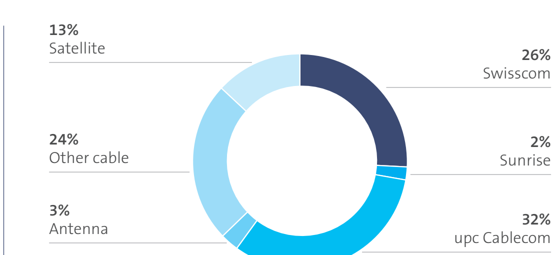


The number of broadband lines increased by around 4% in 2014 (prior year: around 4%). As in the previous year, growth in broadband access lines provided by cable network operators outpaced that of the telephone-based broadband access lines of telecoms providers. Telecoms providers accounted for more than a quarter of new broadband access lines in 2014, corresponding to a market share of all broadband lines of around 67%. Of these, 54% (prior year: 54%) were for Swisscom end customers and 13% (prior year: 15%) for Swisscom wholesale offerings and fully unbundled lines. Broadband is increasingly becoming the basic Internet access for households, through which customers can access additional services or bundled offerings.

Digital TV market

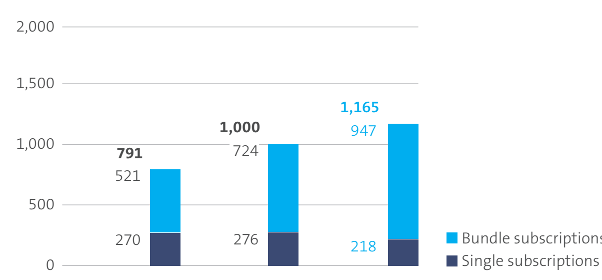
In Switzerland, TV signals are transmitted via cable, broadband, satellite, antenna (terrestrial) and mobile. The importance of digital television continues to grow, as does its market penetration. At the same time, other national and international operators are penetrating the Swiss TV market, offering TV as well as Video on Demand services which can be accessed over an existing broadband connection regardless of the Internet provider.

Market shares digital TV in Switzerland* in %



* Estimate Swisscom

Swisscom TV subscribers in thousand

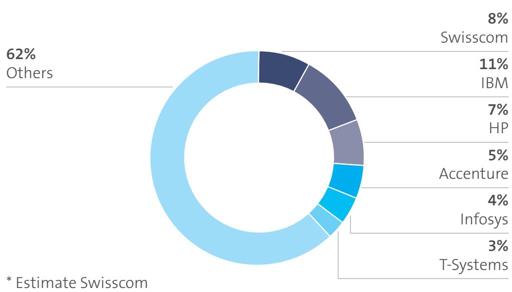


More than 80% of all digital TV connections are provided over the cable or broadband network, with cable TV and Swisscom TV commanding the largest market shares. Swisscom has been steadily growing its market share over the last few years thanks to its own digital TV offering, Swisscom TV, which at the end of 2014 had a market share of 26% (prior year: 23%). In 2014, the number of Swisscom TV subscribers rose by 165,000 to 1.2 million. Of this number, around 306,000 have signed up to the Swisscom TV 2.0 service launched in the spring of 2014, which offers extended functionality compared to the previous version. The cloud-based recording function allows users to record an unlimited number of programmes simultaneously and play them back on different devices. Swisscom also extended the Replay TV function from 30 hours to seven days, and integrated around 50 of the most popular apps such as YouTube and Facebook in Swisscom TV 2.0. The new Teleclub Play video flat rate service launched in December 2014 offers Swisscom TV 2.0 customers unlimited access to a broad range of TV series, classic films, children's programmes, documentaries and sports content. Swisscom TV remains available in a range of packages to meet all customer needs.

IT services market in Switzerland

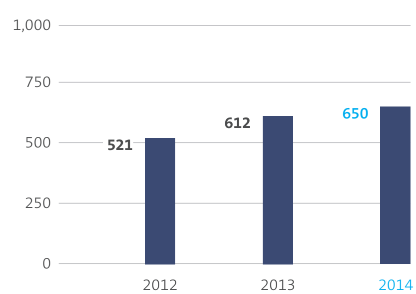
In 2014, the IT services market generated a revenue volume of CHF 8.6 billion. Swisscom expects the market volume in 2017 to total CHF 9.4 billion. Cloud services, business process outsourcing (BPO) and application-based services are expected to show the most significant growth. Customers often demand services customised to their individual sector and processes. Even the classical infrastructure services business has the potential for moderate growth over the next few years.

Market shares IT services in Switzerland* in %



* Estimate Swisscom

Swisscom net revenue IT services in CHF million

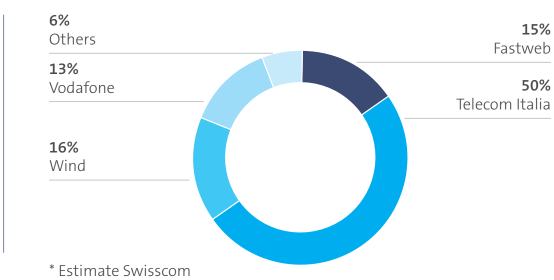


Thanks to a market share of around 8%, Swisscom remains one of the leading providers of IT services on the Swiss market. In 2014, Swisscom reported growth in all areas. In the vertical business for the banking sector, for example, it continued to substantially increase its share of the BPO market and rolled out innovative solutions such as a crowdfunding platform. Crowdfunding is a new way of connecting companies with each other and with their end customers. By bringing Swisscom IT Services and the Corporate Business division of Swisscom Switzerland under one roof at the beginning of 2014, Swisscom laid the foundations for further growth in the Swiss enterprise customers market.

Italian broadband market

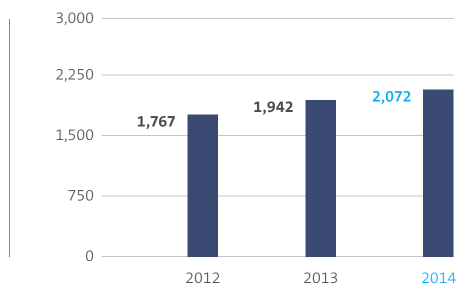
Italy's fixed broadband market is Europe's fourth largest, with a revenue volume of around EUR 13 billion. In contrast to most other European countries, in Italy there are no cable network operators who offer broadband services. Half of the homes and offices in Italy have access to the broadband network; the penetration of broadband is thus well below the European average. The total number of broadband lines in Italy grew to around 14 million in 2014. Fastweb increased the number of broadband lines by 6.7% or 130,000 to more than 2 million, repeating its positive 2013 results.
The Italian market continues to be dominated by double-play bundles that combine voice and broadband services, and is subject to significant pressure on prices due to the highly competitive environment. In 2014, the number of fixed broadband customers in Italy reached a penetration rate for fixed lines of around 70%, with ultra-fast broadband services gaining acceptance. The market leaders for fibre-optic/VDSL offerings are Telecom Italia and Fastweb.

Market shares broadband access lines in Italy* in %



* Estimate Swisscom

Fastweb broadband access lines in thousand



With a share of 50% (prior year: 51%), Telecom Italia commands a leading position on the Italian broadband market. Fastweb increased its market share year-on-year from 14% to 15%.
For service providers, a permanent countrywide presence is becoming increasingly important in view of the growing complexity of products and services. With this in mind, Fastweb is further expanding the ultra-fast broadband network and by the end of 2016 aims to cover around 7.5 million homes and offices, or 30% of the population. Fastweb has also decided to expand its own sales network, improve the efficiency of its dealer structure and step up investment in its own sales outlets in major Italian cities.

Business model and customer relations

Swisscom is Switzerland's leading telecom provider and its subsidiary Fastweb has built up a strong position in the Italian market. Swisscom is an aggressive player, operating in a dynamic marketplace and competing against an ever-increasing number of global service providers. It is totally committed to meeting customer needs and delivering service and quality, and is also investing heavily in the networks of the future.

Business activities

Company profile

Swisscom is the Swiss market leader in the field of telecommunications. Since acquiring Fastweb in 2007, Swisscom's international activities have been concentrated mainly in Italy. Fastweb is one of Italy's largest broadband telecoms companies. Swisscom's corporate strategy is focused on strengthening the company's core business, which relies on a high-performance, secure and always-available infrastructure. Swisscom is also looking to grow by offering differentiated products and services and increasing the deployment of ICT. Major investments in network infrastructure ensure that Swisscom will continue to satisfy all its customers' needs well into the future. Sustainable management and long-term responsibility are firmly enshrined in the company's corporate culture. Swisscom owes its business success to the dedication and commitment of a 20,000-strong workforce which continually strives to develop new solutions for customers and the information society. Swisscom consistently invests in staff training and development, and is training more than 900 apprentices in Switzerland.

Swisscom generates over 80% of its net revenue and operating income before depreciation and amortisation (EBITDA) from business operations in Switzerland. The company offers a full portfolio of products and services for fixed-line telephony, broadband, mobile communications and digital TV throughout Switzerland, and is mandated by the federal government to provide basic telecoms services to all sections of the population throughout Switzerland. Swisscom offers corporate customers a comprehensive range of communications solutions as well as individually tailored solutions. Swisscom is also a leading provider specialising in the integration and operation of IT systems in the fields of outsourcing, workplaces, SAP and finance services. Customers can purchase their products and services via a range of sales channels. They can check out products and services first hand and receive comprehensive advice in Swisscom's own shops as well as in numerous partner outlets. They can also obtain product information and order products and services at any time online via the Swisscom website.

In the digital customer centre, which is also accessible via the Internet, customers can manage their personal details, subscriptions and bills on their own. Swisscom fosters close ties with all stakeholder groups: shareholders, investors, employees, suppliers, the general public, public authorities and, above all, its customers. It has long been committed to its Swiss roots and endeavours to ensure that all citizens benefit from leading-edge technologies. This is reflected in Swisscom's solution-oriented approach, which is geared to serving the common good as well as the interests of the company.

See
www.swisscom.ch

Swisscom brand

The Swisscom brand is a strategic intangible asset for Swisscom in general, and for reputation management in particular. One of the main purposes of the brand is to optimally support Swisscom's wide variety of business activities. The brand must consistently accompany the core business while at the same time remaining sufficiently elastic for new business opportunities.
The Swisscom Group offers core-business products and services under the Swisscom brand. Outside Switzerland, notably in Italy, Swisscom operates under the Fastweb brand. Swisscom also operates under a range of other brands in related business fields. The strategic management of the entire brand portfolio comes under the remit of Corporate Communications.

By merging Swisscom IT Services and the Corporate Business division of Swisscom Switzerland to create Enterprise Customers, Swisscom is consistently pursuing its strategy of positioning its brand in the core business of telecommunications and ICT. Thanks to the success of Swisscom TV, the Swisscom brand has confirmed and enhanced its credibility in the field of digital entertainment. Other key brands belonging to Swisscom are the Teleclub, Kitag and Cinetrade brands in the entertainment sector. A number of other state-of-the-art products such as iO and Docsafe help to strengthen the Swisscom brand and promote the "Best in the networked world – always and everywhere" vision, and to position Swisscom as a straightforward, inspiring and trustworthy companion in a rapidly-changing digital world.

In 2014 Swisscom was once more selected by consumers as the Most Trusted Brand in three categories in the Reader's Digest annual survey, reflecting the brand's awareness level in Switzerland. The brand thus remains well ahead of the competition in terms of "top-of-mind awareness" and is firmly anchored among consumers as a trustworthy, reliable and high-quality brand. Trust and service are among the most important factors that motivate potential customers to switch to Swisscom.
The Swisscom brand also symbolises Swisscom's close ties with and commitment to Switzerland. Swisscom is part of the modern Switzerland. It takes seriously its responsibility of fostering the common denominators that characterise Switzerland. Swisscom's consistent and manifold commitment to sustainability rounds off the brand's positive image and enriches customer relations in a variety of ways. This is one reason why the reputation values achieved by the brand are exceptionally high for the telecommunications industry.
This is confirmed by the Interbrand "Best Swiss Brands 2014" Study, in which the Swisscom brand was once again ranked as Switzerland's sixth most valuable brand with a monetary brand value of CHF 5 billion.

Swisscom's network and IT infrastructure

Network infrastructure in Switzerland

Demand for broadband in the Swiss fixed network is doubling every 16 months, and every 12 months in the case of mobile customers, who want to use applications such as HD television, video conferencing and cloud services at any time, anywhere and on different devices. The key enabling element of the network of the future is Internet protocol (IP) technology. Swisscom decided to switch over all of its products and services to this forward-looking technology by the end of 2017. All IP will make processes and operations faster and more flexible, which will make not only Swisscom more competitive but also its business customers, and increase Switzerland's attractiveness as a business hub. This will also fulfil the needs of Swisscom's residential customers to have constant access to their data from anywhere and any device.
Switzerland already has one of the best IT and telecoms infrastructures in the world. According to OECD findings, Switzerland leads the world in terms of broadband penetration (44.9%), ahead of the Netherlands and Denmark (source: OECD Broadband Portal, December 2013). This result is further supported by the "State of the Internet report" issued by technology service provider Akamai, which ranked Switzerland in first place in Europe for ultra-broadband availability, and in third place worldwide. In mobile communications, broadband LTE coverage now extends to 97% of the population, making Swisscom the largest network operator in Switzerland by far, both in the fixed and mobile network.
The fixed network comprises two levels: an access network and a transport network. The access network consists of over 1,500 local exchanges and around 3.4 million subscriber access lines to end customers. Swisscom started to upgrade the fixed network a number of years ago. To drive forward ultra broadband provision in Switzerland, Swisscom has opted for a broad, innovative mix of technologies. In addition to Fibre to the Home (FTTH), Swisscom operates Fibre to the Street (FTTS) and Fibre to the Building (FTTB) since 2013, laying fibre-optic cables to within a short distance of individual homes and offices or in basements so as to achieve a significant further increase in bandwidth.
Copper cables are also evolving, doubling their capacity thanks to vectoring. Moreover, thanks to G.fast, the successor to VDSL, copper cables will soon be able to provide bandwidths of up to 500 Mbps. Through this mix of technologies, Swisscom had already installed over 1.4 million ultra-broadband connections by the end of 2014.
Swisscom wants to have installed 2.3 million ultra-fast broadband connections in homes and offices by the end of 2015, and by the year 2020 have equipped 85% of all homes and offices with ultra-fast broadband. In 2014 Swisscom invested CHF 1.75 billion in the IT and network infrastructure with this objective in mind. Swisscom honours its universal service provision mandate in remote-lying regions of Switzerland. It is also seeking new solutions to deliver higher bandwidth to remote regions. For example, Swisscom is looking at DSL-LTE bonding, a technology, which, thanks to high bandwidths, can supplement or in some cases replace the fixed network in areas which are less well connected.
Swisscom completed the modernisation of the mobile network in mid-2014, creating the basis for a rapid rollout of 4G/LTE technology across all mobile sites alongside second- and third-generation mobile technology. Thanks to the new frequency bands acquired by auction in 2012, Swisscom will be able to deploy all mobile technologies over the long term and in a needs-appropriate manner. To

use the acquired frequency spectrum, Swisscom needs to switch frequencies. The first part of this switchover was carried out in 2014 as part of a coordinated project covering all Swiss mobile operators, and the second part is scheduled to take place in 2015.

In 2012 Swisscom was the first mobile provider in Switzerland to launch 4G/LTE commercially. Today Swisscom is already providing extended 4G/LTE coverage to 97% of the Swiss population, In regions with particularly high mobile traffic, along the streets and in busy public places 4G/LTE microcells ensure the required network capacity. Swisscom is increasingly installing dedicated antenna systems in large business premises and public interiors. 4G+ (LTE Advanced) installed in urban areas already provides for bandwidth speeds of up to 300 Mbps in the mobile Internet, and bandwidth speeds are set to increase to 450 Mbps by the end of 2015. Swisscom's offerings are therefore leading the way, both in Switzerland and by international standards. Mobile telephony is also keeping up with the times. Today the LTE network is a dedicated data network, while voice telephony is implemented on its forerunners 3G and 2G. By introducing Voice over LTE (VoLTE) and WLAN Interworking, Swisscom is consistently driving forward IP transformation in the mobile network. Mobile voice telephony takes place via the digital Internet Protocol (IP), offering advantages in terms of voice quality and call setup.

See **www.swisscom.ch/networkcoverage**

Swisscom is continually expanding its broadband network, extending the product range and increasing the number of antenna sites. Swisscom is committed to deploying modern, needs-appropriate technologies in order to ensure efficiency and compliance with contemporary zoning requirements while also minimising emissions. It coordinates site expansions with other mobile providers wherever feasible and already shares around 22% of its nearly 6,800 antenna sites with other providers. And with over 2,000 hotspots in Switzerland, Swisscom is also the country's leading provider of public wireless local area networks.

In a bid to improve efficiency, Swisscom is not only investing in latest-generation networks but also systematically decommissioning the earlier-generation networks.

Network infrastructure in Italy

Fastweb's network infrastructure consists of a fibre-optic network spanning a total distance of over 37,500 kilometres. Fastweb thus reaches more than half of the Italian population, with 5.5 million homes and offices equipped with ultra-broadband at speeds of up to 100 Mbps, based on Fibre to the Home (FTTH) and Fibre to the Street (FTTS).

Fastweb is continuing its expansion of the ultra-broadband network and by the end of 2016 aims to have covered around 7.5 million homes and offices, or around 30% of the population. In addition, thanks to wholesale services provided by well-established Italian operators, Fastweb reaches customers who are not directly connected to its own network.

While Fastweb does not have a mobile network of its own, it offers proprietary mobile services based on an agreement with another mobile operator (MVNO).

Swiss IT infrastructure

Swisscom operates 24 data centres around Switzerland, which currently store around 20 petabytes of data online. This volume more than doubles when taking into consideration the necessary data backups. In the Storage Area Network (SAN), more than 25,000 ports or active operating systems are provided for around 15,000 servers. Through its on-demand contracts with innovative partner companies, Swisscom is also able to ensure sufficient capacity and the deployment of efficient technologies at all times.

Mobile data traffic is increasing every year.
Compared with the previous year,
data volume grew by

96 %

Investments in performance enhancement and security in the Swiss infrastructure and in ultra-broadband expansion
totalled

1.75 billion CHF

In the interest of sustainable resource management, Swisscom maximises energy-efficient operation of its data centres. The average annual power usage effectiveness (PUE) of Swisscom's data centre in Zollikofen (Berne) is 1.3. This value, representing the ratio of total power consumed by the data centre to the power consumed by the IT systems, means that power consumption in Zollikofen is around 33% lower than that of conventionally built data centres. With a PUE of 1.2, the data centre in Wankdorf (Berne), which was inaugurated in September 2014, is even more energy-efficient.
Cloud technology further increases the efficiency of the data centres by enabling the distributed use of the underlying infrastructure platforms for customers. Customers can choose to store or process their data and applications in the private cloud, in dedicated zones within the public cloud, or in shared clouds.
Swisscom is planning to move up to 70% of its own work and production processes to the cloud in the coming years. In this way it will further enhance the knowledge advantage it needs to fulfil its role as a trustworthy partner for business customers in the digital world.

Fastweb's IT infrastructure

Fastweb operates four main data centres in Italy with a total surface area of 8,000 square meters. The IT infrastructure consists of around 5,000 servers (virtual and physical servers in equal parts), 700 databases and 2.9 petabytes of storage capacity.
One of the data centres is managed by Ericsson on the basis of a multi-year contract which covers the setup and design of the data centre as well as the operational aspects of Fastweb's IT infrastructure. Two other data centres are used by Fastweb mainly for corporate customer services, i.e. for housing, hosting or other cloud-based services.
Fastweb is currently investing EUR 25 million in the construction of two new data centres in Milan and Rome respectively, which will be used to host ICT and cloud services for corporate customers. Construction of the new data centre in Milan has been completed. It is the first data centre in Italy to attain Tier IV certification, which is synonymous with the highest levels of reliability, security and performance.

Data protection

Data are one of the most valuable production factors in the information society. Swisscom is therefore committed to storing and transmitting information as securely and reliably as possible. Around 150 specialists work to ensure information security, data privacy and reliable network and Internet operations.
Swisscom also makes every effort to protect its customers' data during telephone calls. All calls made over the mobile network are transmitted in encrypted form. Banks, insurance companies, hospitals and public services such as the police and fire services also need their communication infrastructure to operate as reliably and securely as possible. Many companies, institutions and services working in these sensitive areas rely on Swisscom services. Swisscom also provides secure cloud-based solutions to small and medium-sized enterprises.
Customer data are subject to the Data Protection Act and the Telecommunications Act and may only be processed by individuals for whom such data are essential for the purposes of performing their tasks. Moreover, the purpose for which a customer's data is viewed or processed must be apparent to the customer at all times. In accordance with the Data Protection Act, customer data also have to be protected against unauthorised use through appropriate technical and organisational measures. Swisscom therefore ensures that only a limited number of individuals are permitted to access customer data. As a rule, customer data is hosted in Switzerland. If a service is provided by Swisscom with the involvement of third parties, Swisscom may pass on data to third parties insofar as it is necessary for the provision of the services in question. Swisscom ensures that such third parties are bound by the same data protection provisions and that they may only process such data to the same extent as Swisscom itself is entitled. In addition, only such data as are required for the provision of services, the handling and maintenance of the customer relationship, and for the security of the company and its infrastructure, may be collected from Swisscom customers, processed and stored. Swisscom also processes the data for marketing purposes aimed at the customer-driven design and development of its services and offerings tailored to end users. Customers are able to keep their data from being used in this way by opting out. The Data Protection Act also requires customer data to be protected against unauthorised use through appropriate technical and organisational measures.

Products, services, sales channels

Swisscom in Switzerland

Swisscom is committed to service and quality, and to interacting with its customers in a personalised and value-adding manner. Six million customer visits to Swisscom Shops, 3,500 customer advisors, twelve million calls and more than four million e-mails and letters per year are the basis for staying in touch with customers and providing personal service. For years now, excellence in service has been a top priority for Swisscom.

Residential Customers: In only six years Swisscom has become the most successful provider of digital TV. More than a million customers now watch Swisscom TV. Swisscom TV 2.0, launched in April 2014, offers additional functions. The cloud-based recording function allows users to record an unlimited number of programmes simultaneously and play them back on different devices. And thanks to the replay function, customers can catch up with programmes broadcast over the past seven days. Swisscom also gives customers access to other applications such as the iO communication app and Tapit. iO allows users to make calls, chat and share pictures with other iO users over the Internet free of charge, Tapit makes it possible for users to pay for purchases securely using their smartphone and in future collect loyalty points. Tapit will in future also offer a building access function. The Natel infinity and Vivo packages demonstrate Swisscom's consistent commitment to addressing changing customer needs. Natel infinity enables unlimited surfing, telephoning and SMS/MMS messaging across Switzerland and to all networks. The bundled offerings, ranging from Vivo light to XL, combine TV, Internet and fixed-line access and offer the right subscription for individual needs. Subscribers who combine Vivo and Natel infinity also benefit from a price reduction. Swisscom customers are becoming increasingly accustomed to using modern communication technology. Consequently, product presentation and expert customer advice are becoming more and more important. Swisscom's new Campus Shop concept was created with this in mind. Now the Shops provide more individual advice and allow customers to try out products on site. Between 2012 and 2014 the new concept and design was implemented in all Swisscom Shops.

Small and Medium-Sized Enterprises: Swisscom's SME, Office and Natel business infinity packages offer products tailored to the needs of small and medium-sized enterprises. Business Connect and Full Service Solution are innovative communication solutions that can be customised to meet the individual needs of SME customers.

Enterprise Customers: The digital transformation is substantially changing business processes, the working world and the way companies operate on the market. As an ICT provider with comprehensive experience in digitalisation, Swisscom drives this digital transformation forward and helps companies to find their way in the new networked world. Swisscom's range of offerings comprises comprehensive services such as cloud computing, outsourcing, workplace solutions, mobility solutions such as Natel go, networking solutions, business process optimisation, SAP solutions and a full range of services tailored to the financial industry. Every year the service desk fields 1.2 million calls and responds to 300,000 call-outs.

Healthcare market: Swisscom now delivers a full range of solutions for linking service providers and for managing the health of private individuals. These offerings range from the Evita online health dossier to networking solutions for service providers, billing services and mobile health files for hospitals, making Swisscom a leading provider of networked healthcare solutions in the Swiss market. Today more than 1,600 doctors and 100 hospitals, insurances and other service providers are already using the healthcare solutions of Swisscom to exchange over two million documents.

Net revenue
Switzerland accounts for

82 % of net revenue

Operating income before depreciation and amortisation (EBITDA)
Switzerland accounts for

86 % of EBITDA

Networked home: SmartLife is a range of products designed to make the home safer and more secure. The SmartLife app allows movement detectors, HD cameras, fire and water alarms and other home security technology to be controlled via smartphones, computers and tablets. Likewise, tiko, the smart electricity storage network from Swisscom Energy Solutions, allows users to optimally manage the energy consumption of their heat pumps, electrical heating systems or boilers remotely over the Internet.
Sustainability: Green ICT technologies support companies in their efforts to save energy in intelligent ways so as to boost their long-term efficiency while also reducing CO_2 emissions. This includes teleworking and virtual meetings, which save on travel costs and time, and telehousing or hosting solutions, which reduce the amount of energy consumed by data centres. Green ICT will therefore grow further in importance in the future not only for efficiency reasons but also as an image factor.

Fastweb in Italy

Fastweb offers residential and business customers voice and broadband services provided through its own broadband and ultra-fast broadband network as well as via unbundled access lines and wholesale products of Telecom Italia. A successful partnership exists with pay-TV provider Sky Italia, offering bundled products that combine voice and broadband services as well as satellite TV. Based on an agreement with a mobile operator, Fastweb offers mobile services primarily to residential customers. Furthermore, it offers a comprehensive range of ICT, cloud and security services for business customers.

Customer satisfaction

Swisscom Switzerland conducts segment-specific surveys and studies in order to measure general customer satisfaction. It measures customer satisfaction twice a year, in the second and fourth quarters of the year. The Wholesale segment measures customer satisfaction once a year. For all segments, the most important metrics are the extent to which customers are willing to recommend Swisscom to others and the related Net Promoter Score (NPS), which depicts the emotional aspects of customer loyalty as well as revealing customers' attitudes towards Swisscom. The NPA is calculated from the difference between promoters (customers who would strongly recommend Swisscom) and critics (customers who would only recommend Swisscom with reservations or would not recommend the company). Swisscom also conducts the following segment-specific surveys and studies:

- The **Residential Customers segment** conducts representative surveys to determine customer satisfaction and the extent to which customers are willing to recommend Swisscom to others. Callers to the Swisscom hotline and visitors to the Swisscom Shops are questioned regularly about waiting times and staff friendliness. Product studies also regularly survey buyers and users to determine product satisfaction, service and quality.
- The **Small and Medium-Sized Enterprises segment** conducts random interviews to gauge customers' satisfaction with Swisscom as well as dealers' satisfaction with Swisscom products and support.
- The **Enterprise Customers segment** conducts surveys among customers to measure satisfaction along the customer experience chain. Feedback instruments are also used at key customer touch points in order to determine customer satisfaction. After each interaction with the service desk or after placing orders, IT users can submit feedback to the service desk or enter their comments in the order system; customers can assess the quality and success of their projects on completion.
- The **Wholesale segment** measures customer satisfaction along the entire customer experience chain.

The results of these studies and surveys help Swisscom to improve its services and products and they influence the variable performance-related component of employees' pay.

Employees

Overall headcount at Swisscom increased by 1,017 FTEs year-on-year. In Switzerland Swisscom has 18,272 employees and is training 922 apprentices.

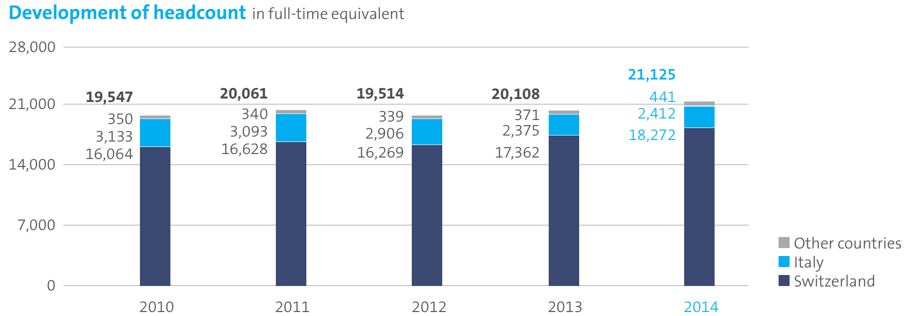
Headcount

At the end of 2014 Swisscom had 21,125 full-time equivalent employees, of which 18,272 or 86.5% of the total workforce were employed in Switzerland (prior year: 86.3%). Swisscom is also training 922 apprentices in Switzerland. The following chart shows a breakdown of full-time equivalent positions by segment:

	31.12.2012	31.12.2013	31.12.2014
Full-time equivalent employees at end of year			
Residential Customers	4,316	4,754	5,313
Small and Medium-Sized Enterprises	681	757	775
Corporate Business	2,360	2,441	2,487
Wholesale	116	107	111
Network & IT	4,389	4,404	4,599
Swisscom Switzerland	**11,862**	**12,463**	**13,285**
Fastweb	**2,893**	**2,363**	**2,391**
Swisscom IT Services	2,684	3,162	3,164
Other	1,735	1,802	1,968
Other operating segments	**4,419**	**4,964**	**5,132**
Group Headquarters	**340**	**318**	**317**
Total Group	**19,514**	**20,108**	**21,125**
Thereof employees in Switzerland	16,269	17,362	18,272

Headcount increased year-on-year by 1,017 full-time equivalents or 5.1% to 21,125. The higher headcount resulted from corporate acquisitions, the hiring of external staff and the strengthening of customer service operations. Excluding acquisitions, the increase was 282 FTEs, or 1.4%, and 375 FTEs in Switzerland, or 2.2%.
In the year under review, employees in Switzerland on open-ended contracts accounted for 99.6% of the workforce (prior year: 99.6%). Part-time employees made up 14.2% (prior year: 13.5%)- Terminations of employment by employees in Switzerland amounted to 5.8% of the workforce (prior year: 6.4%).

Development of headcount in full-time equivalent



Employment law in Switzerland

Introduction

Swisscom is one of the largest employers in Switzerland, with 18,272 full-time equivalent positions. The legal terms and conditions of employment in Switzerland are based on the Swiss Code of Obligations. The collective employment agreement (CEA) sets out the key terms and conditions of employment between Swisscom and its employees. It also contains provisions governing relations between Swisscom and its social partners. Prior to their merger, Swisscom IT Services Ltd and Swisscom (Switzerland) Ltd had their own collective employment agreements (CEA) commensurate with the respective market environments. The terms and conditions in these agreements had to be adjusted accordingly, and the new CEA negotiated between Swisscom and the social partners enters into force on 1 April 2015. The CEA of cablex AG entered into force on 1 January 2013. At the end of December 2014, 14,596 FTEs or 84.1% of the workforce were covered by the collective employment agreement.
General terms and conditions of employment which exceed the minimum standard defined by the Code of Obligations govern the employment law provisions applicable to Swisscom management staff in Switzerland.

Employee representation and union relations

Swisscom is committed to fostering constructive dialogue with its social partners (the syndicom union and the transfair staff association) as well as the employee associations (employee representatives). The collective employment agreement (CEA) and the social plan constitute fair and consensual solutions. In the event of significant operational changes, Swisscom involves the social partners and employee associations at an early stage. The CEA grants the social partners and the employee associations rights of co-determination in various areas. In general and free elections in autumn 2013, Swisscom employees elected the new members of the employee associations charged with exercising these rights. Two employee representatives from the unions also sit on the Board of Directors of Swisscom Ltd.

Collective employment agreement (CEA)

The harmonised CEA which enters into force on 1 April 2015 retains the very good employment conditions under the old CEAs and standardises the regulations governing working hours and annual leave as well as the pay system. The working week for employees covered by the CEA is 40 hours. Among the most progressive fringe benefits defined by the CEA are five weeks' annual leave, or 27 days from age 45 (applicable from 1 January 2015) and six weeks' annual leave from age 60, 17 weeks' maternity leave and ten days' paternity leave. Employees also enjoy an additional week of paid leave after five years of service. Swisscom pays a child and education allowance which in most cases is above the statutory cantonal allowance, and grants leave on special family-related grounds such as adoption leave. In the event of incapacity to work due to illness or accident, Swisscom continues to pay the employee's full salary for up to 730 days. The CEA places special emphasis on staff development while also improving the rights of part-time employees.

Working-hour models

Swisscom promotes work-life balance by offering working conditions that enable both full- and part-time employees to balance their professional and private lives: flexible working hours (the standard model used by a majority of employees) and variable working-hour models such as annual working hours, a long-term working-time account and part-time working from the age of 58. The "Holiday Purchasing" model also allows employees to purchase additional leave. Employees may also work from home with the consent of their line manager. This option is used by many employees and is becoming increasingly easier thanks to tools such as Unified Communications & Collaboration (UCC). Swisscom is a "home office friendly" employer.

Combining work with the care of relatives at home presents a major challenge to those affected. Swisscom provides special support for employees who care for a relative or closely-related individual in addition to their work duties. As part of a "Work & Care" pilot project, two new flexible working-hour models have been added to the existing models to promote the work-life balance.

Social plan

Swisscom's social plan sets out the benefits provided to employees covered by the CEA who are affected by redundancy, and offers resources aimed at improving employability. It also provides for retraining measures in the event of long-term job cuts. Responsibility for implementing the social plan lies with Worklink AG, a wholly owned subsidiary of Swisscom. Worklink AG opens up new prospects for Swisscom employees affected by job cuts, providing them with advice and support in their search for new employment outside the company or arranging temporary internal or external placements. The success rate is high, with 69% of those affected finding a new job in 2014 prior to the end of the social plan programme. Worklink is also committed to promoting and enhancing the employability of Swisscom employees by reviewing employees' current status and providing career advice and coaching.
Swisscom also operates special employment schemes (phased partial retirement, temporary placements in similar areas of expertise) in line with its commitment to providing fair solutions for older employees affected by changes in skill set requirements or redundancy.

Employee remuneration

Salary system

Competitive pay packages help to attract and retain highly-skilled and motivated specialists and managerial staff. Swisscom's salary system comprises a basic salary, a variable performance-related component and bonuses. The basic salary is determined by function, individual performance and the job market, while the variable component is contingent on business performance as well as individual performance in the case of executive functions. Business performance is measured based on achievement of the Swisscom Group's overarching targets and the targets of the respective business segment or division. The targets primarily relate to key financial indicators and customer loyalty. Individual performance is measured according to the achievement of results- and conduct-related goals. Details on remuneration paid to members of the Group Executive Board are provided in the Remuneration Report.

See report **page 115**

Minimum wage

There is no legally defined minimum wage in Switzerland. Instead, this is negotiated by the social partners in the context of collective employment agreements. The new CEA which entered into force on 1 January 2013 included an increase in minimum salary to CHF 52,000, or CHF 50,000 in the case of cablex. Swisscom's operations are spread throughout Switzerland, and when it comes to determining salaries there is very little difference between regions. A study of starting salaries for the youngest employees (up to age 21) at the widely-applied starting-function level found that the average basic annual salary in this category is CHF 57,400 or CHF 55,770 at cablex: in other words, 10% above the minimum salary defined by the relevant CEA.

Pay round

In January 2014 Swisscom and its social partners signed a two-year pay round agreement for 2014 and 2015. In the year under review Swisscom increased its total salary payout in Switzerland by 1.2%. This increase was used to make adjustments in salaries based on individual performance and the ratio of the salary to the benchmark. For 2015 Swisscom has earmarked 1.8% of the total salary payout for salary adjustments.

Equal pay

Swisscom takes great care to ensure equal pay for men and women. The company's salary system is structured in such a way as to award equal pay for equivalent duties, responsibilities and performance. To this end, individual functions are assigned to functional levels according to their requirements and a salary band is defined for each function level, stipulating the remuneration range for equivalent duties and responsibility. Pay is determined within this range based on the individual employee's performance. As part of its salary review, Swisscom grants employees who have per-

formed better and are lower within the respective salary band an above-average pay rise. In this way, any wage disparities are evened out on an ongoing basis. When conducting the salary review, Swisscom also checks whether there are any pay inequalities between men and women within individual organisational units and corrects them in a targeted manner.
Swisscom also uses the federal government's equal pay tool (Logib) to conduct periodic reviews of its salary structures to ascertain whether disparities exist between men's and women's pay. Previous reviews have revealed only minor pay discrepancies, well under the tolerance threshold of 5%.
In 2011, Swisscom joined the Equal Pay Dialogue, an initiative set up by the employer and employee umbrella organisations in association with the federal government to review the status of equal pay and which ran until February 2014. The positive outcome of the Equal Pay Dialogue confirms that Swisscom salaries conform to the principle of equal pay.

Staff development

Swisscom's market environment is constantly changing. the company invests in targeted professional training for employees and managers in order to retain and improve their employability and the company's competitiveness in the long term. Employees are supported in their development by a wide range of on-, near- and off-the-job training options as well as internal programmes and courses. In 2014 the various training options were brought together under the Group-wide Learning Centre and made available to all employees via their own dedicated learning space. Nearly half of all internal learning and training courses take the form of e-learning programmes which can be carried out any time and from anywhere. The courses cover technical, management and project management topics. As part of talent management, around 10% of the top performers from the target groups have completed a corresponding internal programme. On-the-job training options, including job moves and stages, are becoming increasingly important. Even now Swisscom fills almost 43% of advertised vacancies internally. It also welcomes opportunities for employees to attend external further training courses, providing financial support and granting time off for such studies. In the year under review, every Swisscom employee spent 3.8 days on training and development in Switzerland.
Swisscom management sees staff development as a crucial element of its management responsibility. Regular dialogue between employees and management is used as an orientation tool to heighten the general commitment to training and development in the digital world It also makes it easier to agree on and realise medium-term development measures. To assess and promote employee performance and development, Swisscom will continue to develop its Performance Management System in line with requirements. Performance appraisals are carried out according to fair principles and cover a wide range of criteria based on binding agreements on objectives. The ongoing dialogue between employee and management about the agreed objectives ensures they are met over the course of a year. Broad-based support for the performance and development evaluations is provided within the framework of twice-yearly calibration rounds among groups of managers, at which performance is systematically assessed and further development steps are defined. These rounds are also used to draw up succession plans for key functions and to place talents in specially-designed talent programmes and offer promising employees challenging positions beyond their individual departments so as to promote their development.
In 2014 Swisscom launched the Leadership Academy, which offers members of management the opportunity to get to grips with individual and collective management issues in a changing environment and enhance their expertise in dialogue with other managers.

Staff recruitment

As a Swiss company, Swisscom is committed to the Swiss labour market. In order to meet customer needs and remain competitive, Swisscom is prepared to work together with both domestic and international partners, on condition that they satisfy Swisscom's requirements as regards labour legislation and sustainability.
Swisscom seeks individuals who are motivated and passionate about helping customers and who want to help shape the future of the networked world. At all company locations in Switzerland, Swisscom endeavours to give priority to people from the surrounding regions. This is the reason behind the high percentage of local employees in all areas and at all hierarchical levels.
In order to attract talented and highly motivated graduates, Swisscom cultivates close contact with universities and schools of applied sciences. Attending recruitment fairs and engaging in more advanced forms of cooperation such as guest lectures and workshops is very important to Swisscom. Many students gain initial professional experience at Swisscom during their studies either by working as interns or during the practical part of their Bachelor's or Master's course.
In August 2014, 256 young people started their apprenticeship at Swisscom. Swisscom is thus Switzerland's largest trainer of ICT professionals. In 2014, Swisscom trained a total of 922 apprentices in technical and commercial apprenticeships. The Swisscom training model is designed to promote independence and personal accountability so as to support the apprentice's personal development. Apprentices take an active role in devising their training so that it fits their individual priorities, and they apply within the company for different practical placements and learn from experienced employees during such placements.

Employee satisfaction

In 2014, 83% of Swisscom employees in Switzerland took part in the job satisfaction survey. The results again revealed an above-average level of job satisfaction and a high level of employee commitment at Swisscom. The employees gave all of the areas under review a significantly better average score than in the 2012 survey, and some of the scores were above average compared to other companies in the sector. The results are all the more notable given the fact that Swisscom has undergone a major change process since the last survey, with the merger of Swisscom IT Services Ltd and Swisscom (Switzerland) Ltd as well as other organisational changes and process adjustments.

Employment law in Italy

Employment agreement for the telecoms sector in Italy

Statutory terms and conditions of employment in Italy are based on the Contratto collettivo nazionale di lavoro (CCNL), a state collective employment agreement. The CCNL defines the terms and conditions of employment between Swisscom's Italian subsidiary Fastweb and its employees. It also contains provisions governing relations between Fastweb and the unions.
In February 2013 the telecoms companies and unions negotiated a new CCNL, setting out better terms and conditions compared with the previous agreement.

Employee representation and relations with the unions

Fastweb engages in dialogue with the unions and the employee representatives and, in the event of major operational changes, involves them at an early stage.

Industry-wide collective agreement for employees

The working week for employees covered by the CCNL is 40 hours. Benefits include five weeks' annual leave, 20 weeks' maternity leave and one day of paternity leave.
In the event of incapacity for work due to illness or accident, Fastweb guarantees full payment of the employee's salary for 180 days and half the salary for a further 185 days.

Working time model

Fastweb supports work-life balance. The company's terms and conditions of employment enable employees to achieve a healthy balance between their working and private lives. These include in particular the following measures agreed with the unions in the Conciliazione famiglia e lavoro in 2001: flexible office working hours, choice of shifts for mothers, and temporary part-time work for mothers.

Employee remuneration

Fastweb offers competitive salary packages aimed at attracting and retaining highly qualified specialists and managers. The company's salary system comprises a basic salary, a collective variable profit-sharing bonus for non-managerial staff, and a variable performance-related component for managerial staff which is contingent on meeting individual goals and company targets. The basic salary is determined according to function, individual performance and the situation in the labour market. The variable profit-sharing bonus is based on the Premio di risultato agreed separately with the unions. Fastweb respects the legal minimum salary defined by the CCNL.

Innovation and development

In a dynamic environment in which the market situation and general conditions are constantly changing, a company must be innovative to ensure long-term success. With this in mind, Swisscom consistently addresses changing customer needs, and identifies growth areas in which it can sustainably defend and strengthen its position.

Innovation is an important driver in the bid to enter new markets and develop up-and-coming technologies. Due to the rapidly changing nature of Swisscom's business environment, research and development are becoming increasingly important. Swisscom wants to anticipate the strategic challenges, new growth areas and future customer needs early on, so as to help actively shape the future of telecommunications and the Internet. At Swisscom, innovation takes place in all areas of the company as well as beyond.

Open innovation: a success factor

Swisscom recognises the importance of maintaining a dialogue with customers, employees, suppliers and other partners, as it enables a permanent, open process of innovation with the focus on customers and their needs. When developing new products and services, Swisscom consistently adopts human-centred design methods to create simple, inspiring experiences which optimally help customers find their way in the networked world.

Within the company, Swisscom practices and promotes decentralised product development. As a result, new ideas are generated throughout the company. Various events and platforms provide employees with the opportunity to exchange innovative ideas and familiarise themselves with best practice examples. One example is the Innovation Week held twice a year, during which teams of employees from different divisions realise a new idea that addresses a specific customer need, is of business relevance and has potential on the market.

To identify customer needs in good time, it is essential to involve future users in the development process at the earliest stage possible. Swisscom operates its own open innovation platform called Swisscom Labs, where registered users are able to contribute their own ideas, give their own opinions on trials and take part in beta tests.

See **www.swisscom.ch/innovation**

Outside the company, Swisscom promotes innovation throughout the industry. In particular, Swisscom is committed to supporting young companies that offer forward-looking new solutions in the field of IT, communications and entertainment. Swisscom participates in start-ups as a project partner and investor, and supports them by providing tailored products and services. Since 2013 Swisscom has held the StartUp Challenge competition, where winners are sent on a one-week mentoring programme in Silicon Valley.

Specific areas of innovation

End-to-end connectivity

A high-quality, reliable network infrastructure is one of the key success factors for Swisscom. Over the past few years, the standard of quality that customers expect the network to deliver has risen dramatically. Swisscom is therefore working on the next-generation network and developing solutions to give users in Switzerland even faster, more reliable networks. The main challenge here is the growing volume of data in the mobile area. Swisscom is seeking and developing innovative network solutions that allow high volumes of data to be handled efficiently and guarantee seamless mobile network provision at busy locations. One promising solution is the installation of low-power microcells that provide high capacity locally. Swisscom is working on the development of new types of antenna that will allow such microcells to be operated efficiently and integrated seamlessly in the existing architecture.

Mobile services and apps

The trend towards greater mobility is proceeding apace. Mobile devices such as smartphones and tablets are commonplace, and it is hard to imagine life nowadays without mobile Internet. Swisscom's vision is therefore to use smartphones as a bridge between the real and the digital worlds. One important step in this direction was the launch of Swisscom Tapit, the Swiss wallet of the future. Tapit is an open, non-exclusive platform for all service providers in various industries who are seeking to mobilise their business processes. For end customers, Tapit is a safe place in which to manage their bank and credit cards. Tapit is based on Near Field Communication (NFC) technology, which is already incorporated in the majority of smartphones. Swisscom also continues to operate and continually develop the iO app, which allows users to send SMS messages and make calls to Switzerland and abroad free of charge. With iO@home they can also be reached on their fixed-line number wherever they are in the world.

Security and intelligence

As data volumes continue to grow, so too do the requirements placed on products that process this data in a secure and anonymised way and analyse it according to the latest methodology. "Big data technologies" have already made inroads in various sectors and are used, for example, to measure and control traffic flows. At the same time, the number of customers who use their smartphone for mobile Internet browsing and leave behind customer data is also growing. Hackers and other parties are therefore becoming increasingly interested in customer data. Given this situation, Swisscom aims to offer its customers various applications that ensure greater transparency and control. CheckAp, for example, checks the security of programmes installed on a smartphone. In 2014, Swisscom launched DocSafe, a cloud-based solution that enables users to easily and securely store important documents, and that users can access at any time and from anywhere.

See
www.swisscom.ch/m2m

Current innovation projects

Swisscom invests in progressive solutions in a number of areas in order to continuously tap into new growth opportunities and offer its customers the best services and products:

- **Identity Access Management:** In a world full of virtual products and services, a digital identity can be a useful tool. It makes life simpler by replacing a large number of passwords with a single, simple user ID. Swisscom is currently drawing up the foundations for such a digital identity and for concrete applications.
- **Voice over LTE (VoLTE)/WLAN interworking:** The 4G/LTE network is currently a dedicated data network, with customers being transferred to the 3G network for calls. With VoLTE, Swisscom is aiming to enable the use of voice telephony via 4G, with a technical adjustment to the mobile infrastructure also allowing voice telephony via WLAN. Customers will be able to enjoy faster connection times and improved voice quality.
- **Clean Pipe:** Under the working title "Clean Pipe" Swisscom is trialling new ways of making digital life simpler for customers and protecting them against dangers and bad experiences, such as phishing. In the year under review, Swisscom launched the first product, Safe Connect: an app based on VPN technology that blocks access to websites considered to be dangerous, and to malware.
- **Cloud:** Swisscom is developing a 360-degree Cloud with a unified architecture that offers companies and private individuals a wide range of services. Thanks to state-of-the-art technologies, open source, the latest security concepts and data storage in Switzerland, Swisscom is leading the way in cloud computing.

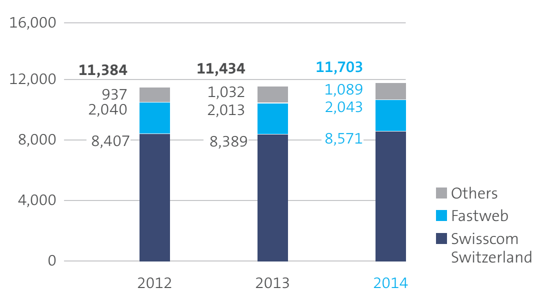
Financial review

Swisscom grows revenue (+2.4%) and operating income before depreciation and amortisation EBITDA (+2.6%). 2.1 million mobile customers benefit from unlimited usage (Natel infinity). 1.2 million customers (+16.5%) use Swisscom TV. Fastweb increases revenue and EBITDA and grows the number of broadband customers to 2.1 million.

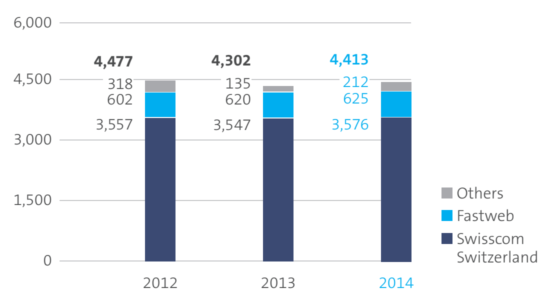
Key financial figures

In CHF million, except where indicated	2014	2013	Change
Net revenue	11,703	11,434	2.4%
Operating income before depreciation and amortisation (EBITDA)	4,413	4,302	2.6%
EBITDA as % of net revenue	37.7	37.6	
Operating income (EBIT)	2,322	2,258	2.8%
Net income	1,706	1,695	0.6%
Share of net income attributable to equity holders of Swisscom Ltd	1,694	1,685	0.5%
Earnings per share (in CHF)	32.70	32.53	0.5%
Operating free cash flow	1,860	1,978	–6.0%
Capital expenditure in property, plant and equipment and other intangible assets	2,436	2,396	1.7%
Net debt at end of period	8,120	7,812	3.9%
Full-time equivalent employees at end of year	21,125	20,108	5.1%

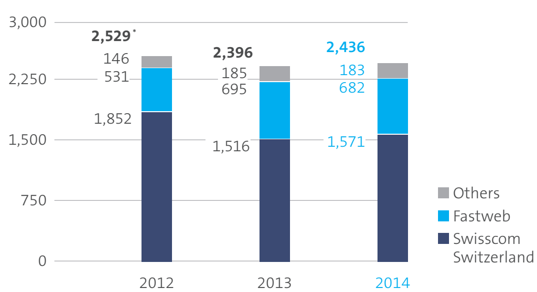
Development of net revenue in CHF million



Development of EBITDA in CHF million

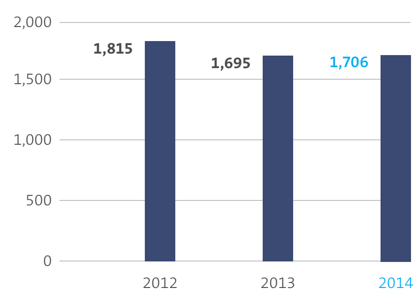


Development of capital expenditure in CHF million



* Including expenses of CHF 360 million for mobile frequency.

Development of net income in CHF million



Introduction

As in the prior year, the 2014 consolidated financial statements report the segments "Residential Customers", "Small and Medium-Sized Enterprises", "Corporate Business", "Wholesale" and "Network & IT", which are grouped together as "Swisscom Switzerland". Swisscom IT Services is accounted for under "Other Operating Segments". Segment reporting will be adjusted in line with the management structure from 2015. Swisscom Switzerland covers the segments Residential Customers, Small and Medium-Sized Enterprises, Enterprise Customers, Wholesale and IT, Network & Innovation. Group Headquarters, which primarily includes the Group divisions as well as the employment company Worklink AG, will continue to be reported separately.

Summary

Swisscom's net revenue rose by CHF 269 million or 2.4% to CHF 11,703 million, while operating income before depreciation and amortisation (EBITDA) was CHF 111 million or 2.6% higher at CHF 4,413 million. Net income increased by CHF 11 million or 0.6% to CHF 1,706 million.

At constant exchange rates, excluding company acquisitions and Fastweb's wholesale revenue from interconnection (hubbing), net revenue rose by 1.9% or CHF 218 million, of which Swiss business accounted for CHF 128 million. Price erosion of CHF 360 million in Swiss core business (CHF 170 million of which resulted from reduced roaming fees) was more than offset by customer and volume growth of CHF 488 million. Excluding hubbing, Fastweb's net revenue was EUR 63 million or 3.9% higher at EUR 1,660 million.

On a like-for-like basis, Swisscom's EBITDA increased by 0.9% or CHF 39 million, of which Swiss business accounted for CHF 22 million. Fastweb's EBITDA rose year-on-year by EUR 10 million or 2.0% to EUR 515 million. Net income increased year-on-year by CHF 11 million or 0.6% to CHF 1,706 million. The increase in EBITDA was offset in part by higher depreciation and amortisation and higher income tax expense.

Capital expenditure increased by CHF 40 million or 1.7% to CHF 2,436 million, and in Switzerland by CHF 65 million or 3.9% to CHF 1,751 million. The higher figures are primarily due to the expansion and upgrading of mobile and fixed network infrastructure with the latest technologies. At the end of 2014, Swisscom had connected more than 1.4 million homes and offices to ultra-fast broadband. Despite ending the year EUR 3 million or 0.5% lower at EUR 562 million, capital expenditure at Fastweb remains high due to progressive expansion and upgrading of the broadband network in Italy.

Operating free cash flow declined by CHF 118 million or 6.0% to CHF 1,860 million. Net debt increased by CHF 308 million or 3.9% over the end of 2013 to CHF 8,120 million, chiefly due to the acquisition of PubliGroupe. The ratio of net debt to EBITDA remained unchanged year-on-year at 1.8.

Headcount increased year-on-year by 1,017 FTEs or 5.1% to 21,125 FTEs. The higher headcount resulted from corporate acquisitions, the hiring of external staff and the strengthening of customer service operations. In Switzerland the number of employees increased by 910 FTEs or 5.2% to 18,272. Excluding corporate acquisitions, the number of FTEs rose by 282 or 1.4%, in Switzerland by 375 FTEs or 2.2%.

Swisscom expects to close 2015 with net revenue in excess of CHF 11.4 billion and EBITDA of around CHF 4.2 billion. This outlook is based on an assumed euro exchange rate of CHF 1.00. It does not take account of the possible negative implications of the currency situation for the economy. The negative effects of the lower euro exchange rate will amount to almost CHF 400 million on net revenue and around CHF 100 million on EBITDA. In the case of EBITDA, the All IP transformation, higher pension costs and lower gains from the sale of real estate, will result in a reduction of more than CHF 100 million. At CHF 2.3 billion, capital expenditure is expected to be some CHF 100 million lower than in 2014, due to the lower euro exchange rate and a slight reduction in investment in Fastweb. Capital expenditure in Switzerland will remain unchanged at CHF 1.75 billion. Subject to achieving its targets, Swisscom will again propose a dividend of CHF 22 per share for the 2015 financial year at the 2016 Annual General Meeting.

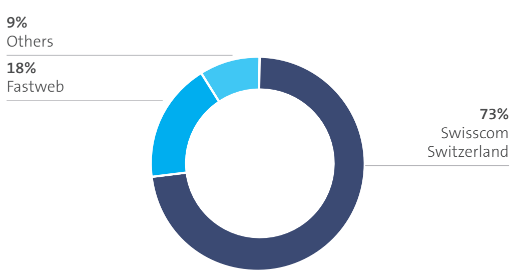
Results of operations

Income statement

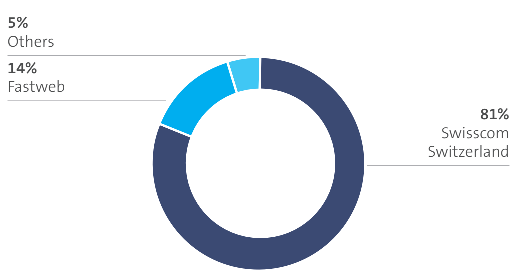
In CHF million, except where indicated	2014	2013	Change
Swisscom Switzerland	8,571	8,389	2.2%
Fastweb	2,043	2,013	1.5%
Other operating segments	1,088	1,032	5.4%
Group Headquarters	1	–	–
Revenue from external customers	**11,703**	**11,434**	**2.4%**
Swisscom Switzerland	3,576	3,547	0.8%
Fastweb	625	620	0.8%
Other operating segments	361	303	19.1%
Group Headquarters	(121)	(127)	–4.7%
Reconciliation pension cost [1]	–	(17)	–
Intersegment elimination	(28)	(24)	16.7%
Operating income before depreciation and amortisation (EBITDA)	**4,413**	**4,302**	**2.6%**
Net revenue	**11,703**	**11,434**	**2.4%**
Goods and services purchased	(2,369)	(2,338)	1.3%
Personnel expense	(2,751)	(2,706)	1.7%
Other operating expense	(2,540)	(2,476)	2.6%
Capitalised self-constructed assets and other income	370	388	–4.6%
Operating expenses	**(7,290)**	**(7,132)**	**2.2%**
Operating income before depreciation and amortisation (EBITDA)	**4,413**	**4,302**	**2.6%**
Depreciation, amortisation and impairment losses	(2,091)	(2,044)	2.3%
Operating income (EBIT)	**2,322**	**2,258**	**2.8%**
Net interest expense	(218)	(251)	–13.1%
Other financial result	(42)	(8)	425.0%
Share of results of associates	26	30	–13.3%
Income before income taxes	**2,088**	**2,029**	**2.9%**
Income tax expense	(382)	(334)	14.4%
Net income	**1,706**	**1,695**	**0.6%**
Share of net income attributable to equity holders of Swisscom Ltd	1,694	1,685	0.5%
Share of net income attributable to non-controlling interests	12	10	20.0%
Average number of shares outstanding (in millions of shares)	51.801	51.801	–
Earnings per share (in CHF)	32.70	32.53	0.5%

[1] The operating income of segments consists of pension cost especially employer contributions. The difference to the pension cost by IAS 19 will therefore be recognised as a reconciliation item.

Share of operating segments in net revenue in %



Share of operating segments in EBITDA in %



Net revenue

Swisscom's net revenue rose by CHF 269 million or 2.4% to CHF 11,703 million. On a like-for-like basis, net revenue increased by 1.9%. At Swisscom Switzerland, revenue from external customers was CHF 182 million or 2.2% higher at CHF 8,571 million, resulting in a like-for-like growth in net revenue of 1.4%. Price erosion and reductions in roaming fees totalling CHF 360 million (of which roaming fee reductions accounted for CHF 170 million) were outweighed by customer and volume growth. Fastweb's net revenue increased by EUR 46 million or 2.8% to EUR 1,688 million, or by 1.5% in Swiss francs. Excluding wholesale revenue from interconnection services (hubbing business), net revenue at Fastweb was EUR 63 million or 3.9% higher at EUR 1,660 million. Fastweb's broadband customer base grew year-on-year by 130,000 or 6.7% to 2.07 million. Primarily as a result of corporate acquisitions, revenue from external customers generated by other operating segments increased by CHF 56 million or 5.4% to CHF 1,088 million.

Goods and services purchased

Goods and services purchased rose year-on-year by CHF 31 million or 1.3% to CHF 2,369 million. The lower expenditure at Fastweb is attributable to the shrinking hubbing business and lower termination rates. Expenditure at Swisscom Switzerland rose due to higher costs for subscriber acquisition and retention.

Personnel expense

Personnel expense increased by CHF 45 million or 1.7% year-on-year to CHF 2,751 million, largely as a result of corporate acquisitions. Headcount rose year-on-year by 1,017 FTEs or 5.1% to 21,125 FTEs. Adjusted for corporate acquisitions, the increase amounts to 1.4%, which is largely attributable to measures to strengthen customer service operations and the insourcing of external staff.

Other operating expense

Other operating expense increased by CHF 64 million or 2.6% year-on-year to CHF 2,540 million. The increase is mainly attributable to corporate acquisitions, the purchase of services for call centre operations and higher spending on advertising.

Capitalised costs of self-constructed assets and other income

Capitalised self-constructed assets and other income fell by CHF 18 million or 4.6% year-on-year to CHF 370 million, and includes gains on the sale of real estate of CHF 59 million (prior year: CHF 9 million). Capitalised self-constructed assets were CHF 11 million or 4.3% higher year-on-year at CHF 267 million.

Operating income before depreciation and amortisation (EBITDA)

Operating income before depreciation and amortisation (EBITDA) rose by CHF 111 million or 2.6% to CHF 4,413 million. The figure was positively influenced by higher gains on the sale of real estate, lower pension costs and corporate acquisitions. Adjusted EBITDA rose by 0.9% due to the higher revenue and as a result of cost management.

Depreciation and amortisation

Depreciation and amortisation rose by CHF 47 million or 2.3% year-on-year to CHF 2,091 million, due to higher depreciation and amortisation related to the increase in capital expenditure. Intangible assets resulting from business combinations were capitalised for purchase price allocation purposes. Depreciation and amortisation includes scheduled amortisation related to intangible assets from business combinations (for example, brands and customer relationships) totalling CHF 140 million (prior year: CHF 156 million).

Net interest expense and other financial result

Net financial expense in 2014 amounted to CHF 260 million (prior year: CHF 259 million). Net interest expense declined by CHF 33 million to CHF 218 million as a result of lower average interest costs. The other financial result declined by CHF 34 million year-on-year, chiefly as a result of negative effects of CHF 76 million arising from the fair value adjustment of interest rate derivatives.

Associates

The share of results of associates fell year-on-year by CHF 4 million to CHF 26 million, primarily due to the acquisition of majority stakes in LTV Yellow Pages and Cinetrade in the prior year. Dividends received, amounting to CHF 30 million (prior year: CHF 43 million), largely concern dividends paid by LTV Yellow Pages, Belgacom International Carrier Services and Cinetrade.

Income tax expense

Income tax expense amounted to CHF 382 million (prior year: CHF 334 million), corresponding to an effective income tax rate of 18.3% (prior year: 16.5%). The higher income tax expense is largely a result of using and recognising tax loss carry-forwards in the prior year that had previously not been capitalised. Excluding non-recurring items, Swisscom anticipates an income tax rate of around 21% in the long term. Income taxes paid were CHF 108 million higher than a year earlier at CHF 386 million.

Net income and earnings per share

Net income rose by 0.6% or CHF 11 million to CHF 1,706 million. The increase in EBITDA was offset in part by higher depreciation and amortisation and higher income tax expense. Earnings per share increased by 0.5% from CHF 32.53 to CHF 32.70.

Excluding non-recurring items, revenue increased by 1.9% year-on-year.
Revenue in 2014 totalled

11.7 billion CHF

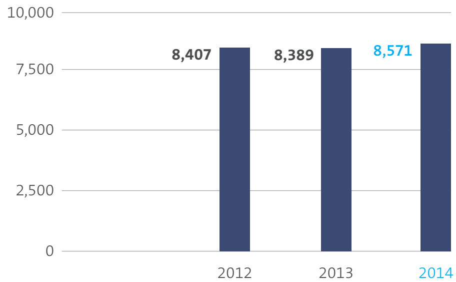
Excluding non-recurring items, EBITDA increased by 0.9% year-on-year.
EBITDA in 2014 totalled

4.4 billion CHF

Segment revenue and results

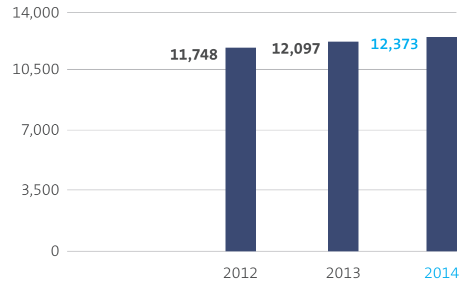
Reporting is broken down into the segments Swisscom Switzerland, Fastweb and Other operating segments. Group Headquarters is disclosed separately.

Development of revenue from external customers Swisscom Switzerland in CHF million



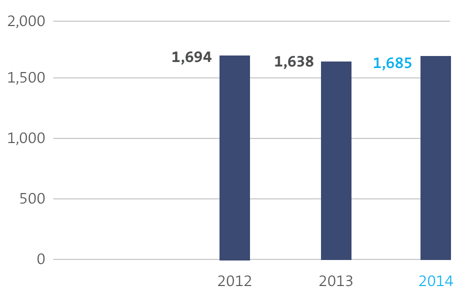
	2012	2013	2014
Revenue mobile single subscriptions	2,932	2,782	2,776
Revenue fixed-line single subscriptions	2,470	2,215	1,967
Revenue bundle subscriptions	1,172	1,553	1,921
Revenue others	1,833	1,839	1,907
Total	**8,407**	**8,389**	**8,571**

Development of revenue generating units (RGU) Swisscom Switzerland in thousand



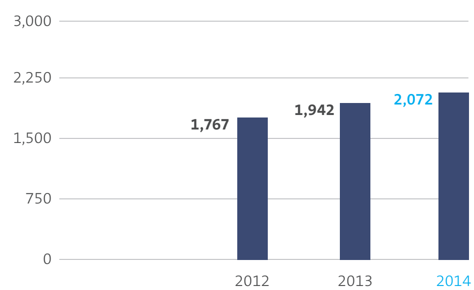
	2012	2013	2014
Fixed access lines	3,013	2,879	2,778
Broadband access lines retail	1,727	1,811	1,890
Swisscom TV access lines	791	1,000	1,165
Mobile access lines	6,217	6,407	6,540
Total revenue generating units (RGU)	**11,748**	**12,097**	**12,373**

Development of revenue from external customers Fastweb in EUR million



	2012	2013	2014
Residential Customers	724	744	753
Small and Medium-Sized Enterprises	791	771	789
Wholesale hubbing	87	45	28
Wholesale others	92	78	115
External revenue	**1,694**	**1,638**	**1,685**

Development of broadband access lines Fastweb in thousand



Swisscom Switzerland

In CHF million, except where indicated	2014	2013	Change
Net revenue and results			
Residential Customers	5,326	5,145	3.5%
Small and Medium-Sized Enterprises	1,159	1,151	0.7%
Corporate Business	1,788	1,787	0.1%
Wholesale	929	966	–3.8%
Elimination	(571)	(600)	–4.8%
Net revenue	**8,631**	**8,449**	**2.2%**
Residential Customers	2,951	2,898	1.8%
Small and Medium-Sized Enterprises	856	864	–0.9%
Corporate Business	900	907	–0.8%
Wholesale	381	384	–0.8%
Network & IT	(1,512)	(1,506)	0.4%
Segment result before depreciation and amortisation (EBITDA)	**3,576**	**3,547**	**0.8%**
Margin as % of net revenue	41.4	42.0	
Depreciation, amortisation and impairment losses	(1,173)	(1,104)	6.3%
Segment result	**2,403**	**2,443**	**–1.6%**
Capital expenditure and headcount			
Capital expenditure in property, plant and equipment and other intangible assets	1,571	1,516	3.6%
Full-time equivalent employees at end of year	13,285	12,463	6.6%

Swisscom Switzerland's net revenue grew year-on-year by CHF 182 million or 2.2% to CHF 8,631 million, while operating income before depreciation and amortisation (EBITDA) was CHF 29 million or 0.8% higher at CHF 3,576 million. Adjusted for corporate acquisitions and non-recurring costs for restructuring, revenue increased by 1.4% and EBITDA by 0.3%. Price erosion of some CHF 360 million (of which CHF 170 million resulted from reductions in roaming fees) was more than offset by customer and volume growth. At CHF 1,571 million, capital expenditure was CHF 55 million or 3.6% higher than in the previous year due to higher spending on network infrastructure. Headcount increased by 822 FTEs or 6.6% year-on-year to 13,285 FTEs. Adjusted for company acquisitions, the increase amounted to 336 FTEs, mainly as a consequence of measures to strengthen customer service operations and the insourcing of external staff.

The trend towards bundled offerings and new pricing models such as flat-rate tariffs continues unabated. Natel infinity mobile subscriptions, which offer customers unlimited calls and SMS messages to all Swiss networks as well as unlimited web browsing, remain very popular. The customer base grew year-on-year by 0.4 million to around 2.1 million. By the end of 2014, 1.2 million customers were subscribing to packages such as the Vivo range of offerings which combine fixed-line access with telephony, Internet and TV or also include a mobile line. This corresponds to an increase of 208,000 customers or 20.8% versus the prior year. Revenue from contracts for bundled offerings rose by CHF 368 million or 23.7% to CHF 1,921 million.

Swisscom Switzerland/net revenue

In CHF million, except where indicated	2014	2013	Change
Revenue by services			
Revenue mobile single subscriptions	2,776	2,782	–0.2%
Revenue fixed-line single subscriptions	1,967	2,215	–11.2%
Revenue bundles	1,921	1,553	23.7%
Revenue wholesale	570	588	–3.1%
Other net revenue	1,337	1,251	6.9%
Revenue from external customers	**8,571**	**8,389**	**2.2%**
Operational data at end of period in thousand			
Fixed access lines	2,778	2,879	–3.5%
Broadband access lines retail	1,890	1,811	4.4%
Swisscom TV access lines	1,165	1,000	16.5%
Mobile access lines	6,540	6,407	2.1%
Bundles	1,209	1,001	20.8%
Unbundled fixed access lines	180	256	–29.7%
Broadband access lines wholesale	262	215	21.9%
Revenue generating units (RGU)	12,373	12,097	2.3%

Revenue from external customers increased year-on-year by CHF 182 million or 2.2% to CHF 8,571 million. The decrease of CHF 190 million due to price erosion and the price reductions for roaming amounting to CHF 170 million were more than offset by customer and volume growth. Swisscom Switzerland's revenue also increased thanks to the acquisition of LTV Yellow Pages Ltd in September 2014, and to the majority stake in Cinetrade acquired in the prior year. The number of revenue generating units (RGU) with end customers grew by 276,000 or 2.3% to 12.4 million. Natel infinity mobile subscriptions, which offer customers unlimited phone calls and SMS messages to all Swiss networks as well as surfing, continue to grow in popularity. At the end of 2014, 2.1 million customers, or 63% of the customer base (excluding corporate customers), were using the Natel infinity offerings. Figures from recent quarters show that customers switching to Natel infinity continue to generate higher revenues (ARPU). The number of postpaid mobile customers grew by 146,000, while the number of prepaid customers dropped by 13,000. In 2014, Swisscom sold a total of 1.5 million mobile handsets (–3.6%). The number of smartphone users has further increased, with the share of postpaid subscribers rising from 69% to 74% within the space of a year.

Demand remains high for bundled offerings such as the Vivo range, which combines fixed-line access with telephony, Internet and TV or also includes a mobile line. The number of customers using bundled offerings rose year-on year by 208,000 or 20.8% to 1.21 million. Revenue from contracts for bundled offerings rose by CHF 368 million or 23.7% to CHF 1,921 million. The number of Swisscom TV connections increased by 165,000 or 16.5% to 1.17 million, of which 1.06 million subscribed to the basic packages. Swisscom TV 2.0, which offers additional functions, was launched at the beginning of April 2014 and by the end of 2014 had already attracted 306,000 customers, most of whom had upgraded from a previous Swisscom offering to a higher-quality bundled offering. 2014 saw a decline of the number of fixed lines for voice telephony by 101,000 or 3.5% to 2.78 million, due primarily to the number of customers migrating to cable network providers or switching from fixed to other forms of connectivity such as mobile. Retail broadband access lines grew year-on-year by 79,000 or 4.4% to 1.89 million, while the number of unbundled subscriber access lines fell by 76,000 or 29.7% to 180,000. The number of wholesale broadband access lines rose by 47,000 or 21.9% year-on-year to 262,000.

Swisscom Switzerland/operating expenses and segment result

In CHF million, except where indicated	2014	2013	Change
Segment expenses by nature of cost			
Traffic fees	(424)	(449)	–5.6%
Subscriber acquisition and retention costs	(520)	(463)	12.3%
Other direct costs	(925)	(892)	3.7%
Direct costs	**(1,869)**	**(1,804)**	**3.6%**
Personnel expense	(1,765)	(1,691)	4.4%
Other indirect costs	(1,590)	(1,581)	0.6%
Capitalised self-constructed assets and other income	169	174	–2.9%
Indirect costs	**(3,186)**	**(3,098)**	**2.8%**
Segment expenses	**(5,055)**	**(4,902)**	**3.1%**
Segment result			
Segment result before depreciation and amortisation (EBITDA)	**3,576**	**3,547**	**0.8%**
Margin as % of net revenue	41.4	42.0	
Depreciation, amortisation and impairment losses	(1,173)	(1,104)	6.3%
Segment result	**2,403**	**2,443**	**–1.6%**
Capital expenditure and headcount			
Capital expenditure in property, plant and equipment and other intangible assets	1,571	1,516	3.6%
Full-time equivalent employees at end of year	13,285	12,463	6.6%

Segment expense rose by CHF 153 million or 3.1% to CHF 5,055 million. At CHF 1,869 million, direct costs were CHF 65 million or 3.6% higher year-on-year. The higher subscriber acquisition and retention costs as well as additional costs related to corporate acquisitions were partly offset by the reduction in mobile termination rates and outbound roaming fees. Indirect costs increased by CHF 88 million or 2.8% to CHF 3,186 million. Adjusted for company acquisitions and restructuring costs, indirect costs rose by 1.2%. The higher personnel expense as a result of the increase in headcount was partly offset by savings on other operating costs. Personnel expense increased by CHF 74 million or 4.4% to CHF 1,765 million, adjusted personnel expense was 2.4% higher. Headcount rose by 822 FTEs or 6.6% to 13,285 FTEs as a result of acquisitions, the insourcing of external personnel and an increase in customer service staff. Adjusted for corporate acquisitions, headcount was 2.7% higher year-on-year. The segment result before depreciation and amortisation was CHF 29 million or 0.8% higher at CHF 3,576 million, resulting in like-for-like growth in EBITDA of 0.3%. The profit margin was down 0.6 percentage points at 41.4%. Depreciation and amortisation increased year-on-year by CHF 69 million or 6.3% to CHF 1,173 million, largely due to the high level of capital expenditure. The segment result ended the year CHF 40 million or 1.6% lower at CHF 2,403 million. Capital expenditure rose year-on-year by CHF 55 million or 3.6% to CHF 1,571 million due to increased investment in the expansion and upgrading of mobile and fixed network infrastructure with the latest technologies.

Number of infinity subscribers
at the end of 2014 was

2.1 million

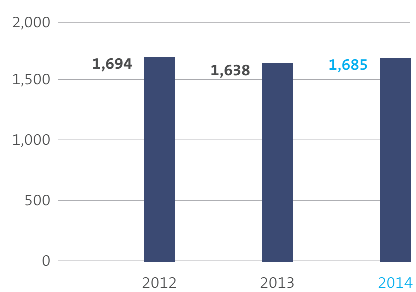
Revenue from bundle contracts
increased year-on-year by

23.7 %

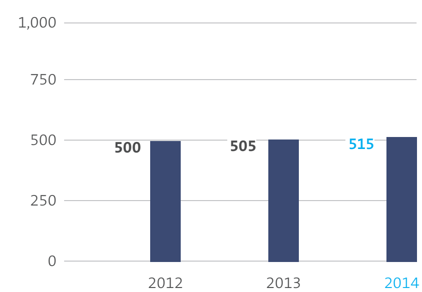
Fastweb

In EUR million, except where indicated	2014	2013	Change
Residential Customers	753	744	1.2%
Corporate Business	789	771	2.3%
Wholesale hubbing	28	45	–37.8%
Wholesale other	115	78	47.4%
Revenue from external customers	**1,685**	**1,638**	**2.9%**
Intersegment revenue	3	4	–25.0%
Net revenue	**1,688**	**1,642**	**2.8%**
Segment expenses	(1,173)	(1,137)	3.2%
Segment result before depreciation and amortisation	**515**	**505**	**2.0%**
Margin as % of net revenue	30.5	30.8	
Capital expenditure in property, plant and equipment and other intangible assets	562	565	–0.5%
Full-time equivalent employees at end of year	2,391	2,363	1.2%
Broadband access lines at end of year in thousand	2,072	1,942	6.7%

Development of revenue from external customers in EUR million



Development of EBITDA in EUR million



Fastweb's net revenue grew by EUR 46 million or 2.8% to EUR 1,688 million compared to the previous year. Wholesale revenue from low-margin interconnection services (hubbing) dropped as expected. Excluding hubbing, Fastweb's revenue was EUR 63 million or 3.9% higher at EUR 1,660 million. Despite difficult market conditions, Fastweb's broadband customer base grew year-on-year by 130,000 or 6.7% to 2.07 million. In the residential customer segment, fierce competition drove down average revenue per broadband customer by around 6% versus the previous year. This decline was offset by customer growth, with revenue from residential customers rising by EUR 9 million or 1.2% to EUR 753 million. Revenue from business customers increased by EUR 18 million or 2.3% to EUR 789 million, while other wholesale business revenue was EUR 37 million or 47.4% higher at EUR 115 million.

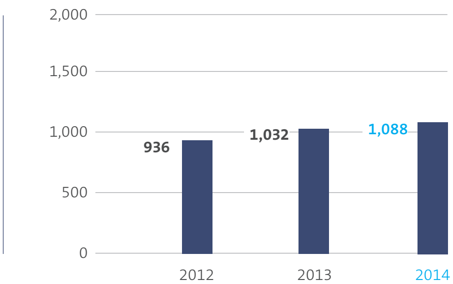
The segment result before depreciation and amortisation totalled EUR 515 million. This corresponds to a year-on-year rise of EUR 10 million or 2.0%, mainly as a result of higher revenues. The profit margin fell year-on-year by 0.3 percentage points to 30.5%.

Headcount at the end of 2014 totalled 2,391 FTEs, representing an increase of 28 FTEs or 1.2% compared to a year earlier. Capital expenditure dropped by EUR 3 million or 0.5% to EUR 562 million due to lower spending on the network infrastructure. The ratio of capital expenditure to net revenue was 33.3% (prior year: 34.4%).

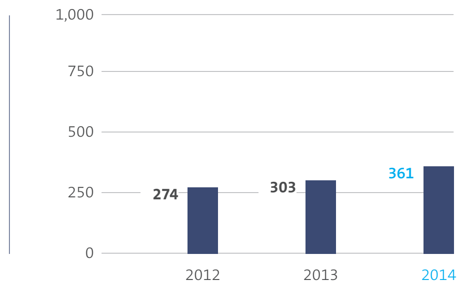
Other operating segments

In CHF million, except where indicated	2014	2013	Change
Revenue from external customers	1,088	1,032	5.4%
Intersegment revenue	801	787	1.8%
Net revenue	**1,889**	**1,819**	**3.8%**
Segment expenses	(1,528)	(1,516)	0.8%
Segment result before depreciation and amortisation	**361**	**303**	**19.1%**
Margin as % of net revenue	19.1	16.7	
Capital expenditure in property, plant and equipment and other intangible assets	211	195	8.2%
Full-time equivalent employees at end of year	5,132	4,964	3.4%

Development of revenue from external customers in CHF million



Development of EBITDA in CHF million



At CHF 1,088 million, revenue from external customers was CHF 56 million or 5.4% higher year-on-year, largely due to acquisitions. Swisscom's takeover of the PubliGroupe was completed in September 2014, following which LTV Yellow Pages Ltd was assigned to the Swisscom Switzerland segment, while other interests were assigned to Other operating segments. In 2013 Swisscom IT Services took over the business platform of Entris Banking and Entris Operations, which is used primarily for processing payment transactions and securities trading for banks. Revenue from external customers generated by Swisscom IT Services grew by CHF 38 million or 6.2% to CHF 650 million, largely as a result of acquisitions. Intersegment revenue grew year-on-year by CHF 14 million or 1.8% to CHF 801 million, chiefly due to the higher volume of construction services performed for Swisscom Switzerland.

Segment expense rose by CHF 12 million or 0.8% to CHF 1,528 million. The increase is a result of higher costs related to acquisitions and revenue growth and was partially offset by higher gains on the sale of real estate, which in 2014 rose by CHF 50 million year-on-year. The segment result before depreciation and amortisation rose accordingly by CHF 58 million or 19.1% to CHF 361 million. At 5,132 FTEs, headcount at the end of 2014 was 168 FTEs or 3.4% higher than the previous year, due primarily to acquisitions. Capital expenditure rose by CHF 16 million or 8.2% to CHF 211 million as a result of the higher volume of investment by Swisscom IT Services in IT infrastructure.

Group Headquarters and reconciliation of pension cost

The segment result before depreciation and amortisation improved by CHF 6 million or 4.7% to CHF –121 million, largely on account of the lower cost of restructuring measures compared to the prior year. At 317 FTEs, headcount was on a par with the prior year.

No expenses are disclosed as a pension cost reconciliation item (prior year: CHF 17 million).

Quarterly review 2013 and 2014

In CHF million, except where indicated	1. quarter	2. quarter	3. quarter	4. quarter	2013	1. quarter	2. quarter	3. quarter	4. quarter	2014
Income statement										
Net revenue	**2,734**	**2,862**	**2,867**	**2,971**	**11,434**	**2,821**	**2,879**	**2,929**	**3,074**	**11,703**
Goods and services purchased	(552)	(604)	(561)	(621)	(2,338)	(552)	(558)	(583)	(676)	(2,369)
Personnel expense	(671)	(691)	(638)	(706)	(2,706)	(692)	(684)	(655)	(720)	(2,751)
Other operating expenses	(557)	(599)	(596)	(724)	(2,476)	(597)	(599)	(620)	(724)	(2,540)
Capitalised costs and other income	77	103	74	134	388	81	83	119	87	370
Operating income (EBITDA)	**1,031**	**1,071**	**1,146**	**1,054**	**4,302**	**1,061**	**1,121**	**1,190**	**1,041**	**4,413**
Depreciation and amortisation	(491)	(501)	(509)	(543)	(2,044)	(510)	(512)	(511)	(558)	(2,091)
Operating income (EBIT)	**540**	**570**	**637**	**511**	**2,258**	**551**	**609**	**679**	**483**	**2,322**
Net interest expense	(63)	(63)	(59)	(66)	(251)	(61)	(53)	(51)	(53)	(218)
Other financial result	(2)	5	(14)	3	(8)	(23)	(11)	25	(33)	(42)
Result of associates	6	6	6	12	30	3	10	8	5	26
Income before income taxes	**481**	**518**	**570**	**460**	**2,029**	**470**	**555**	**661**	**402**	**2,088**
Income tax expense	(91)	(89)	(116)	(38)	(334)	(97)	(122)	(118)	(45)	(382)
Net income	**390**	**429**	**454**	**422**	**1,695**	**373**	**433**	**543**	**357**	**1,706**
Share attributable to equity holders of Swisscom Ltd	388	427	450	420	1,685	369	430	540	355	1,694
Share attributable to non-controlling interests	2	2	4	2	10	4	3	3	2	12
Earnings per share (in CHF)	7.49	8.24	8.69	8.11	32.53	7.12	8.30	10.43	6.85	32.70
Net revenue										
Swisscom Switzerland	2,041	2,109	2,122	2,177	8,449	2,089	2,114	2,167	2,261	8,631
Fastweb	487	509	494	528	2,018	483	499	513	552	2,047
Other operating segments	412	454	460	493	1,819	450	476	474	489	1,889
Group Headquarters	–	1	–	–	1	–	1	–	1	2
Intersegment elimination	(206)	(211)	(209)	(227)	(853)	(201)	(211)	(225)	(229)	(866)
Total net revenue	**2,734**	**2,862**	**2,867**	**2,971**	**11,434**	**2,821**	**2,879**	**2,929**	**3,074**	**11,703**
Segment result before depreciation and amortisation										
Swisscom Switzerland	877	888	948	834	3,547	894	902	941	839	3,576
Fastweb	119	139	155	207	620	132	155	163	175	625
Other operating segments	73	86	78	66	303	68	98	126	69	361
Group Headquarters	(29)	(30)	(27)	(41)	(127)	(25)	(31)	(27)	(38)	(121)
Reconciliation pension cost	(5)	(7)	(4)	(1)	(17)	(2)	2	(4)	4	–
Intersegment elimination	(4)	(5)	(4)	(11)	(24)	(6)	(5)	(9)	(8)	(28)
Total segment result (EBITDA)	**1,031**	**1,071**	**1,146**	**1,054**	**4,302**	**1,061**	**1,121**	**1,190**	**1,041**	**4,413**
Capital expenditure in property, plant and equipment and other intangible assets										
Swisscom Switzerland	284	354	361	517	1,516	299	378	422	472	1,571
Fastweb	155	160	168	212	695	173	173	148	188	682
Other operating segments	38	38	56	63	195	52	54	49	56	211
Intersegment elimination	(3)	(5)	(6)	4	(10)	(5)	(7)	(9)	(7)	(28)
Total capital expenditure	**474**	**547**	**579**	**796**	**2,396**	**519**	**598**	**610**	**709**	**2,436**
Full-time equivalent employees at end of year										
Swisscom Switzerland	12,018	12,344	12,513	12,463	12,463	12,522	12,622	13,215	13,285	13,285
Fastweb	2,389	2,379	2,370	2,363	2,363	2,362	2,373	2,378	2,391	2,391
Other operating segments	4,505	4,802	4,991	4,964	4,964	4,883	4,917	5,164	5,132	5,132
Group Headquarters	335	334	320	318	318	314	316	318	317	317
Total headcount	**19,247**	**19,859**	**20,194**	**20,108**	**20,108**	**20,081**	**20,228**	**21,075**	**21,125**	**21,125**
Operating free cash flow	245	615	528	590	1,978	334	496	640	390	1,860
Net debt	7,931	8,622	8,263	7,812	7,812	7,676	8,502	8,398	8,120	8,120

In CHF million, except where indicated	1. quarter	2. quarter	3. quarter	4. quarter	2013	1. quarter	2. quarter	3. quarter	4. quarter	2014
Swisscom Switzerland **Net revenue and results**										
Residential Customers	428	442	469	444	1,783	435	448	465	447	1,795
Small and Medium-Sized Enterprises	104	109	109	107	429	103	107	104	105	419
Corporate Business	141	145	142	142	570	135	141	142	144	562
Revenue mobile single subscriptions	**673**	**696**	**720**	**693**	**2,782**	**673**	**696**	**711**	**696**	**2,776**
Residential Customers	304	289	284	280	1,157	257	245	233	226	961
Small and Medium-Sized Enterprises	124	121	119	117	481	115	111	109	107	442
Corporate Business	146	146	143	142	577	143	141	139	141	564
Revenue fixed-line single subscriptions	**574**	**556**	**546**	**539**	**2,215**	**515**	**497**	**481**	**474**	**1,967**
Residential Customers	309	330	352	369	1,360	381	408	430	449	1,668
Small and Medium-Sized Enterprises	40	46	52	55	193	58	62	66	67	253
Revenue bundles	**349**	**376**	**404**	**424**	**1,553**	**439**	**470**	**496**	**516**	**1,921**
Total revenue single subscriptions and bundles	**1,596**	**1,628**	**1,670**	**1,656**	**6,550**	**1,627**	**1,663**	**1,688**	**1,686**	**6,664**
Solution business	84	87	90	99	360	85	92	88	103	368
Hardware sales	128	143	143	181	595	153	153	172	208	686
Wholesale	149	146	148	145	588	145	139	144	142	570
Revenue other	68	90	56	82	296	65	53	59	106	283
Total revenue from external customers	**2,025**	**2,094**	**2,107**	**2,163**	**8,389**	**2,075**	**2,100**	**2,151**	**2,245**	**8,571**
Residential Customers	1,190	1,247	1,254	1,294	4,985	1,234	1,258	1,299	1,377	5,168
Small and Medium-Sized Enterprises	274	282	286	286	1,128	282	286	284	287	1,139
Corporate Business	412	419	419	438	1,688	414	417	424	439	1,694
Wholesale	149	146	148	145	588	145	139	144	142	570
Revenue from external customers	**2,025**	**2,094**	**2,107**	**2,163**	**8,389**	**2,075**	**2,100**	**2,151**	**2,245**	**8,571**
Segment result before depreciation and amortisation										
Residential Customers	710	731	759	698	2,898	730	742	762	717	2,951
Small and Medium-Sized Enterprises	213	216	222	213	864	215	220	215	206	856
Corporate Business	220	226	231	230	907	217	223	227	233	900
Wholesale	96	96	97	95	384	95	92	98	96	381
Network & IT	(362)	(380)	(363)	(401)	(1,506)	(364)	(374)	(361)	(413)	(1,512)
Intersegment elimination	–	(1)	2	(1)	–	1	(1)	–	–	–
Total segment result (EBITDA)	**877**	**888**	**948**	**834**	**3,547**	**894**	**902**	**941**	**839**	**3,576**
Margin as % of net revenue	43.0	42.1	44.7	38.3	42.0	42.8	42.7	43.4	37.1	41.4
Fastweb, in EUR million										
Residential Customers	186	186	186	186	744	188	188	187	190	753
Corporate Business	178	193	188	212	771	177	188	202	222	789
Wholesale hubbing	14	11	9	11	45	7	7	7	7	28
Wholesale other	19	21	19	19	78	23	26	28	38	115
Revenue from external customers	**397**	**411**	**402**	**428**	**1,638**	**395**	**409**	**424**	**457**	**1,685**
Segment result (EBITDA)	97	113	126	169	505	108	128	134	145	515
Margin as % of net revenue	24.4	27.4	31.3	39.4	30.8	27.3	31.3	31.6	31.7	30.5
Capital expenditure	126	130	137	172	565	142	142	122	156	562
Broadband access lines in thousand	1,861	1,887	1,911	1,942	1,942	1,984	1,994	2,016	2,072	2,072

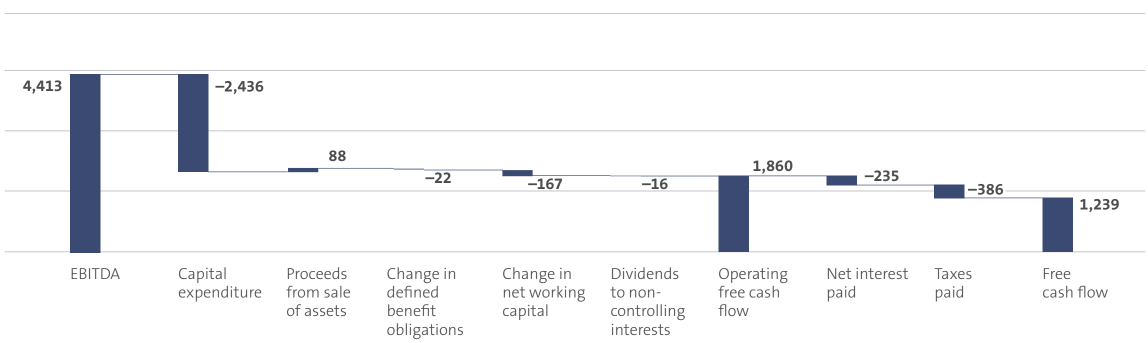
In thousand, except where indicated	1. quarter	2. quarter	3. quarter	4. quarter	2013	1. quarter	2. quarter	3. quarter	4. quarter	2014
Swisscom Switzerland Operational data										
Access lines										
Single subscriptions	2,272	2,207	2,142	2,073	2,073	2,007	1,948	1,902	1,840	1,840
Bundles	698	729	763	806	806	849	882	909	938	938
Fixed access lines	**2,970**	**2,936**	**2,905**	**2,879**	**2,879**	**2,856**	**2,830**	**2,811**	**2,778**	**2,778**
Single subscriptions	909	878	843	810	810	773	745	718	681	681
Bundles	842	889	938	1,001	1,001	1,060	1,110	1,154	1,209	1,209
Broadband access lines retail	**1,751**	**1,767**	**1,781**	**1,811**	**1,811**	**1,833**	**1,855**	**1,872**	**1,890**	**1,890**
Single subscriptions	291	289	281	276	276	271	259	246	218	218
Bundles	569	613	662	724	724	781	832	879	947	947
Swisscom TV access lines	**860**	**902**	**943**	**1,000**	**1,000**	**1,052**	**1,091**	**1,125**	**1,165**	**1,165**
Prepaid single subscriptions	2,196	2,180	2,173	2,176	2,176	2,173	2,165	2,165	2,163	2,163
Postpaid single subscriptions	3,741	3,763	3,783	3,812	3,812	3,812	3,828	3,850	3,872	3,872
Mobile access lines single subscriptions	**5,937**	**5,943**	**5,956**	**5,988**	**5,988**	**5,985**	**5,993**	**6,015**	**6,035**	**6,035**
Bundles	333	364	390	419	419	444	467	484	505	505
Mobile access lines	**6,270**	**6,307**	**6,346**	**6,407**	**6,407**	**6,429**	**6,460**	**6,499**	**6,540**	**6,540**
Revenue generating units (RGU)	**11,851**	**11,912**	**11,975**	**12,097**	**12,097**	**12,170**	**12,236**	**12,307**	**12,373**	**12,373**
Broadband access lines wholesale	196	201	208	215	215	221	224	241	262	262
Unbundled fixed access lines	290	280	268	256	256	241	228	204	180	180
Bundles										
2play bundles	257	264	270	279	279	287	294	302	304	304
3play bundles	428	451	479	517	517	555	584	609	646	646
4play bundles	157	174	189	205	205	218	231	242	255	255
nplay bundles	–	–	–	–	–	–	1	1	4	4
Total bundles	**842**	**889**	**938**	**1,001**	**1,001**	**1,060**	**1,110**	**1,154**	**1,209**	**1,209**
Data traffic in million										
Fixed-line traffic in minutes	1,918	1,889	1,728	1,830	7,365	1,716	1,482	1,498	1,535	6,231
Mobile traffic in minutes	1,728	1,817	1,770	1,831	7,146	1,894	2,026	2,065	2,133	8,118
Data SMS mobile	628	607	598	552	2,385	509	510	517	483	2,019
Swisscom Group Information by geographical regions										
Net revenue in Switzerland	2,235	2,337	2,358	2,428	9,358	2,323	2,361	2,401	2,501	9,586
Net revenue in other countries	499	525	509	543	2,076	498	518	528	573	2,117
Total net revenue	**2,734**	**2,862**	**2,867**	**2,971**	**11,434**	**2,821**	**2,879**	**2,929**	**3,074**	**11,703**
EBITDA Switzerland	910	933	993	849	3,685	924	966	1,028	870	3,788
EBITDA in other countries	121	138	153	205	617	137	155	162	171	625
Total EBITDA	**1,031**	**1,071**	**1,146**	**1,054**	**4,302**	**1,061**	**1,121**	**1,190**	**1,041**	**4,413**
Capital expenditure in Switzerland	319	387	409	571	1,686	345	424	463	519	1,751
Capital expenditure in other countries	155	160	170	225	710	174	174	147	190	685
Total capital expenditure	**474**	**547**	**579**	**796**	**2,396**	**519**	**598**	**610**	**709**	**2,436**
Full-time equivalent employees in Switzerland	16,483	17,099	17,449	17,362	17,362	17,395	17,545	18,220	18,272	18,272
Full-time equivalent employees in other countries	2,764	2,760	2,745	2,746	2,746	2,686	2,683	2,855	2,853	2,853
Total headcount	**19,247**	**19,859**	**20,194**	**20,108**	**20,108**	**20,081**	**20,228**	**21,075**	**21,125**	**21,125**

Cash flows

In CHF million	2014	2013	Change
Operating income before depreciation and amortisation (EBITDA)	4,413	4,302	111
Capital expenditure in property, plant and equipment and other intangible assets	(2,436)	(2,396)	(40)
Change in net working capital and other cash flows from operating activities	(117)	72	(189)
Operating free cash flow	**1,860**	**1,978**	**(118)**
Net interest paid	(235)	(243)	8
Income taxes paid	(386)	(278)	(108)
Free cash flow	**1,239**	**1,457**	**(218)**
Net cash outflow from acquisition of PubliGroupe [1]	(385)	–	(385)
Other cash flows from investing activities, net	147	(152)	299
Issuance and repayment of financial liabilities, net	(265)	37	(302)
Dividends paid to equity holders of Swisscom Ltd	(1,140)	(1,140)	–
Other cash flows	(19)	(18)	(1)
(Net decrease) Net increase in cash and cash equivalents	**(423)**	**184**	**(607)**

[1] Acquisition cost of CHF 474 million less remaining minority interests of CHF 8 million, acquired cash and cash equivalents of CHF 16 million and proceeds of CHF 65 million from sale of securities and media participations.

Free cash flow in CHF million



Free cash flow dropped by CHF 218 million or 15.0% to CHF 1,239 million as a result of the lower operating free cash flow and higher income tax payments, which increased by CHF 108 million year-on-year to CHF 386 million.

The reduction of CHF 118 million or 6.0% in operating free cash flow to CHF 1,860 million is chiefly a result of the increase in net working capital, which could not be offset by the improvement in EBITDA and higher income from the sale of property, plant and equipment. After deducting payments already received, proceeds from the sale of real estate in 2014 amounted to CHF 85 million (prior year: 25 million). Net working capital grew by CHF 167 million compared to the end of 2013 (prior year: reduction of CHF 78 million), chiefly due to lower trade payables. Capital expenditure was CHF 40 million or 1.7% higher at CHF 2,436 million, mainly as a result of the expansion of network infrastructure in Switzerland.

In September 2014, Swisscom acquired PubliGroupe Ltd for a purchase price of CHF 474 million. Less the acquired cash and cash equivalents, the deferred payment of the purchase price for outstanding shares and the sale of securities and media interests, the net outflow for this transaction amounted to CHF 385 million. Total dividends paid by Swisscom to its shareholders in 2014 remained unchanged from the prior year at CHF 1,140 million.

Net asset position

Balance sheet

In CHF million	31.12.2014	31.12.2013	Change
Assets			
Cash and cash equivalents and current financial assets	342	883	–61.3%
Trade and other receivables	2,586	2,516	2.8%
Property, plant and equipment	9,720	9,156	6.2%
Goodwill	4,987	4,809	3.7%
Other intangible assets	1,921	2,053	–6.4%
Associates and non-current financial assets	404	346	16.8%
Income tax assets	434	301	44.2%
Other current and non-current assets	538	432	24.5%
Total assets	**20,932**	**20,496**	**2.1%**
Liabilities and equity			
Financial liabilities	8,604	8,823	–2.5%
Trade and other payables	1,876	1,870	0.3%
Defined benefit obligations	2,441	1,293	88.8%
Provisions	932	799	16.6%
Income tax liabilities	529	640	–17.3%
Other current and non-current liabilities	1,093	1,069	2.2%
Total liabilities	**15,475**	**14,494**	**6.8%**
Share of equity attributable to equity holders of Swisscom Ltd	5,454	5,973	–8.7%
Share of equity attributable to non-controlling interests	3	29	–89.7%
Total equity	**5,457**	**6,002**	**–9.1%**
Total liabilities and equity	**20,932**	**20,496**	**2.1%**
Equity ratio at end of year	26.1%	29.3%	

Total assets rose by CHF 0.4 billion or 2.1% to CHF 20.9 billion, mainly due to the higher investment activity and acquisitions of subsidiaries.

In CHF million	31.12.2012	31.12.2013	31.12.2014	Change
Property, plant and equipment	8,549	9,156	9,720	564
Goodwill	4,662	4,809	4,987	178
Other intangible assets	2,121	2,053	1,921	(132)
Receivables	3,081	2,948	3,124	176
Liabilities	(3,763)	(3,738)	(3,901)	(163)
Other net operating assets	**14,650**	**15,228**	**15,851**	**623**
Cash and cash equivalents and financial assets	712	883	342	(541)
Financial liabilities	(8,783)	(8,823)	(8,604)	219
Defined benefit obligations	(2,108)	(1,293)	(2,441)	(1,148)
Income tax assets and liabilities, net	(85)	(339)	(95)	244
Investments in associates	268	153	171	18
Other assets, net	63	193	233	40
Equity	**4,717**	**6,002**	**5,457**	**(545)**

Fastweb

As at 31 December 2014, the book value of Fastweb in Swisscom's consolidated financial statements amounted to EUR 2.8 billion (CHF 3.4 billion; CHF/EUR end-of-period exchange rate of 1.202). This includes goodwill with a net carrying amount of EUR 0.5 billion. In 2013 and 2014 Swisscom raised financing totalling EUR 1.3 billion, which was intended as an instrument for hedging Fastweb's net assets. Fastweb's cumulative currency translation losses of CHF 1.6 billion (after tax) as at 31 December 2014 are recognised in equity in Swisscom's consolidated financial statements.

Goodwill

The net carrying amount of goodwill is CHF 4,987 million, the bulk of which relates to Swisscom Switzerland (CHF 4,223 million). This goodwill arose primarily in 2007 in connection with the repurchase of the 25% stake in Swisscom Mobile Ltd sold to Vodafone in 2001. Following the repurchase, the mobile, fixed-network and solutions businesses were organisationally combined and merged to create the new company Swisscom (Switzerland) Ltd. The valuation risk of this goodwill item is extremely low. The net carrying amount of Fastweb's goodwill is EUR 492 million (CHF 592 million). Goodwill in respect of Other operating segments amounts to CHF 172 million.

Post-employment benefits

Defined benefit obligations presented in the consolidated financial statements are measured in accordance with International Financial Reporting Standards (IFRS). Net obligations recognised in the balance sheet amounted to CHF 2,441 million, corresponding to an increase of CHF 1,148 million compared to the prior year. This is largely due to a lower discount rate, which was only partly offset by plan asset performance. In accordance with Swiss accounting standards (Swiss GAAP ARR), the surplus amounts to CHF 1.0 billion corresponding to a coverage ratio of 111%. The main reasons for the differences in accordance with IFRS of CHF 3.4 billion are the application of differing actuarial assumptions with regard to the discount rate (CHF 2.7 billion) and life expectancy (CHF 0.4 billion), and a different actuarial measurement method (CHF 0.3 billion). IFRS measurement takes into account future salary, contribution and pension increases and early retirements. By contrast, the equal distribution of risk prescribed by law and in the regulations in the event of a funding deficit is not taken into account.

Equity

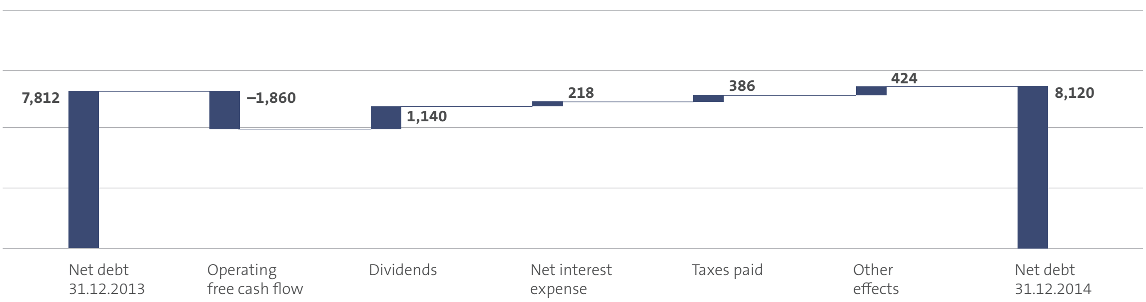
Equity declined by CHF 545 million or 9.1% to CHF 5,457 million, bringing the ratio of consolidated equity to total assets down from 29.3% to 26.1%. The dividend payments of CHF 1,140 million to the equity holders of Swisscom Ltd and net losses of CHF 938 million recognised directly in equity were not offset by the CHF 1,706 million in net income. Net losses recognised directly in equity include non-cash actuarial losses from pension plans totalling CHF 1,161 million as well as unrealised losses of CHF 46 million resulting from currency translation of foreign Group companies. The CHF/EUR exchange rate fell from 1.228 at the end of 2013 to 1.202 at the end of 2014. At 31 December 2014, cumulative currency translation losses recognised in equity amounted to CHF 1,590 million (after tax).
Distributable reserves are calculated on the basis of equity reported in the separate financial statements of Swisscom Ltd in accordance with statutory accounting provisions, rather than on the basis of equity as disclosed in the consolidated balance sheet prepared in accordance with International Financial Reporting Standards (IFRS). At 31 December 2014, the equity of Swisscom Ltd amounted to CHF 5,575 million. The difference between this amount and equity disclosed in the consolidated balance sheet is essentially due to earnings retained by subsidiaries as well as different accounting and valuation methods. Under Swiss company law, share capital and that part of the general reserves representing 20% of the share capital may not be distributed. At 31 December 2014, Swisscom Ltd had distributable reserves of CHF 5,513 million.

Net debt

Net debt comprises financial liabilities less cash and cash equivalents, current financial assets and non-current, fixed-interest-bearing deposits. Swisscom's goal is to achieve a maximum net debt/EBITDA ratio of 2.1. This value may be exceeded temporarily. Financial leeway exists if the target is not reached.

In CHF million, except where indicated	31.12.2012	31.12.2013	31.12.2014
Net debt	8,071	7,812	8,120
Ratio total liabilities/total assets	76.2%	70.7%	73.9%
Ratio net debt/equity	1.7	1.3	1.5
Ratio net debt/EBITDA	1.8	1.8	1.8

Development of net debt in CHF million



The ratio of net debt to EBITDA remained unchanged year-on-year at 1.8. In recent years, Swisscom has taken advantage of favourable capital market conditions with a view to optimising the interest and maturity structure of the Group's financial obligations. The share of the Group's variable-rate financial liabilities amounts to 29%.

Maturity profile of financial liabilities

Swisscom aims for a broadly diversified debt portfolio. This involves paying particular attention to balancing maturities and a diversification of financing instruments and markets. The following table shows the maturity profile of interest-bearing financial liabilities at nominal value as at 31 December 2014:

In CHF million	Due within 1 year	Due within 1 to 2 years	Due within 3 to 5 years	Due within 6 to 10 years	Due after 10 years	Total
Bank loans	998	300	130	361	96	1,885
Debenture bonds	500	–	2,025	2,202	360	5,087
Private placements	–	350	600	–	–	950
Finance lease liabilities	14	14	24	30	479	561
Other financial liabilities	2	–	1	2	–	5
Total	**1,514**	**664**	**2,780**	**2,595**	**935**	**8,488**

Capital expenditure

See report
pages 45–47

Swisscom remains committed to maintaining the high quality and availability of its network infrastructures. In Switzerland this involves making targeted investments in ultra-fast broadband network expansion, migrating to an all-IP-based infrastructure, and ensuring a state-of-the-art mobile network.
In Italy, Fastweb operates a network comprising a proprietary fibre-optic network and a copper-based broadband access infrastructure. Fastweb is also systematically expanding this network infrastructure.

In CHF million, except where indicated	2012	2013	2014	Change
Fixed access & Infrastructure	425	410	406	–1.0%
Mobile access	226	271	235	–13.3%
Expansion of the fibre-optic network	317	292	440	50.7%
Customer driven	162	159	186	17.0%
Projects and others [1]	362	384	304	–20.8%
Mobile frequencies	360	–	–	–
Swisscom Switzerland	**1,852**	**1,516**	**1,571**	**3.6%**
Fastweb	531	695	682	–1.9%
Other operating segments	167	195	211	8.2%
Group Headquarters and elimination	(21)	(10)	(28)	180.0%
Total capital expenditure	**2,529**	**2,396** [2]	**2,436** [2]	**1.7%**
Thereof Switzerland	1,994	1,686	1,751	3.9%
Thereof foreign country	535	710	685	–3.5%
Total capital expenditure as % of net revenue	22.2	21.0	20.8	

[1] Including All IP migration.
[2] Excluding capital expenditure of CHF 24 million (2013: CHF 49 million; 2012: CHF 32 million) in real estate projects, for which sales contracts were concluded and the purchasers made payments in the same amount.

Capital expenditure incurred by Swisscom rose year-on-year by CHF 40 million or 1.7% to CHF 2,436 million, corresponding to 20.8% of net revenue (prior year: 21.0%). Swisscom Switzerland accounted for 64% of 2014 capital expenditure, while Fastweb accounted for 28% and other operating segments 8%.
Capital expenditure incurred by Swisscom Switzerland rose year-on-year by CHF 55 million or 3.6% to CHF 1,571 million, corresponding to 18.2% of net revenue (prior year: 17.9%). The increase is due to the expansion and upgrading of mobile and fixed network infrastructure with the latest technologies. By the end of 2014, Swisscom had connected more than 1.4 million homes and offices with ultra-fast broadband – from fibre-to-the-home (FTTH) to the latest fibre-optic technology such as fibre-to-the-street (FTTS), fibre-to-the-building (FTTB) and vectoring technology – and extended 4G/LTE coverage to 97% of the Swiss population.
By contrast, Fastweb reduced its capital expenditure year-on-year by CHF 13 million or 1.9% to CHF 682 million. This corresponds to a reduction of EUR 3 million or 0.5% to EUR 562 million in local currency terms and is mainly due to lower investment in the network infrastructure resulting in a ratio of capital expenditure to revenue of 33.3% (prior year: 34.4%). Around 33% of total capital expenditure is directly related to customer growth.
At CHF 211 million, capital expenditure incurred by other operating segments was CHF 16 million or 8.2% higher year-on-year, largely as a result of higher investment in the IT infrastructure of Swisscom IT Services.

Statement of added value

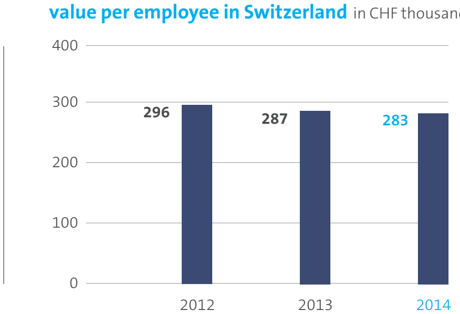
Operating added value is equivalent to net revenue less goods and services purchased, other operating expenses, and depreciation and amortisation. Personnel expense is treated as use of added value rather than as an intermediate input. Swisscom generates the bulk of its added value in Switzerland, with activities abroad accounting for 4% of the Group's added value from operations in the year under review (prior year: 5%).

			2014			2013
In CHF million	Switzerland	Abroad	Total	Switzerland	Abroad	Total
Added value						
Net revenue	**9,586**	**2,117**	**11,703**	**9,358**	**2,076**	**11,434**
Capitalised self-constructed assets and other income	(290)	(80)	(370)	(229)	(159)	(388)
Goods and services purchased	1,789	580	2,369	1,712	626	2,338
Other operating expenses [1]	1,783	738	2,521	1,736	723	2,459
Depreciation [2]	1,322	646	1,968	1,281	607	1,888
Intermediate inputs	**4,604**	**1,884**	**6,488**	**4,500**	**1,797**	**6,297**
Operating added value	**4,982**	**233**	**5,215**	**4,858**	**279**	**5,137**
Other non-operating result [3]			(139)			(83)
Total added value			**5,076**			**5,054**
Allocation of added value						
Employees [4]	2,520	253	2,773	2,460	266	2,726
Public sector [5]	390	8	398	322	(3)	319
Shareholders (dividends)			1,156			1,154
External investors (net interest expense)			218			251
Company (retained earnings) [6]			531			604
Total added value			**5,076**			**5,054**

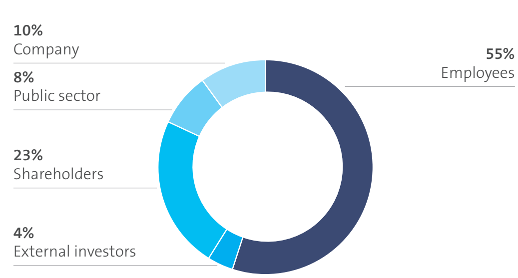
[1] Other operating expense: excluding taxes on capital and other taxes not based on income.
[2] Depreciation and amortisation: excluding depreciation and amortisation of acquisition-related assets such as brands or customer relations.
[3] Other non-operating result: financial result excluding net interest expense, share of profits of investments in associates, and depreciation and amortisation of acquisition-related intangible assets.
[4] Employees: employer contributions are reported as pension cost, rather than as expenses according to IFRS.
[5] Public sector: current income taxes, taxes on capital and other taxes not based on income.
[6] Company: including changes in deferred income taxes and defined benefit obligations.

Operating added value amounted to CHF 5,076 million in 2014, an increase of 0.4% compared with the previous year. As in the prior year, some 95% of operating added value was generated in Switzerland. Added value from international operations declined by CHF 46 million to CHF 233 million on account of higher depreciation and amortisation costs.
Although operating added value in Switzerland was virtually unchanged year-on-year at CHF 4,982 million, added value from operations per FTE was 1.4% lower at CHF 283,000 (prior year: CHF 287,000).

Swisscom development of added value per employee in Switzerland in CHF thousand



Allocation of added value in %



Energy efficiency and CO_2 emissions

In % except where indicated	2014	2013	Change
Energy consumption (in GWh)	497	498	–0.2%
Increase of the efficiency of energy to 1 January 2010	26.4	21.1	
Direct CO_2-emissions (in tons)	21,380	23,835	–10.3%
Reduction of direct CO_2-emissions to 1 January 2010	17.0	3.9	

Swisscom is striving to boost energy efficiency and rely more on renewable energies in order to minimise the environmental impact of its business activities. In Switzerland Swisscom is aiming, by the end of 2015, to increase its energy efficiency by 25% from the levels of 1 January 2010 and then by a further 35% between 1 January 2016 and 2020. The increase will be achieved primarily by measures in the network infrastructure area. Swisscom is also aiming for a 12% reduction in direct CO_2 emissions in Switzerland by the end of 2015. This reduction is to be achieved primarily through measures related to employee mobility and the infrastructure.
In 2014 total energy consumption in Switzerland fell by 1 GWh or 0.2% to 497 GWh, while energy efficiency increased versus 1 January 2010 to 26.4% (prior year: 21.1%). This improvement was achieved by efficiency enhancements in computer centres and the Mistral energy saving project (the use of fresh air to cool telephone exchanges). In 2014, direct CO_2 emissions in Switzerland fell by 2,455 tonnes or 10.3% to 21,380 tonnes, chiefly due to reduced consumption of heating oil. This results in a reduction of 17% in direct CO_2 emissions versus 1 January 2010.

Outlook for net revenue
Expectation for 2015 of more than

11.4 billion CHF

Outlook for EBITDA
Expectation for 2015 of around

4.2 billion CHF

Financial outlook

	2014 reported CHF/EUR 1.212 in CHF mio.	Effect revaluation CHF in CHF bn.	2014 pro-forma CHF/EUR 1.00 in CHF mio.	2015 Change Swisscom without Fastweb in CHF bn.	2015 Change Fastweb in CHF bn.	2015 outlook (CHF/EUR 1.00) in CHF bn.
Net revenue	11,703	(0.4)	11,331	0.1	0	> 11.4
Operating income before depreciation and amortisation (EBITDA)	4,413	(0.1)	4,315	(0.1)	> 0	~ 4.2
Capital expenditure	2,436	(0.1)	2,313	0	< 0	2.3

The financial outlook for 2015 is influenced to a substantial degree by the CHF/EUR exchange rate. The Swiss National Bank's decision to abandon the euro currency peg in January 2015 has increased the volatility of the exchange rate. The forecast of the future currency development and the effects on the economy is subject to uncertainty. The following outlook is predicated on a parity CHF/EUR exchange rate of 1.00 for 2015, corresponding to an exchange rate reduction in the euro of 17% versus 2014 (average 2014 EUR exchange rate: CHF 1.21). It does not take account of the possible negative implications of the currency situation for the economy.

On the basis of the assumed parity with the euro, Swisscom expects for 2015 net revenue of more than CHF 11.4 billion, EBITDA of around CHF 4.2 billion and capital expenditure of CHF 2.3 billion.

Calculated at the same exchange rate as 2014, net revenue is expected to end 2015 CHF 100 million higher as compared to 2014. Excluding Fastweb, Swisscom expects net revenue to grow by CHF 100 million. In local currency terms (euro), Fastweb's net revenue for 2015 is expected to be on a par with the prior year, which corresponds, however, to a decline of almost CHF 400 million in the reporting currency.

EBITDA is expected to end 2015 at around CHF 4.2 billion, or some CHF 200 million below the 2014 figure. CHF 100 million of this decline is attributable to the appreciation of the Swiss franc, and the other CHF 100 million is due to the following effects: The change in network infrastructure and services to Internet protocol (All IP) will result in higher costs in 2015. In addition, gains from the sale of real estate will be lower and, due to lower interest rates, pension costs in accordance with IFRS will be higher. These effects cannot be offset by additional contributions to results from recent acquisitions and the related synergies.

In local currency terms, Fastweb's EBITDA is expected to be higher, primarily as a result of lower usage fees for regulated services from other network operators. Regulated prices are expected to drop further and the volume of services purchased will decline due to customers migrating to their own ultra-fast broadband network.

Swisscom expects capital expenditure for 2015 to be CHF 2.3 billion. In Switzerland capital expenditure will remain the same as last year at CHF 1.75 billion due to further expansion of the ultra-fast broadband network and investments in the IT platform for banking. At Fastweb the volume of capital expenditure reached its peak in 2014, and in local currency terms will decline slightly in 2015, corresponding to a currency-related reduction of CHF 100 million.

If all targets are met, Swisscom will again propose to the Annual General Meeting of Shareholders an unchanged ordinary dividend of CHF 22 per share for the 2015 financial year.

Capital market

Swisscom's shares are listed on the SIX Swiss Exchange. The creditworthiness of Swisscom is regularly assessed by international rating agencies.

Swisscom share

Swisscom's market capitalisation as at 31 December 2014 amounted to CHF 27.1 billion (previous year: 24.4 billion). The number of shares outstanding remained the same at 51.8 million. Par value per registered share is CHF 1. Each share entitles the holder to one vote. Voting rights can only be exercised if the shareholder is entered in the share register of Swisscom Ltd with voting rights. The Board of Directors may refuse to enter a shareholder with voting rights if such voting rights exceed 5% of the company's share capital.

Ownership structure

	31.12.2014			31.12.2013		
	Number of Shareholders	Number of Shares	Share in %	Number of Shareholders	Number of Shares	Share in %
Confederation	1	26,394,000	51.0%	1	26,535,500	51.2%
Natural person	62,359	4,260,624	8.2%	63,531	4,453,496	8.6%
Institution	2,699	21,147,319	40.8%	2,614	20,812,947	40.2%
Total	**65,059**	**51,801,943**	**100.0%**	**66,146**	**51,801,943**	**100.0%**

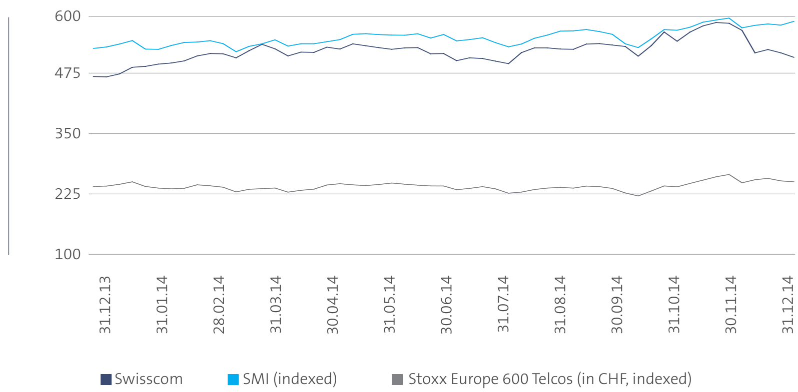
The majority shareholder as at 31 December 2014 was the Swiss Confederation, with 51.0% of the voting rights and capital. The Confederation is obligated by current law to hold the majority of the capital and voting rights. As at 31 December 2014, around 95% of the registered shareholders were from Switzerland.

Stock exchanges

Swisscom shares are listed on the SIX Swiss Exchange under the symbol SCMN (Securities No. 874251). In the United States they are traded in the form of American Depositary Receipts (ADR) at a ratio of 1:10 (Over The Counter, Level 1) under the symbol SCMWY (Pink Sheet No. 69769).

Share performance

Share performance 2014 in CHF



See www.swisscom.ch/shareprice

The Swiss Market Index (SMI) gained 9.5% compared with the previous year. The Swisscom share price increased by 11.0% to CHF 522.50, performing better than the European Stoxx Europe 600 Telecommunications Index (5.6% in CHF; 7.5% in EUR). Average daily trading volume fell by 5.8% to 97,881 units. Total trading volume of Swisscom shares in 2014 amounted to CHF 12.9 billion.

Shareholder return

On 14 April 2014 Swisscom paid out an ordinary dividend of CHF 22 per share. Based on the closing price at the end of 2013, this equates to a return of 4.7%. Taking into account the rise in share price, Swisscom achieved a total shareholder return (TSR) of 15.7% in 2014. The TSR for the SMI was 12.0% and for the Stoxx Europe 600 Telecommunications Index 10.6% in CHF and 12.7% in EUR.

Swisscom share performance indicators

		2010	2011	2012	2013	2014
Par value per share at end of year	CHF	1.00	1.00	1.00	1.00	1.00
Number of issued shares at end of period	in thousand	51,802	51,802	51,802	51,802	51,802
Market capitalisation at end of year	in CHF million	21,296	18,436	20,400	24,394	27,067
Closing price at end of period	CHF	411.10	355.90	393.80	470.90	522.50
Closing price highest	CHF	420.80	433.50	400.00	474.00	587.50
Closing price lowest	CHF	358.00	323.10	334.40	390.20	467.50
Earnings per share	CHF	35.00	13.19	34.90	32.53	32.70
Ordinary dividend per share	CHF	21.00	22.00	22.00	22.00	22.00 [1]
Ratio payout/earnings per share	%	60.00	166.79	63.04	67.63	67.27
Equity per share at end of year	CHF	102.89	82.47	79.77	115.30	105.29

[1] In accordance with the proposal of the Board of Directors to the Annual General Meeting.

Analysts' recommendations

Investment specialists analyse Swisscom's business performance, results and market situation on an ongoing basis. Their findings and recommendations offer valuable indicators for investors. 29 analysts regularly publish studies on Swisscom. At the end of 2014, 31% of the analysts recommended a buy rating for the Swisscom share, 48% a hold rating and 21% a sell rating. The average price target at 31 December 2014, according to the analysts' estimates, was CHF 559 per share.

Payout policy

Swisscom seeks to achieve a steady dividend payout per share. Subject to meeting its financial targets, Swisscom plans to pay a dividend per share at least on a par with the previous year.
At the forthcoming Annual General Meeting on 8 April 2015, the Board of Directors will propose an ordinary dividend of CHF 22 per share (prior year: CHF 22 per share). This is equivalent to a total dividend payout of CHF 1,140 million.
Since going public in 1998 Swisscom has distributed a total of CHF 27.3 billion to its shareholders: CHF 15.3 billion in dividend payments, CHF 1.6 billion in capital reductions and CHF 10.4 billion in share buybacks. Swisscom has paid out a total of CHF 301 per share since the initial public offering. Together with the overall increase in share price of CHF 182.50 per share, this amounts to an average annual total return of 5.6%.

Indebtedness

Level of indebtedness

Swisscom pursues a finance policy which limits the net debt / EBITDA ratio to a maximum of around 2.1. Net debt comprises financial liabilities less cash and cash equivalents, current financial assets and non-current, fixed-interest-bearing deposits.
As at 31 December 2014, net debt amounted to CHF 8.1 billion (prior year: CHF 7.8 billion), corresponding versus the prior year to an unchanged net debt / EBITDA ratio of 1.8.

Dividend per share
in the 2014 financial year

22 CHF

Total shareholder return
in the 2014 financial year

15.7 %

Credit ratings and financing

With an A (stable) and A2 (stable) respectively, Swisscom enjoys good ratings with the Standard & Poor's and Moody's rating agencies. To avoid structural downgrading, Swisscom endeavours to raise financing at the level of Swisscom Ltd. Swisscom aims to have a broadly diversified debt portfolio. This involves paying particular attention to balancing maturities and a diversification of financing instruments, markets and currencies. Swisscom's solid financial standing enabled unrestricted access to money and capital markets also in 2014.
As at 31 December 2014, Swisscom's financial liabilities amounted to CHF 8.6 billion. Around 80% of financial liabilities have a term to maturity of more than one year. As at 31 December 2014, financial liabilities with a term of one year or less amounted to CHF 1.6 billion. 2014 average interest expense on all financial liabilities were 2.5%, and average term to maturity four years. A large share of the financial liabilities will fall due for repayment if a shareholder other than the Swiss Confederation can exercise control over Swisscom.

Listed debenture bonds

Swisscom has issued debenture bonds which are listed on the SIX Swiss Exchange (SIX) or the Irish stock exchange (ISE).

Bonds listed on the Six Swiss Exchange

In CHF million	Coupon	Payment	Expiring	Security number
Par value				
600	3.75%	19.07.2007 22.10.2007 [1]	19.07.2007	3,225,473
500	4.00%	17.09.2008	17.09.2015	4,515,633
1,425	3.25%	14.09.2009	14.09.2018	10,469,162
500	2.63%	31.08.2010	31.08.2022	11,469,537
500	1.75%	10.07.2012	10.07.2024	188,335,365
200	1.50%	14.07.2014	14.07.2026	24,777,613
160	1.50%	30.09.2014	28.09.2029	2,514,750

[1] Reopening.

Bonds listed on the Irish Stock Exchange (ISE)

In EUR million	Coupon	Payment	Expiring	ISIN–no. [1]
Par value				
500	2.00%	30.09.2013 [1]	30.09.2020	XS0972165848
500	1.88%	08.04.2014	08.09.2021	XS1051076922

[1] The bonds have been issued through Lunar Funding V, an independent Irish repackaging-vehicle, and are secured by loan notes granted from Lunar V to Swisscom.

Risks

> Swisscom's risk management is aimed at safeguarding the company's enterprise value.

Risk management system

Swisscom's enterprise risk management (ERM) applies Group-wide and takes both internal and external events into account. Swisscom complies with the established COSO II and ISO 31000 risk management standards and thus has a risk management system in place that meets the requirements of its own corporate governance policy as well as those of Swiss law.

Objectives

Swisscom's risk management is aimed at safeguarding the company's enterprise value. This is assured by having in place a recognised and appropriate Group-wide risk management system as well as comprehensive, meaningful, level-appropriate reporting, suitable documentation and a risk-aware corporate culture. Risks are events or situations which, should they occur, could potentially jeopardise the company's ability to achieve its objectives.

Organisation

The Board of Directors delegates responsibility for implementing the risk management system to the CEO Swisscom Ltd. A central Risk Management unit reports to the CFO Swisscom Ltd, coordinates all organisational units charged with risk management and oversees these insofar as this is required for reporting purposes. This ensures comprehensive, Group-wide coordinated risk management and reporting. As part of their remit, employees entrusted with risk management tasks have an unrestricted right to information and are authorised to access and view all relevant documents and records.
Swisscom employs special instruments in individual risk areas. In financial risk management, for example, quantitative tools (sensitivity analyses) are used to assess interest rate and currency risks. Specialised central organisational units monitor the legal compliance risks and financial reporting risks (internal control system, ICS).

Process

The main risks to which Swisscom is exposed are identified in a comprehensive risk analysis. Each risk is assigned a risk owner. To enable the early identification, assessment and management of risks and their inclusion in strategic planning, the central Risk Management unit works closely with the Controlling and Strategy departments and other relevant departments. Risk management covers risks in the areas of strategy (including market risks), operations (including finance risks), compliance and financial reporting. The risks are assessed according to their probability of occurrence and their qualitative and quantitative effects in the event of occurrence, and are managed on the basis of a risk strategy. The risks are evaluated in terms of their impact on key performance indicators reported by Swisscom. The risk profile is reviewed and updated on a quarterly basis. The Board of Directors' Audit Committee and the Swisscom Group Executive Board are informed about significant risks, their potential effects and the status of measures on a quarterly basis, and the Board of Directors on an annual basis. The effectiveness of the risk strategies and measures taken is assessed quarterly. Information on the internal control system, compliance management and internal auditing is provided in the Corporate Governance Report, Section 3.8, Controlling instruments of the Board of Directors vis-à-vis the Group Executive Board.

See report **page 105**

General statement on the risk situation

Risks are driven by changes in technology, the regulatory environment, markets, competition and customer behaviour. The importance of established telecoms services is continuing to decline, and the associated loss of revenue from traditional core business has to be compensated by promoting customer and volume growth and offering new services. Over the long term the trend in the ICT market will necessitate fundamental changes in the approach to risks related to human capital, technology and the business model. Pending regulatory decisions pose a latent risk which could impact Swisscom's financial development, as illustrated by the following selected key risk factors. The main risk factors in the supply chain are reported separately in the Sustainability Report.

Risk factors

Telecommunications market

Changes within the telecoms market, structural adjustments and competition from service providers who do not maintain their own telecoms infrastructure (e.g. OTTs) are exerting transformation pressure on the business. It remains to be seen which technologies and services will emerge the winners. There is a risk that revenue from classical telecoms business will not be secured sustainably during the transformation process. Current trends are increasingly necessitating the integration of a growing number of technologies and devices in order to win new customers and deliver multimedia services. The integration and operation of new infrastructures entails risks in terms of interfaces to existing infrastructure. The occurrence of such risks could delay implementation of the strategy or have a detrimental effect on customer satisfaction. Swisscom has initiated measures in various areas to manage these risks.

Politics and regulation

Telecommunications and antitrust legislation entail risks which could have a negative impact on the company's financial position and results of operations. The main risks concern the possibility of stricter price regulations on mobile communications (mobile termination) which would further reduce Swisscom's income and restrict the company's room for manoeuvre; or sanctions by the Competition Commission, which could reduce Swisscom's operating results and damage the company's good reputation. The forthcoming revision of the Telecommunications Act also heightens regulatory risk. Finally, excessively high demands imposed on universal service provision by political groups, for instance supporters of the "Public Service" initiative, threaten to fundamentally undermine the current competitive system.

Increased bandwidth in the access network

Customer demand for broadband access is growing rapidly, as is the popularity of mobile devices and IP-based services (smartphones, IP TV, OTTs, etc.). Swisscom faces tough competition from cable companies and other network operators as it strives to meet current and future customer needs and defend its own market shares. The necessary network expansion calls for major investments. To mitigate financial risks and ensure optimum network coverage, expansion is determined by population density and customer demand. Substantial risks would arise if Swisscom were forced to spend more on network expansion than planned, or if projected long-term earnings were to fall. Swisscom aims to minimise such risks by adapting broadband expansion of the access network to changing framework conditions.

Human capital

Constant changes in framework conditions and markets necessitate a change in corporate culture. The key challenges in this context lie in maintaining employee motivation and high staff loyalty despite cost pressure, while managing growth and efficiency, increasing employees' ability to adapt their skills and ensuring that Swisscom remains an attractive employer.

Economic climate, market consolidation in Italy, regulation and recoverability of Fastweb's assets

A potential consolidation of the Italian market could have significant ramifications for Swisscom's subsidiary Fastweb. In addition, Italy's economic development and competitive dynamics carry risks which could have a detrimental impact on Fastweb's strategy and jeopardise projected revenue growth. The impairment test performed in 2014 confirmed the recoverable value of Fastweb's assets. The recoverability of Fastweb's net assets recognised in the consolidated financial statements is contingent above all on achieving the financial targets set out in the business plan (revenue growth, improvement in EBITDA margin and reduction in capital expenditure ratio). If future growth is lower than projected, there is a risk that this will result in a further impairment loss. Major uncertainty also surrounds the future interest rate trend and the country risk premium. An increase in interest rates or the country risk premium could lead to an impairment loss. Fastweb's business operations are also influenced by the European and Italian telecommunications legislation. Regulatory risks can jeopardise the achievement of targets and reduce the enterprise value.

Business interruption

Usage of Swisscom's services is heavily dependent on technical infrastructure such as communications networks and IT platforms. Any major disruption to business operations poses a high financial risk as well as a substantial reputation risk. Force majeure, human error, hardware or software failure, criminal acts by third parties (for example, computer viruses or hacking) and the ever-growing complexity and interdependence of modern technologies can cause damage or interruption to operations. Built-in redundancy, contingency plans, deputising arrangements, alternative locations, careful selection of suppliers and other measures are designed to ensure that Swisscom can deliver the level of service that customers expect at all times.

Information technologies

Swisscom is in the midst of a transformation from line-switched TDM technology to IP technology. This transformation should enable Swisscom to roll out new products more flexibly and efficiently than before. The experience acquired with IP technology to date has been positive. Swisscom's complex IT architecture entails risks during both the implementation and operating phases. These risks have the potential to delay the rollout of new services, increase costs and impact competitiveness. The transformation is being monitored by the Group Executive Board.

Environment and health

Electromagnetic radiation (for example from mobile antennas or mobile handsets) has repeatedly been claimed to be potentially harmful to the environment and to health. Under the terms of the Ordinance on Non-Ionising Radiation (ONIR), Switzerland has adopted a so-called precautionary principle and introduced limits for base stations that are ten times higher than those imposed by the EU. The public's wary attitude to mobile antenna sites in particular is impeding Swisscom's network expansion. There is a future risk that regulations governing electromagnetic emissions and legal requirements for the construction of mobile base stations may be further tightened. This would result in additional costs for network expansion and operation. Even without stricter legislation, public concerns about the effects of electromagnetic radiation on the environment and health could further hamper the construction of wireless networks in the future and drive up costs. Climate change poses risks for Swisscom in the form of increased levels of precipitation as well as higher average or extreme temperatures. These trends could impact the operability of Swisscom's telecoms infrastructure, particularly in view of the potential risk to base stations and local exchanges. The analysis of the risks posed by climate change is based on the official report of the Federal Office for the Environment (FOEN) on climate change, published in October 2011.

See
www.cdproject.net/en-us

"We have set up an independent mobile network in the laboratory, which we use for development, testing and making optimisations with the aim of providing our customers with the best network well into the future."

Christian Rüger
ICT system engineer
IT, Network & Innovation

Corporate Governance and Remuneration Report

Taking advantage of new opportunities to generate sustainable growth.

+15.7 %

total shareholder return on Swisscom shares in 2014. Return up 5.1 percentage points on the telecom index (+10.6%).

Corporate Governance

Remuneration Report

Corporate Governance

Corporate governance is a fundamental component of Swisscom's corporate policy. Swisscom is committed to practising effective and transparent corporate governance as part of its aim to deliver long-term value. In particular, Swisscom complies with the recommendations of the Swiss Code of Best Practice for Corporate Governance 2014 issued by economiesuisse and meets the requirements of the Ordinance Against Excessive Compensation in Listed Stock Companies.

Principles

In performing their activities, the Board of Directors and Group Executive Board of Swisscom are guided by the objective of long-term and sustainable corporate governance. They incorporate in their decisions the legitimate interests of Swisscom shareholders, customers, employees and other interest groups. To this end, the Board of Directors practices effective and transparent corporate governance, which is characterised by clearly assigned responsibilities and based on recognised standards. In particular, Swisscom complies with

- the recommendations of the Swiss Code of Best Practice for Corporate Governance 2014 issued by economiesuisse, the umbrella organisation representing Swiss business.
- the Corporate Governance Directive issued by the SIX Swiss Exchange of 1 September 2014, which also forms the basis of this report.
- the requirements of the Ordinance Against Excessive Compensation in Listed Stock Companies (OaEC) of 20 November 2013, which entered into force on 1 January 2014.
- legal requirements pursuant to the Swiss Code of Obligations.

The exchange of insights and information with investors, proxy advisors and other stakeholder groups by the respective specialist divisions allows the Board of Directors to identify new standards at an early stage and to adjust its corporate governance activities to new requirements. Swisscom's principles and rules on corporate governance are set out primarily in the company's Articles of Incorporation, Organisational Rules and the Rules of Procedure of the Board of Directors' committees. Of particular importance is the Code of Conduct approved by the Board of Directors. It contains a declaration by Swisscom of its commitment to absolute integrity as well as compliance with the law and all other external and internal rules and regulations. Swisscom expects its employees to take responsibility for their actions, show consideration for people, society and the environment, comply with applicable rules, demonstrate integrity and report any violations of the Code of Conduct. The latest version of these documents as well as revised or superseded versions can be viewed online on the Swisscom website under "Basic principles".

See
www.swisscom.ch/basicprinciples

1 Group structure and shareholders

1.1 Group structure

1.1.1 Group operating structure

Swisscom Ltd is the holding company responsible for overall management of the Swisscom Group. It comprises the five Group divisions Group Business Steering, Group Strategy & Board Services, Group Communications & Responsibility, Group Human Resources and Group Security. Day-to-day business management is delegated by the Board of Directors to the CEO of Swisscom Ltd, who together with the heads of the Group divisions Group Business Steering (CFO) and Group Human Resources (CPO) as well as the heads of all business divisions (Residential Customers, Small and Medium-Sized Enterprises, Enterprise Customers and IT, Network & Innovation) forms the Group Executive Board. Strategic and financial management of the Group companies is assured through the assignment of powers and responsibilities by the Board of Directors of Swisscom Ltd. The Group companies are divided into three categories: strategic, important and other. Swisscom (Switzerland) Ltd and the Italian subsidiary Fastweb S.p.A. are classified as strategic Group companies. The operations of Swisscom (Switzerland) Ltd are managed by the Group Executive Board. The Board of Directors of Swisscom (Switzerland) Ltd comprises the CEO of Swisscom Ltd as Chairman, the CFO of Swisscom Ltd and a further member of the Group Executive Board. Seats on the Board of Directors of the "strategic" company Fastweb S.p.A. are held by the CEO of Swisscom Ltd as Chairman together with the CFO of Swisscom Ltd and other representatives of Swisscom. The Board of Directors of Fastweb S.p.A. is supplemented by an external member. In the "important" Group companies, the responsibilities of the Chairman of the Board of Directors are fulfilled by the CEO of Swisscom Ltd, the CEO of a "strategic" Group company, the head of a Group or business division or another person appointed by the CEO. Other representatives of Swisscom are also members of the Board of Directors.

See report **page 24**

See report **pages 200–201**

The Group structure is shown in the Management Commentary in the section on Group structure and organisation. A list of Group companies, including company name, registered office, percentage of shares held and share capital, is given in Note 41 to the consolidated financial statements.

As of 1 January 2014, the activities of Swisscom IT Services Ltd were integrated into the operations of Swisscom (Switzerland) Ltd. The reporting, which is based on the management structure, was not adjusted, however. It is, as in 2013, divided into the segments "Residential Customers", "Small and Medium-Sized Enterprises", "Corporate Business", "Wholesale" and "Network & IT", which are grouped together as "Swisscom Switzerland", as well as "Fastweb", "Other Operating Segments" and "Group Headquarters". "Other Operating Segments" mainly comprises Swisscom IT Services and Group Related Businesses, while "Group Headquarters" primarily covers the Group divisions and the employment company Worklink AG.

Changes as of 2015

The absorption merger of Swisscom IT Services Ltd with Swisscom (Switzerland) Ltd will take place at the beginning of 2015 and mark the legal completion of the integration. From 2015, segment reporting will be adjusted to the management structure and Swisscom IT Services – as well as Swisscom Real Estate Ltd – will then be reported in the "Swisscom Switzerland" segment.

1.1.2 Listed companies

The Swisscom Group comprises the following listed companies:

Swisscom Ltd

Swisscom Ltd, a company governed by Swiss law and headquartered in Ittigen (canton of Berne, Switzerland), is listed in the Main Standard of the SIX Swiss Exchange (Securities No. 874251; ISIN Code: CH0008742519; Ticker Symbol: SCMN). Trading in the United States is conducted over-the-counter (OTC) as a level 1programme (Symbol: SCMWY; ISIN No.: CH008742519; CUSIP for ADR: 871013108). At 31 December 2014, Swisscom Ltd had a stock market capitalisation of CHF 27,067 million.

PubliGroupe Ltd

Swisscom Ltd acquired PubliGroupe Ltd in 2014 within the framework of a public takeover. The takeover price was CHF 474 million. PubliGroupe Ltd, a company governed by Swiss law and headquartered in Lausanne (Switzerland), is listed in the Main Standard of the SIX Swiss Exchange (Securities No.: 462630; ISIN Code: CH0004626302; Ticker Symbol: PUBN). At 31 December 2014, PubliGroupe Ltd had a stock market capitalisation of CHF 493 million. Swisscom Ltd currently holds 98% of the shares in PubliGroupe Ltd. On 18 September 2014, PubliGroupe Ltd requested the cancellation of the untendered shares (squeeze-out). On 1 October 2014, it submitted an application for the delisting of the registered shares to the SIX Exchange Regulation. SIX Swiss Exchange approved the application on 22 October 2014. The delisting is scheduled to take place in the first quarter of 2015.

1.2 Disclosure notifications of significant shareholders

Pursuant to Article 20 of the Federal Act on Stock Exchanges and Securities Trading, there is a duty to disclose shareholdings where a person or group subject to the disclosure obligation reaches, exceeds or falls below 3, 5, 10, 15, 20, 25, $33^{1/3}$, 50 or $66^{2/3}$ per cent of the voting rights of Swisscom Ltd.
In the year under review, no participations subject to the disclosure obligation were reported to Swisscom Ltd. No disclosure notifications were therefore published on the disclosure and publication platform of the Disclosure Office of SIX Swiss Exchange. Information on significant shareholders can be found in Note 8 to the financial statements of Swisscom Ltd.

See report
page 207

1.3 Cross-shareholdings

No cross-shareholdings exist between Swisscom Ltd and other public limited companies.

2 Capital structure

2.1 Capital

At 31 December 2014, the share capital of Swisscom Ltd amounted to CHF 51,801,943, divided into registered shares with a nominal value of CHF 1 per share. The shares are fully paid up.

2.2 Authorised and conditional capital

There is no authorised or conditional share capital.

2.3 Changes in capital

The share capital was unchanged in the years 2012 to 2014. During this period, changes in shareholders' equity of Swisscom Ltd in the individual financial statements drawn up under Swiss commercial law were as follows:

In CHF million	Share capital	Capital surplus reserves	Retained earnings	Total equity
Balance at 1 January 2012	**52**	**21**	**4,462**	**4,535**
Net income	–	–	1,749	1,749
Dividends paid	–	–	(1,140)	(1,140)
Balance at 31 December 2012	**52**	**21**	**5,071**	**5,144**
Net income	–	–	239	239
Dividends paid	–	–	(1,140)	(1,140)
Balance at 31 December 2013	**52**	**21**	**4,170**	**4,243**
Net income	–	–	2,472	2,472
Dividends paid	–	–	(1,140)	(1,140)
Balance at 31 December 2014	**52**	**21**	**5,502**	**5,575**

The Annual General Meetings held on 4 April 2012, 4 April 2013 and 7 April 2014 approved an ordinary dividend of CHF 22 per share respectively.

2.4 Shares and participation certificates

Each registered share of Swisscom Ltd has a par value of CHF 1. Each share entitles the holder to one vote. Shareholders may only exercise their voting right, however, if they have been entered with voting rights in the share register of Swisscom Ltd. All registered shares with the exception of treasury shares held by Swisscom are eligible for a dividend. There are no preferential rights. For further details, see section 6 "Shareholders' participation rights".
Registered shares of Swisscom Ltd are not issued in certificate form, but are held as book-entry securities in the depositary holdings of SIX SIS AG, up to a maximum limit determined by the Swiss Confederation. Shareholders may at any time request confirmation of the registered shares they hold. However, they have no right to request the printing and delivery of certificates for their shares (registered shares with no right to printed certificates).
Swisscom Ltd has issued no participation certificates.

2.5 Profit-sharing certificates

Swisscom Ltd has issued no profit-sharing certificates.

2.6 Limitations on transferability and nominee registrations

Swisscom shares are freely transferable, and the voting rights of the shares registered in the share register in accordance with the Articles of Incorporation are not subject to any special restrictions. The statutory provisions on restricted transferability are described in section 6.1 "Voting right restrictions and proxies".

Swisscom has issued special regulations governing the registration of trustees and nominees in the share register. To facilitate tradability of the company's shares on the stock exchange, the Articles of Incorporation allow the Board of Directors, by means of regulations or agreements, to permit the fiduciary entry of registered shares with voting rights by trustees and nominees exceeding the threshold of 5%, provided they disclose their trustee capacity. In addition, they must be subject to supervision by a banking or financial market supervisory authority or otherwise provide the necessary assurance of acting for the account of one or more unrelated parties. They must also be able to provide evidence of the names, addresses and holdings of the beneficial owners of the shares. In accordance with this provision in the Articles of Incorporation, which can be revised with an absolute majority of the voting shares cast, the Board of Directors has issued regulations governing the entry of trustees and nominees in the Swisscom Ltd share register. The entry of trustees and nominees as shareholders with voting rights is subject to application and the conclusion of an agreement specifying the entry restrictions and disclosure obligations of the trustee or nominee. In particular, each trustee or nominee undertakes, within the limit of 5%, to request entry as a shareholder with voting rights for the account of an individual beneficial owner for no more than 0.5% of the registered share capital of Swisscom Ltd entered in the commercial register.

No exceptions for the fiduciary entry of registered shares with voting rights above the aforementioned percentage restriction were granted in the 2014 financial year.

2.7 Convertible bonds, debenture bonds and options

See report **page 177**

Swisscom has no convertible bonds outstanding. Details of the debenture bonds are given in Note 26 to the consolidated financial statements.

See report **page 162**

Swisscom does not issue options on registered shares of Swisscom Ltd to its employees. The Swisscom Ltd equity-share-based payments are described in Note 11 to the consolidated financial statements.

3 Board of Directors

3.1 Members of the Board of Directors

The Board of Directors of Swisscom Ltd currently comprises nine members, none of whom holds or has held an executive role within the Swisscom Group in any of the three business years prior to the period under review. The Board members have no significant commercial links with Swisscom Ltd or the Swisscom Group. The Swiss Confederation, represented on the Board by Hans Werder, is the majority shareholder. Customer and supplier relationships exist between the Swiss Confederation and Swisscom. Details of these are given in Note 37 to the consolidated financial statements.

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page 197

Members of the Board of Directors at 31 December 2014 are as follows:

Name	Year of birth	Function	Taking office at the Annual General Meeting	Appointed until Annual General Meeting
Hansueli Loosli [1, 2, 3, 4, 5]	1955	Chairman	2009	2015
Frank Esser [1]	1958	Member	2014	2015
Barbara Frei [7]	1970	Member	2012	2015
Hugo Gerber [2]	1955	Member, representative of the employees	2006	2015
Michel Gobet [1]	1954	Member, representative of the employees	2003	2015
Torsten G. Kreindl [3, 6]	1963	Member	2003	2015
Catherine Mühlemann [1]	1966	Member	2006	2015
Theophil Schlatter [3, 8]	1951	Deputy Chairman	2011	2015
Hans Werder [2, 3, 9]	1946	Member, representative of the Confederation	2011	2015

1 Member of the Finance Committee.
2 Member of the Audit Committee.
3 Member of the Remuneration Committee (Hansueli Loosli without voting rights).
4 Since 21 April 2009 Member of the Board of Directors, since 1 September 2011 Chairman.
5 Chairman of Nomination Committee (ad hoc).
6 Chairman of Finance Committee.
7 Chairwoman of Remuneration Committee.
8 Chairman of Audit Committee.
9 Designated by the Swiss Confederation.

3.2 Education, professional activities and affiliations

Details on the qualifications and career of each member of the Board of Directors are provided below. This section also discloses the mandates of each Board member outside the Group as well as other significant activities such as permanent functions in important interest groups.
Pursuant to the Articles of Incorporation, the Board members may perform no more than three additional mandates in listed companies and no more than ten additional mandates in non-listed companies, with a total of no more than ten such additional mandates being permitted. These numerical restrictions shall not apply to mandates performed by a Board member by order of Swisscom or to mandates in interest groups, charitable associations, institutions and foundations as well as employee benefit foundations. The number of these mandates is, however, limited to seven or ten. Prior to accepting new mandates outside the Swisscom Group, the Board members are obligated to consult the Chairman of the Board of Directors. Details on the regulation of external mandates, in particular the definition of the term "mandate" and information on other mandates that do not fall under the aforementioned numerical restrictions for listed and non-listed companies, are set out in the Articles of Incorporation (Article 8.3 of the Articles of Incorporation), which can be accessed on the Swisscom website under "Basic principles".
No member of the Board of Directors exceeds the set limits for mandates.

See **www.swisscom.ch/basicprinciples**

Hansueli Loosli
Swiss citizen
Education: Commercial apprenticeship; Swiss Certified Expert in Financial Accounting and Controlling
Career history: 1982–1985 Mövenpick Produktions AG, Adliswil, Controller and Deputy Director; 1985–1992 Waro AG, Volketswil, latterly as Managing Director; 1992–1996 Coop Switzerland, Wangen, Director of Non-Food Product Procurement; 1992–1997 Coop Zurich, Zurich, Managing Director; 1997–2000 Coop Switzerland, Basel, Chairman of the Executive Committee and Coop Group Executive Committee; January 2001–August 2011 Coop Genossenschaft, Basel, Chairman of the Executive Committee
Mandates in listed companies: Chairman of the Board of Directors, Bell AG, Basel
Mandates in non-listed companies: Chairman of the Board of Directors, Coop-Gruppe Genossenschaft, Basel; Chairman of the Board of Directors, Transgourmet Holding AG, Basel; Chairman of the Board of Directors, Coop Mineraloel AG, Allschwil; member of the Advisory Board, Deichmann SE, Essen; member of the Board of Directors, Heinrich Benz AG, Weiach
Mandates by order of Swisscom: Member of the Board of Directors and Executive Committee of economiesuisse
Mandates in interest groups, charitable associations, institutions and foundations as well as employee benefit foundations: –
Other significant activities: –

Frank Esser
German citizen
Education: PhD in business administration, Dr. rer. pol.
Career history: 1988–2000 Mannesmann Deutschland, latterly from 1996 as a member of the Executive Board, Mannesmann Eurokom; 2000-2005 Société Française Radiotéléphonie (SFR), Chief Operating Officer (COO), from 2002 CEO; 2005–2012 Vivendi Group, member of the Group Executive Board
Mandates in listed companies: Member of the Board of Directors, AVG Technologies N.V., Amsterdam; member of the Supervisory Board, Rentabiliweb Group S.A.S., Brussels; member of the Board of Directors, InterXion Holding N.V., Amsterdam, since June 2014
Mandates in non-listed companies: –
Mandates by order of Swisscom: –
Mandates in interest groups, charitable associations, institutions and foundations as well as employee benefit foundations: –
Other significant activities: –

Barbara Frei

Swiss citizen

Education: Degree in mechanical engineering, ETH; doctorate (Dr. sc. techn.), ETH; Master of Business Administration, IMD Lausanne

Career history: Since 1998 various managerial positions in the ABB Group, in particular 2008–2010 ABB s.r.o., Prague, Country Manager; 2010–2013 ABB S.p.A., Sesto San Giovanni, Country Manager and Regional Manager Mediterranean; since November 2013 Drives and Control Unit, Managing Director

Mandates in listed companies: –

Mandates in non-listed companies: Member of the Board of Directors, ABB Beijing Drive Systems Co. Ltd., Beijing

Mandates by order of Swisscom: –

Mandates in interest groups, charitable associations, institutions and foundations as well as employee benefit foundations: –

Other significant activities: –

Hugo Gerber

Swiss citizen

Education: Diploma in postal services; IMAKA management programme; diploma in personnel and organisational development, Solothurn University of Applied Sciences, Northwestern Switzerland

Career history: 1986–1990 Swiss Association of Christian Postal Workers (ChPTT), Central Secretary; 1991–1999 Association of the unions of the Christian transport and government personnel (VGCV), General Secretary; 2000–2003 Transfair Union, General Secretary; 2003–2008 Transfair Union, Chairman; since 2009 independent consultant; July to December 2014 Federal Administrative Court, St. Gallen, Deputy Head of Human Resources on an ad interim basis

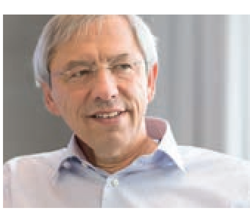
Mandates in listed companies: –

Mandates in non-listed companies: Member of the Board of Directors, POSCOM Ferien Holding AG, Berne

Mandates by order of Swisscom: –

Mandates in interest groups, charitable associations, institutions and foundations as well as employee benefit foundations: Member of the Board of Trustees, RUAG Pension Fund, Berne

Other significant activities: Member of the Board of Directors, Worklink AG, Berne



Michel Gobet

Swiss citizen

Education: Degree in history

Career history: PTT Union, General Secretary and Deputy General Secretary; since 1999 syndicom Trade Union, Central Secretary

Mandates in listed companies: –

Mandates in non-listed companies: Member of the Board of Directors, Swiss Post Ltd, Berne; member of the Board of Directors, GDZ AG, Zurich; member of the Board of Directors, Swiss Travel Fund (Reka) Cooperative, Berne

Mandates by order of Swisscom: –

Mandates in interest groups, charitable associations, institutions and foundations as well as employee benefit foundations: –

Other significant activities: Member of the World Executive Committee, the European Executive Committee and the European ICTS Steering Committee, UNI Global Union, Nyon

Torsten G. Kreindl

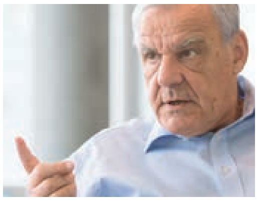
Austrian citizen
Education: Doctorate in industrial engineering (Dr. techn.)
Career history: Chemie Holding AG; W. L. Gore & Associates Inc.; Booz Allen & Hamilton, member of the Management Board, Germany; 1996–1999 Deutsche Telekom AG CEO, Broadband Cable Business, and CEO, MSG Media Services; 1999–2005 Copan Inc., Partner; since 2005, Grazia Group Equity GmbH, Stuttgart, Germany, Partner
Mandates in listed companies: Independent Director of Hays plc, London
Mandates in non-listed companies: Member of the Supervisory Board, Pictet Digital Communications/Pictet Fund Management, Geneva; member of the Board of Directors, Starboard Storage Systems Inc., Boulder, Colorado, USA
Mandates by order of Swisscom: –
Mandates in interest groups, charitable associations, institutions and foundations as well as employee benefit foundations: –
Other significant activities: –

Catherine Mühlemann

Swiss citizen
Education: Lic. phil I; Swiss Certified PR Consultant
Career history: 1994–1997 Swiss Television DRS, Head of Media Research; 1997–1999 SF1 and SF2, programme researcher; 1999–2001 TV3, programme director; 2001–2003 MTV Central, Managing Director; 2003–2005 MTV Central & Emerging Markets, Managing Director; 2005–2008 MTV Central & Emerging Markets and Viva Media AG (Viacom), Managing Director; since 2008 Andmann Media Holding GmbH, Baar, partner, until December 2012 owner
Mandates in listed companies: –
Mandates in non-listed companies: Member of the Supervisory Board, Messe Berlin GmbH, until June 2014; member of the Board of Directors of Switzerland Tourism; member of the Supervisory Board, Tele Columbus AG, Berlin, since September 2014
Mandates by order of Swisscom: –
Mandates in interest groups, charitable associations, institutions and foundations as well as employee benefit foundations: –
Other significant activities: –

Theophil Schlatter

Swiss citizen
Education: Degree in business administration (lic. oec. HSG); Swiss Certified Public Accountant
Career history: 1979–1985 STG Coopers & Lybrand, public accountant; 1985–1991 Holcim Management und Beratung AG, controller; 1991–1995 Sihl Papier AG, CFO and member of the Executive Committee; 1995–1997 Holcim (Switzerland) Ltd, Head of Finance/Administration and member of the Executive Committee; 1997–March 2011 Holcim Ltd., CFO and member of the Group Executive Board
Mandates in listed companies: –
Mandates in non-listed companies: Chairman of the Board of Directors, PEKAM AG, Mägenwil; member of the Board of Directors, Schweizerische Cement-Industrie-Aktiengesellschaft, Rapperswil-Jona
Mandates by order of Swisscom: –
Mandates in interest groups, charitable associations, institutions and foundations as well as employee benefit foundations: –
Other significant activities: –



Hans Werder
Swiss citizen
Education: Dr. rer. soc.; lic. iur.
Career history: 1987–1996 Berne Directorate of Public Works, Transport and Energy (BVE), General Secretary; 1996–2010 Federal Department of the Environment, Transport, Energy and Communications (DETEC), General Secretary
Mandates in listed companies: –
Mandates in non-listed companies: Member of the Board of Directors, BLS AG, Berne
Mandates by order of Swisscom: –
Mandates in interest groups, charitable associations, institutions and foundations as well as employee benefit foundations: –
Other significant activities: –

3.3 Composition, election and term of office

With the exception of the representative of the Swiss Confederation, the Board of Directors of Swisscom Ltd is elected by shareholders at the Annual General Meeting. Under the terms of the Articles of Incorporation it may comprise between seven and nine members, and, if necessary, the number can be increased temporarily. It currently comprises nine members. The Annual General Meeting elects the members and the Chairman of the Board of Directors and the members of the Compensation Committee individually for a term of one year. The term of office runs until the conclusion of the following Annual General Meeting. It is possible to be re-elected. If the office of the Chairman is vacant or the number of members of the Compensation Committee falls below the minimum number of three members, the Board of Directors nominates a chairman from among its members or appoints the missing member(s) of the Compensation Committee to serve until the conclusion of the next Annual General Meeting. Otherwise, the Board of Directors constitutes itself. The maximum term of office for members elected by the Annual General Meeting is generally a total of twelve years. Members who reach the age of 70 retire from the Board as of the date of the next Annual General Meeting.
Under the Articles of Incorporation of Swisscom Ltd, the Swiss Confederation is entitled to appoint two representatives to the Board of Directors of Swisscom Ltd. Hans Werder is currently the sole representative. The maximum term of office or age limit for the federal representative is determined by the Federal Council. Under the terms of the Telecommunications Enterprise Act (TEA), employees must be granted appropriate representation on the Board of Directors of Swisscom Ltd. The Articles of Incorporation also stipulate that the Board of Directors must include two employee representatives. These are currently Hugo Gerber and Michel Gobet.

3.4 Internal organisation

The Board of Directors is convened by the Chairman and meets as often as business requires. If the Chairman is unavailable, the meeting is convened by the Vice Chairman. The CEO and CFO Swisscom Ltd are regularly invited to the meetings of the Board of Directors. The Chairman sets the agenda. Any Board member may request the inclusion of further items on the agenda. Board members receive documents prior to the meeting to allow them to prepare for the items on the agenda. The Board of Directors may invite members of the Group Executive Board, senior employees of Swisscom, auditors or other internal and external experts to attend its meetings on specific issues in order to ensure appropriate reporting to members of the Board. Furthermore, the Chairman of the Board of Directors and the CEO report to each meeting of the Board of Directors on particular events, on the general course of business and major business transactions, as well as on any measures that have been implemented.

The Board of Directors has three standing committees and one ad hoc committee tasked with carrying out detailed examinations of matters of importance. The committees usually consist of three to six members. Each member of the Board of Directors also sits on at least one of the standing committees. Subject to being appointed to the Compensation Committee (without voting rights), the Chairman is a member of all standing committees; they all are chaired by other Board members, however. The latter brief the Board of Directors on the committee meetings held. All members of the Board of Directors also receive copies of all Finance and Audit Committee meeting minutes. The duties and responsibilities of the Board of Directors are defined in the Organisational Regulations, those of the standing committees in the relevant committee regulations, which can be accessed on the Swisscom website under "Basic principles".

See **www.swisscom.ch/basicprinciples**

The Board of Directors and the committees conduct self-assessments, usually once a year. New members are given a task-specific introduction to their new activity. The Board of Directors supports ongoing education for Board members. A one-day mandatory training course was held at the beginning of 2014. Each quarter, the members of the Board of Directors also had the opportunity to explore in-depth the upcoming challenges facing the Group and business divisions as part of so-called company experience days. In addition, various members of the Board of Directors attended selected presentations and seminars during the year. Wherever possible, the Board of Directors attends the Swisscom Group's annual management meeting.

The following table gives an overview of the Board of Directors' meetings, conference calls and circular resolutions taken in 2014.

	Meetings	Conference calls	Circular resolutions
Total	10	3	1
Average duration (in hours)	8:10	0:50	–
Participation:			
Hansueli Loosli, Chairman	10	3	1
Frank Esser [1]	7	2	1
Barbara Frei	10	3	1
Hugo Gerber	10	3	1
Michel Gobet	10	3	1
Torsten G. Kreindl	10	3	1
Catherine Mühlemann	9	3	1
Richard Roy [2]	3	1	–
Theophil Schlatter	10	3	1
Hans Werder	10	3	1

[1] Elected as of 7 April 2014.
[2] Resigned as of 7 April 2014.

3.5 Committees of the Board of Directors

Finance Committee

Torsten G. Kreindl is Chairman of the Finance Committee; the other members are Frank Esser, Michel Gobet, Hansueli Loosli and Catherine Mühlemann. The CEO, CFO and the Head of Group Strategy & Board Services usually attend meetings of the Finance Committee. Depending on the agenda, other members of the Group Executive Board, the Management Boards of the strategic Group companies or project managers are also called upon to attend the meetings. The Committee prepares materials for the attention of the Board of Directors on transaction-related matters, for example, in connection with establishing or dissolving significant Group companies, acquiring or disposing of significant shareholdings, or entering into or terminating strategic alliances. The Committee also acts in an advisory capacity on matters relating to major investments and divestments. The Finance Committee has the ultimate decision-making authority when it comes to approving rules of procedure and directives in the areas of Mergers & Acquisitions and Corporate Venturing. Details of the Committee's activities are set out in the Finance Committee Rules of Procedure, which can be accessed on the Swisscom website under "Basic principles".

See **www.swisscom.ch/basicprinciples**

The following table gives an overview of the Finance Committee's meetings, conference calls and circular resolutions taken in 2014.

	Meetings	Conference calls	Circular resolutions
Total	3	–	–
Average duration (in hours)	2:50	–	–
Participation:			
Torsten G. Kreindl, Chairman	3	–	–
Frank Esser [1]	2	–	–
Michel Gobet	3	–	–
Hansueli Loosli	3	–	–
Catherine Mühlemann	3	–	–

[1] Elected as of 7 April 2014.

Audit Committee

The Audit Committee is chaired by Theophil Schlatter, who is a financial expert; other members are Hugo Gerber, Hansueli Loosli and Hans Werder, representative of the Swiss Confederation. The CEO, CFO, Head of Accounting, Head of Internal Audit and the external auditors also attend the Audit Committee meetings. Depending on the agenda, other management members are called upon to attend. The Audit Committee is also authorised to involve independent third parties such as lawyers, public accountants and tax consultants. The members of the Audit Committee neither work nor have worked for Swisscom in an executive capacity, nor do they maintain any significant commercial links with Swisscom Ltd or the Swisscom Group. Customer and supplier relationships exist between the Swiss Confederation and Swisscom. Details of these are given in Note 37 to the consolidated financial statements. The majority of members are experienced in the fields of finance and accounting.

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The Audit Committee handles all financial management business (for example, accounting, financial controlling, financial planning and financing), assurance (risk management, the internal control system, compliance and the internal audit) and the external audit. It also handles matters dealt with by the Board of Directors that call for specific financial expertise (the dividend policy, for example). The Committee is therefore the Board of Directors' most important controlling instrument and is responsible for monitoring the Group-wide assurance functions. It formulates positions on business matters which lie within the decision-making authority of the Board of Directors and has the final say on those business matters for which it has the corresponding competence. Details of the Committee's activities are set out in the Audit Committee Rules of Procedure, which can be accessed on the Swisscom website under "Basic principles".

See **www.swisscom.ch/basicprinciples**

The following table gives an overview of the Audit Committee's meetings, conference calls and circular resolutions taken in 2014.

	Meetings	Conference calls	Circular resolutions
Total	5	–	–
Average duration (in hours)	5:20	–	–
Participation:			
Theophil Schlatter, Chairman	5	–	–
Hugo Gerber	5	–	–
Hansueli Loosli	5	–	–
Richard Roy [1]	1	–	–
Hans Werder	5	–	–

[1] Resigned as of 7 April 2014.

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Compensation Committee

For information on the Compensation Committee, refer to the section "Remuneration Report".

Nomination Committee

The Nomination Committee is formed on an ad hoc basis for the purpose of preparing the groundwork for electing new members to the Board of Directors and the Group Executive Board. The Committee is presided over by the Chairman and the composition is determined on a case-by-case basis. The Committee carries out its work based on a specific requirements profile defined by the Board of Directors and presents suitable candidates to the Board of Directors. The Board of Directors elects the members of the Group Executive Board or submits the proposal for presentation to the Annual General Meeting for the election and approval of members of the Board of Directors. No Nomination Committee meetings were held in the 2014 financial year.

3.6 Assignment of powers of authority

The Telecommunications Enterprise Act (TEA) makes reference to the Swiss Code of Obligations in respect of the non-transferable and irrevocable duties of the Board of Directors of Swisscom Ltd. Pursuant to Article 716a of the Code of Obligations, the Board of Directors is responsible first and foremost for the overall management and supervision of persons entrusted with managing the company's operations.

See www.swisscom.ch/targets_2014-2017

It decides on the appointment and removal of members of the Group Executive Board of Swisscom Ltd. The Board of Directors also determines the strategic, organisational, financial planning and accounting guidelines, taking into account the four-year targets set by the Federal Council in accordance with the provisions of the Telecommunications Enterprise Act (TEA) and the will of the Swiss Confederation in its role as principal shareholder.

The Board of Directors has delegated day-to-day business management to the CEO in accordance with the TEA, the Articles of Incorporation and the Organisational Regulations. In addition to its statutory duties, the Board of Directors decides on business transactions of major importance to the Group, such as the acquisition or disposal of companies with a financial exposure in excess of CHF 20 million, or investments or divestments with a financial exposure in excess of CHF 50 million.

See www.swisscom.ch/basicprinciples

The division of powers between the Board of Directors and the CEO is set out in annex 2 to the Organisational Regulations (see function table in the Rules of Procedure and Accountability), which can be accessed on the Swisscom website under "Basic principles".

3.7 Information instruments of the Board of Directors vis-à-vis the Group Executive Board

The Chairman of the Board of Directors and the CEO meet once or twice a month to discuss fundamental issues concerning Swisscom Ltd and its Group companies. The CEO also reports in detail at each ordinary meeting of the Board of Directors on the general course of business, major events and any measures taken. The Board of Directors also receives a monthly report on all key performance indicators relating to the Group and all segments containing important Group companies. In addition, the Board of Directors receives quarterly detailed information on the course of business and on the financial position, results of operations, cash flows and risk position of the Group and the segments. It also receives projections for the income statement, cash flow statement and balance sheet for the current financial year. Internal financial reporting is carried out in accordance with the same accounting principles and standards as external reporting. Reporting also includes key non-financial information for controlling and steering purposes. Each member of the Board of Directors is entitled to request information on any matters relating to the Group at any time, provided this does not conflict with any abstention provisions or confidentiality obligations. The Board of Directors is informed immediately of any events of an exceptional nature.
The Board of Directors deals with the oral and written reports of the assurance functions of risk management, the financial reporting internal control system (ICS) and compliance management once a year. The Audit Committee examines the reports of the Risk Management unit, the ICS and Internal Audit on a quarterly basis. In urgent cases the Chairman of the Audit Committee is informed without delay about any significant new risks. He is also informed in a timely manner if there is a significant change in assessed compliance or ICS risks or if serious breaches in compliance (including violation of rules that are designed to ensure reliable financial reporting) are detected or currently being investigated.

3.8 Controlling instruments of the Board of Directors vis-à-vis the Group Executive Board

The Board of Directors is responsible for establishing and monitoring the Group-wide assurance functions of risk management, the internal control system, compliance and internal audit.

3.8.1 Risk management

The Board of Directors aims to safeguard the company's enterprise value through the implementation of Group-wide risk management. A risk-aware corporate culture is designed to support the achievement of this objective. Swisscom has therefore implemented a Group-wide and central risk management system based on COSO II and ISO 31000. It maintains level-appropriate and comprehensive reporting and appropriate documentation. The objective is to identify, assess and address significant risks in good time. To this end, the central Risk Management unit collaborates closely with the Controlling department, the Strategy department, other assurance functions and line functions. Swisscom assesses its risks according to their probability of occurrence and their quantitative effects in the event of occurrence. It manages these risks on the basis of a risk strategy and evaluates the risks in terms of their impact on key performance indicators reported by Swisscom. Swisscom reviews and updates its risk profile on a quarterly basis. The Audit Committee and the Group Executive Board are informed about significant risks, their potential effects and the status of remedial measures on a quarterly basis, and the Board of Directors on an annual basis. Significant risk factors are described in the Risks section of the Management Commentary.

See report
pages 86–87

3.8.2 Financial reporting internal control system

The internal control system (ICS) ensures the reliability of financial reporting with an appropriate degree of assurance. It acts to prevent, uncover and correct substantial errors in the consolidated financial statements, the financial statements of the Group companies and the Remuneration Report. The ICS encompasses the following internal control components: control environment, assessment of financial statement accounting risks, control activities, monitoring activities, information and communication. A central ICS team assigned to Group Business Steering and Internal Audit periodically monitors the existence and effectiveness of the ICS. Significant shortcomings in the ICS identified during the monitoring activities are reported together with the corrective measures in a status report to the Audit Committee on a quarterly basis and to the Board of Directors on an annual basis. Corrective measures to remedy shortcomings are monitored centrally. The Audit Committee assesses the performance and reliability of the ICS on the basis of the periodic reporting.

3.8.3 Compliance management

The Board of Directors has set the objective of protecting the Swisscom Group, its executive bodies and employees against legal sanctions, financial losses and reputational damage by ensuring Group-wide compliance. A corporate culture which promotes the willingness to behave in a way that complies with the relevant regulations should support the achievement of this objective. Swisscom has therefore implemented a Group-wide and central compliance system based on COSO II and IDW PS 980 (principles for the proper auditing of compliance management systems, 2011). Within the framework of the system, Group Compliance each year identifies areas of legal compliance using a risk-based approach which require monitoring by the central system. Within these areas of legal compliance, the business activities of the Group companies are reviewed in a periodic and proactive manner in order to identify risks in good time and determine the required measures. The employees affected are informed of these measures and their implementation is monitored. The suitability and effectiveness of the system is reviewed annually by Group Compliance. Within the Health business division (Curabill) of Swisscom Switzerland Ltd and in the area of billing for added-value services, an audit of the implemented measures is also performed by external auditors (financial intermediation). Group Compliance informs the Risk Management unit of identified significant risks on a quarterly basis and reports to the Audit Committee and the Board of Directors each year on its activities and risk assessments. Should there be significant changes in the risk assessment or if serious breaches are identified, the Chairman of the Audit Committee is informed in a timely manner.

3.8.4 Internal auditing

Internal auditing is carried out by the Internal Audit unit. Internal Audit supports the Swisscom Ltd Board of Directors and its Audit Committee in fulfilling their statutory and regulatory supervisory and controlling obligations. Internal Audit also supports management by highlighting areas of potential for improving business processes. It documents the audit findings and monitors the implementation of measures.

Internal Audit is responsible for planning and performing audits throughout the Group in compliance with professional auditing standards. It conducts an objective evaluation and audit of the appropriateness, efficiency and effectiveness of, in particular, the governance and control systems of the operational processes as well as the assurance functions of risk management, the internal control system and compliance management in all organisational units of the Swisscom Group.

Internal Audit possesses maximum independence. Organisationally it is under the control of the Chairman of the Board of Directors and reports to the Audit Committee. At its meetings, and at least on a quarterly basis, the Audit Committee is briefed on audit findings and the status of any corrective measures implemented. In addition to ordinary reporting, Internal Audit also informs the Audit Committee of any irregularities which come to its attention.

Internal Audit liaises closely and exchanges information with the external auditors. The external auditors have unrestricted access to the audit reports and audit documents of Internal Audit. Internal Audit closely coordinates audit planning with the external auditors. The integrated strategic audit, which includes the coordinated annual plan of both the internal and external auditors, is prepared annually on the basis of a risk analysis and presented to the Audit Committee for approval. Independently of this audit, the Audit Committee can commission special audits based on information received on the whistle-blowing platform operated by Internal Audit. This reporting procedure approved by the Audit Committee ensures the anonymous and confidential receipt and handling of objections raised relating to external reporting, financial reporting and assurance function issues. The Chairman of the Board of Directors and the Chairman of the Audit Committee are informed of notifications received and a report is drawn up at least once a year for the Audit Committee.

4 Group Executive Board

4.1 Members of the Group Executive Board

In accordance with the Articles of Incorporation, the Group Executive Board must comprise one or more members who may not simultaneously be members of the Board of Directors of Swisscom Ltd. Temporary exceptions are only permitted in exceptional cases. Accordingly, the Board of Directors has delegated responsibility for overall executive management of Swisscom Ltd to the CEO. The CEO is entitled to delegate his powers to subordinates, in the first instance to other members of the Group Executive Board. The members of the Group Executive Board are appointed by the Board of Directors.

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The Group Executive Board is composed of the CEO Swisscom Ltd, the heads of the Group divisions Group Business Steering and Group Human Resources, and the heads of the divisions Residential Customers, Small and Medium-Sized Enterprises, Enterprise Customers and IT, Network & Innovation.

An overview of the composition of the Group Executive Board at 31 December 2014 is given below. Andreas König, the former Head of Enterprise Customers, left the Group Executive Board at the end of March 2014.

Name	Year of birth	Function	Appointed as of
Urs Schaeppi [1]	1960	CEO Swisscom Ltd	November 2013
Mario Rossi [2]	1960	CFO Swisscom Ltd	January 2013
Hans C. Werner	1960	CPO Swisscom Ltd	September 2011
Marc Werner	1967	Head of the division Residential Customers	January 2014
Roger Wüthrich-Hasenböhler [3]	1961	Head of the division Small and Medium-Sized Enterprises	January 2014
Christian Petit [4]	1963	Head of the division Enterprise Customer	April 2014
Heinz Herren [4]	1962	Head of the division IT, Network & Innovation	January 2014

[1] Since 2006 member of the Group Executive Board, from July to November 2013 CEO ad interim.
[2] From March 2006 to December 2007 CFO Swisscom Ltd and member of the Group Executive Board.
[3] From January 2011 to December 2012 member of the Group Executive Board.
[4] From August 2007 to December 2012 member of the Group Executive Board.

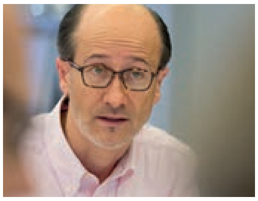
4.2 Education, professional activities and affiliations

Details of career and qualifications are provided below for each member of the Group Executive Board. This section also discloses the mandates of each Group Executive Board member outside the Group as well as other significant activities such as permanent functions in important interest groups. Pursuant to the Articles of Incorporation, the members of the Group Executive Board may perform no more than one additional mandate at a listed company and no more than two additional mandates at non-listed companies, with a total of no more than two such additional mandates being permitted. Mandates performed by a member of the Group Executive Board by order of Swisscom or mandates in interest groups, charitable associations, institutions and foundations as well as employee benefit foundations are not subject to these numerical restrictions. The number of these mandates is, however, limited to ten or seven respectively. Prior to accepting new mandates outside the Swisscom Group, the members of the Group Executive Board are obligated to obtain the approval of the Chairman of the Board of Directors. Details on the regulation of external mandates, in particular the definition of the term "mandate" and information on other mandates that do not fall under the aforementioned numerical restrictions for listed and non-listed companies, are set out in the Articles of Incorporation (Article 8.3 of the Articles of Incorporation), which can be accessed on the Swisscom website under "Basic principles".
No member of the Group Executive Board exceeds the set limits for mandates.

See
www.swisscom.ch/basicprinciples

Urs Schaeppi
Swiss citizen
Education: Degree in engineering (Dipl. Ing. ETH) and business administration (lic. oec. HSG)
Career history: 1994–1998 Papierfabrik Biberist, plant manager; 1998–2006 Swisscom Mobile, Head of Commercial Business and member of the Executive Board; 2006–2007 Swisscom Solutions Ltd, CEO; 2007–August 2013 Swisscom (Switzerland) Ltd, Head of Corporate Business division; January–December 2013 Swisscom (Switzerland) Ltd, Head; 23 July–6 November 2013 Swisscom Ltd, CEO ad interim; since 7 November 2013 CEO
Since March 2006 member of the Swisscom Group Executive Board
Mandates in listed companies: –
Mandates in non-listed companies: –
Mandates by order of Swisscom: Member of the Executive Board, Association Suisse des Télécommunications (asut), Berne; member of the Advisory Board, Venture Foundation, Windisch, since May 2014; member of the Foundation Board, IMD International Institute for Management Development, Lausanne, from January 2015
Mandates in interest groups, charitable associations, institutions and foundations as well as employee benefit foundations: –
Other significant activities: Member of the Board of Directors, Swiss-American Chamber of Commerce, Zurich, since June 2014; member of the Executive Board, Glasfasernetz Schweiz, Berne, since June 2014

Mario Rossi
Swiss citizen
Education: Commercial apprenticeship; dipl. Certified Public Accountant
Career history: 1998–2002 Swisscom Ltd, Head of Group Controlling; 2002–2006 Swisscom Fixnet Ltd, Chief Financial Officer (CFO); 2006–2007 Swisscom Ltd, CFO and member of the Group Executive Board; 2007–2009 Fastweb S.p.A., CFO; 2009–2012 Swisscom (Switzerland) Ltd, CFO; since January 2013 Swisscom Ltd, CFO
Since January 2013 member of the Swisscom Group Executive Board
Mandates in listed companies: –
Mandates in non-listed companies: –
Mandates by order of Swisscom: Vice President of the Board of Trustees, comPlan, Baden, until December 2014; President of the Board of Trustees, comPlan, from January 2015
Mandates in interest groups, charitable associations, institutions and foundations as well as employee benefit foundations: –
Other significant activities: Member of the Sanctions Committee, SIX Swiss Exchange Ltd, Zurich



Hans C. Werner

Swiss citizen

Education: PhD in business administration, Dr oec.

Career history: 1997–1999 Kantonsschule Büelrain, Winterthur, Rector; 1999–2000 Swiss Re, Head of Technical Training and Business Training; 2001 Swiss Re, Divisional Operation Officer, Reinsurance & Risk Division; 2002–2003 Swiss Re, Head of HR Corporate Centre and HR Shared Services; 2003–2007 Swiss Re, Head of Global Human Resources; 2007–2009 Schindler Aufzüge AG, Head of HR and Training; 2010–2011 Europe North and East Schindler, HR Vice President; since September 2011 Swisscom Ltd, Chief Personnel Officer (CPO)

Since September 2011 member of the Swisscom Group Executive Board

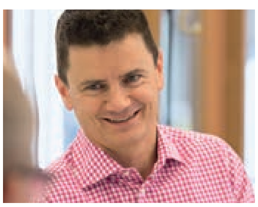
Mandates in listed companies: –

Mandates in non-listed companies: –

Mandates by order of Swisscom: Member of the Board, Swiss Employer's Association, Zurich; member of the Board of Trustees, comPlan, Basel

Mandates in interest groups, charitable associations, institutions and foundations as well as employee benefit foundations: –

Other significant activities: Member of the Advisory Board of the International Institute of Management in Technology (iimt) at the University of Fribourg



Marc Werner

Swiss and French citizen

Education: Technical apprenticeship with Maturity Certificate, Swiss Certified Marketing Executive; Senior Management Programme (University of St. Gallen), Senior Executive Programme (London Business School)

Career history: 1997–2000 Minolta (Schweiz) AG, Head of Marketing and Sales and member of the Board of Directors; 2000–2004 Bluewin AG, Head of Marketing & Sales, member of the Executive Board; 2005–2007 Swisscom Fixnet Ltd, Head of Marketing & Sales Residential Customers; 2008–2011 Swisscom (Switzerland) Ltd, Head of Marketing & Sales Residential Customers and Deputy Head of Residential Customers; 2012–2013 Swisscom (Switzerland) Ltd, Head of Customer Service Residential Customers and Deputy Head of Residential Customers; since September 2013 Swisscom, Head of Residential Customers division

Since January 2014 member of the Swisscom Group Executive Board

Mandates in listed companies: –

Mandates in non-listed companies: Member of the Board of Directors, Net-Metrix AG, Zurich; Member of the Executive Board, simsa – Swiss Internet Industry Association, Zurich

Mandates by order of Swisscom: –

Mandates in interest groups, charitable associations, institutions and foundations as well as employee benefit foundations: –

Other significant activities: Member of the Executive Board, IAA (International Advertising Association) Swiss Chapter, Zurich, until April 2014; member of the Executive Board, Swiss Advertising Association (SW), Zurich, since May 2014

Roger Wüthrich-Hasenböhler
Swiss citizen
Education: Degree in electronic engineering (HTL), Executive MBA HSG
Career history: 1997–1999 Swisscom Ltd, Network Services, Head of Zurich branch; 1999–2000 Swisscom Ltd, Marketing & Sales, Sales Director Zurich SME; 2000–2005 Swisscom Mobile Ltd, Head of Business Customer Sales; 2006–2007 Swisscom Solutions Ltd, Head of Marketing and Sales; 2008–2010 Swisscom (Switzerland) Ltd, Head of Marketing and Sales, Swisscom Corporate Business, and CEO, Webcall GmbH; 2011–2013 Swisscom (Switzerland) Ltd, Head of Small and Medium-Sized Enterprises division; 2011-2012 Swisscom, member of the Group Executive Board; since January 2014 Swisscom, Head of Small and Medium-Sized Enterprises division
Since January 2014 member of the Swisscom Group Executive Board
Mandates in listed companies: –
Mandates in non-listed companies: Member of the Board of Directors, Raiffeisenbank am Ricken Genossenschaft, Eschenbach
Mandates by order of Swisscom: Member of the Board of Directors, basecamp4hightech (bc4ht) cooperative, Berne
Mandates in interest groups, charitable associations, institutions and foundations as well as employee benefit foundations: –
Other significant activities: –

Christian Petit
French citizen
Education: MBA ESSEC, Cergy-Pontoise
Career history: 1993–1999 debitel France; 2000–2003 Swisscom Mobile Ltd, Head of Operations; 2003–2006 Swisscom Mobile, Head of Product Marketing; 2006–June 2007 Hospitality Services Plus SA, CEO; August 2007–December 2012 Swisscom, member of the Group Executive Board; August 2007–August 2013 Swisscom (Switzerland) Ltd, Head of Residential Customers division; September 2013–December 2013 Swisscom (Switzerland) Ltd, Head of Corporate Business division; January–March 2014 Swisscom (Switzerland) Ltd, Head of the Enterprise Solution Center; since April 2014 Swisscom, Head of Enterprise Customers division
Since April 2014 member of the Swisscom Group Executive Board
Mandates in listed companies: –
Mandates in non-listed companies: –
Mandates by order of Swisscom: Member of the Board of Trustees, Stiftung IT Berufsbildung Schweiz, Berne
Mandates in interest groups, charitable associations, institutions and foundations as well as employee benefit foundations: –
Other significant activities: –

Heinz Herren
Swiss citizen
Education: Degree in electronic engineering (HTL)
Career history: 1994–2000 3Com Corporation; 2000 Inalp Networks Inc.; 2001–2005 Swisscom Fixnet Ltd, Head of Marketing Wholesale; 2005–2007 Swisscom Fixnet Ltd, Head of Small and Medium-Sized Enterprises; 2007–2010 Swisscom (Switzerland) Ltd, Head of Small and Medium-Sized Enterprises division; 2011–2013 Swisscom (Switzerland) Ltd, Head of Network & IT; August 2007–December 2012 Swisscom, member of the Group Executive Board; since January 2014 Swisscom, Head of IT, Network & Innovation division
Since January 2014 member of the Swisscom Group Executive Board
Mandates in listed companies: –
Mandates in non-listed companies: –
Mandates by order of Swisscom: Member of the Board of Directors, Belgacom International Carrier Services S.A., Brussels
Mandates in interest groups, charitable associations, institutions and foundations as well as employee benefit foundations: –
Other significant activities: –

4.3 Management agreements

Neither Swisscom Ltd nor any of the Group companies included in the scope of consolidation have entered into management agreements with third parties.

5 Remuneration, shareholdings and loans

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page 115

All information on the remuneration of the Board of Directors and the Group Executive Board of Swisscom Ltd is provided in the separate Remuneration Report.

6 Shareholders' participation rights

6.1 Voting right restrictions and proxies

Each registered share entitles the holder to one vote. Voting rights can only be exercised if the shareholder is entered in the share register of Swisscom Ltd with voting rights. The Board of Directors may refuse to recognise an acquirer of shares as a shareholder or beneficial holder with voting rights if the latter's total holding, when the new shares are added to any voting shares already registered in its name, would then exceed the limit of 5% of all registered shares entered in the commercial register. The acquirer is entered in the register as a shareholder or beneficial holder without voting rights for the remaining shares. This restriction on voting rights also applies to registered shares acquired through the exercise of subscription, option or conversion rights. A Group clause applies to the calculation of the percentage restriction.
The 5% voting right restriction does not apply to the Swiss Confederation which, under the terms of the Telecommunications Enterprise Act (TEA), holds the capital and voting majority of Swisscom Ltd. The Board of Directors may also recognise an acquirer of shares with more than 5% of all registered shares as a shareholder or beneficial holder with voting rights, in particular in the following exceptional cases:

- Where shares are acquired as a result of a merger or business combination
- Where shares are acquired as a result of a non-cash contribution or an exchange of shares
- Where shares are acquired with a view to establishing a long-term partnership or strategic alliance

In addition to the percentage restriction on voting rights, the Board of Directors may refuse to recognise and enter as a shareholder or beneficial holder with voting rights any person acquiring shares who fails to expressly declare upon request that he/she has acquired the shares in his/her own name and for his/her own account or as beneficial holder. Should an acquirer of shares refuse to make such a declaration, he/she will be entered as a shareholder without voting rights.
In addition, where an entry has been made on the basis of false statements by the acquirer, the Board of Directors may, after consulting the party concerned, delete their share register entry as a shareholder with voting rights and enter him/her as a shareholder without voting rights. The acquirer must be notified of the deletion immediately.
The statutory restrictions on voting rights may be lifted by resolution by the Annual General Meeting, for which an absolute majority of valid votes cast would be required.
During the year under review, the Board of Directors did not recognise any acquirers of shares with more than 5% of all registered shares as a shareholder or beneficial holder with voting rights, did not reject any requests for recognition or registration and did not remove any shareholders with voting rights from the share register due to the provision of false data.

6.2 Statutory quorum requirements

The Annual General Meeting of Shareholders of Swisscom Ltd adopts its resolutions and holds its elections by the absolute majority of valid votes cast. Abstentions are not deemed to be votes cast. In addition to the specific quorum requirements under the Swiss Code of Obligations, the Articles of Incorporation require a two-thirds majority of the voting shares represented in the following cases:

- Introduction of restrictions on voting rights
- Conversion of registered shares to bearer shares and vice versa
- Change in the Articles of Incorporation concerning special quorums for resolutions

6.3 Convocation of the Annual General Meeting

The Board of Directors must convene the Annual General Meeting at least 20 days prior to the date of the meeting by means of an announcement in the Swiss Commercial Gazette. The meeting can also be convened by registered or unregistered letter to all registered shareholders.

6.4 Agenda items

Shareholders representing shares with a par value of at least CHF 40,000 may request that an item be placed on the agenda. This request must be submitted in writing to the Board of Directors at least 45 days prior to the Annual General Meeting, stating the agenda item and the proposal.

6.5 Representation at the Annual General Meeting

Shareholders may be represented at the Annual General Meeting by another shareholder with voting rights or by the independent proxy elected by the Annual General Meeting. Partnerships and legal entities may also be represented by authorised signatories, while minors and wards may be represented by their legal representative even if the latter is not a shareholder. The authorisation must be issued in writing. Once a shareholder has opened a shareholder account on the Sherpany Internet platform, the shareholder involved also authorise the independent proxy via this platform and issue instructions to him. Shareholders who are represented by a proxy may issue instructions for each agenda item and also for all unannounced agenda items and motions, stating whether they wish to vote for or against a motion or abstain. The independent proxy must cast the votes entrusted to him by shareholders according to their instructions. If it receives no instructions, it shall abstain. Abstentions are not deemed to be cast votes (Article 5.7.4 of the Articles of Incorporation).
The Articles of Incorporation do not include any regulations which differ from the OaEC as regards the appointment of the independent proxy, any statutory regulations on the issuing of instructions to the independent proxy or any statutory regulations with regard to electronic participation in the Annual General Meeting.

6.6 Registrations in the share register

Shareholders entered in the share register with voting rights are entitled to vote at the Annual General Meeting. The Board of Directors determines the relevant date, which shall lie a few days before the respective Annual General Meeting. As in previous years, the share register was not closed before the Annual General Meeting for the 2013 financial year that was held on 7 April 2014. Shareholders registered in the share register with voting rights by 4 p.m. on 2 April 2014 were entitled to vote.

7 Change of control and defensive measures

7.1 Duty to make an offer

Under the terms of the Telecommunications Enterprise Act (TEA), the Swiss Confederation must hold the majority of the capital and voting rights in Swisscom Ltd. This requirement is also set out in the Articles of Incorporation. There is thus no duty to submit a takeover bid as defined in the Federal Act on Stock Exchanges and Securities Trading, since this would contradict the TEA.

7.2 Clause on change of control

See report
page 115

Details on clauses on change of control are given in the section "Remuneration Report".

8 Auditor

8.1 Duration and term of office of the Auditor-in-charge

The statutory auditors are appointed annually by the Annual General Meeting. KPMG AG, Muri bei Bern, has acted as the statutory auditor of Swisscom Ltd and its Group companies (with the exception of Fastweb, which is audited by PriceWaterhouseCoopers S.p.A.) since 1 January 2004. Rolf Hauenstein of KPMG AG is responsible for the mandate as Auditor-in-charge (since 2011).

8.2 Audit fees

Fees for auditing services provided by KPMG AG in 2014 amounted to CHF 3,149 thousand (prior year: CHF 3,315 thousand). Fees for additional audit-related services amounted to CHF 548 thousand (prior year: CHF 675 thousand). PricewaterhouseCoopers S.p.A. as auditors for Fastweb received remuneration of CHF 785 thousand in 2014 (prior year: CHF 881 thousand) and fees for additional audit-related services provided to Fastweb in the amount of CHF 133 thousand (prior year: CHF 228 thousand).

8.3 Supplementary fees

Supplementary fees of KPMG AG for non-audit services (other services) amounted to CHF 635 thousand (prior year: CHF 583 thousand). The supplementary fees primarily comprise advisory services in connection with company takeover projects and tax consulting.

8.4 Supervision and controlling instruments vis-à-vis the auditors

The Audit Committee verifies the qualifications, independence and performance of the statutory auditors as a licensed, state-supervised auditing firm on behalf of the Board of Directors and submits proposals to the Board of Directors concerning auditors to be appointed or discharged by the Annual General Meeting. It is also responsible for observing the statutory rotation principle for the auditor-in-charge. The Audit Committee approves the integrated strategic audit plan, which includes the annual audit plan of both the internal and external auditors, and the annual fee for the auditing services provided to the Group and Group companies. The Audit Committee has drawn up guidelines for additional service mandates (including a list of prohibited services). In order to ensure independence, the Audit Committee (where the fee exceeds CHF 300,000) or the CFO of the local Group company must also approve additional assignments. The Audit Committee reports quarterly and the auditors annually on current mandates being performed by the auditors, broken down into audit services, audit-related services and non-audit services. The statutory auditors, represented by the Auditor-in-charge and his deputy, usually attend all Audit Committee meetings. They report to the Committee in detail on the conduct and results of their work, in particular regarding the annual financial statement audit. They submit a written report to the Board of Directors and the Audit Committee on the conduct and results of the audit of the annual financial statements, as well as on their findings with regard to accounting and the internal control system. The Chairman of the Audit Committee liaises closely with the Auditor-in-charge outside the meetings of the Audit Committee and regularly reports to the Board of Directors.

9 Information policy

Swisscom pursues an open, active information policy vis-à-vis the general public and the financial markets. It publishes comprehensive, consistent and transparent financial information on a quarterly basis.
Swisscom meets investors regularly throughout the year, presents its financial results at analysts' meetings and road shows, attends selected conferences for financial analysts and investors and keeps its shareholders regularly informed about its business through press releases. Those responsible for investor relations can be contacted via the website, e-mail, telephone or by post. Contact details are provided in the legal notice on the site.

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9.1 The results for the 2015 financial year will be published on the following dates:

- Interim report: 6 May 2015
- Interim report: 19 August 2015
- Interim report: 5 November 2015
- Annual report: February 2016

9.2 The Annual General Meeting will be held on:

- 8 April 2015 in the Hallenstadion in Zurich-Oerlikon

The interim reports and annual report are available on the Swisscom website under Investor Relations or may be ordered directly from Swisscom. All press releases, presentations and the latest financial calendar are also available on the Swisscom website under Investor Relations.
Push and pull links for the distribution of ad hoc communications can also be found on the Swisscom website.

See **www.swisscom.ch/financialreports**
See **www.swisscom.ch/adhoc**

The minutes of the Annual General Meeting of 7 April 2014 and the webcast are available on the Swisscom website.

See **www.swisscom.ch/generalmeeting**

Remuneration Report

Remuneration paid to the Board of Directors and the Group Executive Board is tied to the generation of sustainable returns, thus creating an incentive to achieve long-term corporate success as well as added value for shareholders.

1 Principles

This Remuneration Report outlines the principles behind, and the elements of, the remuneration paid to the Board of Directors and Group Executive Board (Executive Board as defined in Article 4 of the Articles of Incorporation) of Swisscom Ltd, and the decision-making powers. It discloses information about the amount of remuneration paid to the Board of Directors and Group Executive Board and the shares they hold in Swisscom Ltd. The Remuneration Report is based on sections 3.5 and 5 of the annex to the Corporate Governance Directive issued by SIX Swiss Exchange and Art. 13 to 16 of the Ordinance Against Excessive Compensation in Listed Stock Companies (OaEC). Swisscom is implementing the requirements of the OaEC. The Annual General Meeting resolved to make the necessary changes to the Articles of Incorporation on 7 April 2014. Swisscom also complies with the recommendations of the Swiss Code of Best Practice for Corporate Governance 2014 issued by economiesuisse, the umbrella organisation representing Swiss business.
Swisscom's internal principles are primarily set out in the Articles of Incorporation, the Organisational Regulations and the Regulations of the Compensation Committee. The latest version of these documents as well as revised or superseded versions can be viewed online on the Swisscom website under "Basic principles".
As in previous years, the Remuneration Report will be put to a consultative vote at the Annual General Meeting on 8 April 2015.
The compensation paid in 2014 was accrued in accordance with the International Financial Reporting Standards (IFRS).

See **www.swisscom.ch/basicprinciples**

2 Decision-making powers

2.1 Division of tasks between the Annual General Meeting, the Board of Directors and the Compensation Committee

The Annual General Meeting approves the maximum total remuneration amounts payable to the Board of Directors and the Group Executive Boards for the following financial year at the request of the Board of Directors. Details of the relevant regulation and the consequences of a negative decision by the Annual General Meeting are set out in the Articles of Incorporation (Articles 5.7.7 and 5.8.8). The Articles of Incorporation also define the requirements for and the maximum level of the additional amount that can be paid to a member of the Group Executive Board who is newly appointed during a period for which the Annual General Meeting has already approved the remuneration.

The Board of Directors approves, inter alia, the personnel and remuneration policy for the entire Group, as well as the general terms and conditions of employment for members of the Group Executive Board. It defines the remuneration for each member of the Board of Directors and the CEO as well as the total remuneration for the Group Executive Board. For the remuneration in the 2016 financial year, the Board of Directors will for the first time have to comply with the maximum amounts approved by the 2015 Annual General Meeting for the remuneration to be paid to the Board of Directors and the Group Executive Board.

The Compensation Committee handles all business matters of the Board of Directors concerning remuneration, submits proposals to the Board of Directors in this context, and, within the framework of the approved total remuneration, is empowered to decide upon the remuneration of the individual Group Executive Board members (with the exception of the CEO). Neither the CEO nor the other members of the Group Executive Board are entitled to participate in meetings at which their remuneration is discussed or decided.

See www.swisscom.ch/basicprinciples

The decision-making powers are defined in the Articles of Incorporation, the Organisational Regulations of the Board of Directors and the Regulations of the Compensation Committee, which can be found on the Swisscom website under “Basic principles”.

The table below shows the division of responsibilities between the Annual General Meeting, the Board of Directors and the Compensation Committee.

Subject	Remuneration Committee	Board of Directors	Annual General Meeting
Maximum total amounts for remuneration of the Board of Directors and Group Executive Board	V [1]	A [2]	G [3]
Additional amount for remuneration of newly appointed members of the Group Executive Board	V	A	G
Principles for performance-related and participation schemes	V	A	G
Personnel and remuneration policy	V	G [4]	–
Principles for benefit plans and social security services	V	G	–
Concept of remuneration to members of the Board of Directors	V	G [4]	–
Equity success and participation plans of the Group	V	G [4]	–
General terms and conditions of the Group Executive Board	V	G [4]	–
Determination of the targets for the variable performance-related salary component	V	G [4]	–
Remuneration of the Board of Directors	V	G [5]	–
Remuneration of the CEO Swisscom Ltd	V	G [5]	–
Total remuneration of the Group Executive Board	V	G [5]	–
Remuneration of the members of the Group Executive Board (excl. CEO)	G [5,6]	–	–

[1] V stands for preparation and proposal to the Board of Directors.
[2] A stands for proposal to the Annual General Meeting.
[3] G stands for approval.
[4] In the framework of the Articles of Incorporation.
[5] In the framework of the maximum total remuneration defined by the Annual General Meeting.
[6] In the framework of the total remuneration defined by the Board of Directors.

2.2 Election, composition and modus operandi of the Compensation Committee

The Compensation Committee consists of three to six members. They are elected individually each year by the Annual General Meeting. If the number of members falls below three, the Board of Directors appoints the missing member(s) from its midst until the conclusion of the next Annual General Meeting. The Board of Directors appoints the Chairman of the Compensation Committee, which constitutes itself. If the Annual General Meeting elects the Chairman of the Board of Directors to the Compensation Committee, he has no voting rights. He does not participate in meetings in which discussions take place or decisions are made with regard to his own remuneration. The CEO and CPO attend the meetings in an advisory capacity, unless agenda items exclusively concern the Board of Directors or the CEO and CPO themselves, in which case the CEO and CPO are not present. Other members of the Board of Directors, auditors or experts may also be called upon to attend the meetings in an advisory capacity. Minutes are kept of the meetings. The Chairman reports orally on the activities of the Compensation Committee at the next meeting of the Board of Directors.

See **www.swisscom.ch/basicprinciples**

The details are defined in the Articles of Incorporation (Article 6.5), the Organisational Regulations of the Board of Directors and the Regulations of the Compensation Committee, which can be found on the Swisscom website under "Basic principles".

The following table gives an overview of the composition of the Committee, the Committee meetings, conference calls and circular resolutions taken in 2014. The members of the Compensation Committee neither work nor have worked for Swisscom in an executive capacity, nor do they maintain any significant commercial links with Swisscom Ltd or the Swisscom Group. Customer and supplier relationships exist between the Swiss Confederation and Swisscom. Details of these are given in Note 37 to the consolidated financial statements.

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	Meetings	Conference calls	Circular resolutions
Total	3	–	–
Average duration (in hours)	1:50	–	–
Participation:			
Richard Roy, Chairman [1]	1	–	–
Barbara Frei, Chairwoman [2]	3	–	–
Torsten G. Kreindl	3	–	–
Theophil Schlatter	3	–	–
Hans Werder [3]	3	–	–
Hansueli Loosli [4]	3	–	–

1 Resigned as of 7 April 2014.
2 Since 1 January 2014 Member of the Remuneration Committee, since 7 April 2014 Chairwoman.
3 Representative of the Confederation.
4 Participation without voting rights.

3 Remuneration paid to the Board of Directors

3.1 Principles

The remuneration system for the members of the Board of Directors is designed to attract and retain experienced and motivated people for the Board of Directors' function. It also seeks to align the interests of the members of the Board of Directors with those of the shareholders. The remuneration is commensurate with the activities and level of responsibility of each member and reflects the normal market remuneration for comparable functions. The basic principles regarding the remuneration of the Board of Directors and the allocation of equity shares are set out in the Articles of Incorporation (Articles 6.4 and 8.1), which can be accessed on the Swisscom website under "Basic principles".

See **www.swisscom.ch/basicprinciples**

The remuneration is made up of a Director's fee related to the member's function, meeting attendance fees as well as pension fund and any fringe benefits. No variable profit-related emoluments are paid. The members of the Board of Directors are obligated to draw a portion of their fee in the form of equity shares and to comply with the requirements on minimum shareholdings, thus ensuring they directly participate financially in the performance of Swisscom's shares. The remuneration is reviewed every December for the following year for ongoing appropriateness. In December 2013, the Board of Directors opted not to adjust its remuneration for the 2014 financial year. The Board of Directors judged the appropriateness of the remuneration as part of a discretionary decision based on the publicly accessible ethos study published in 2012. This study provides information for the 2011 financial year on the remuneration of the management of Switzerland's 100 largest listed companies.

3.2 Remuneration components

Director's fee

The Director's fee is made up of a basic emolument and functional allowances as compensation for the individual functions. The basic emolument for all members of the Board of Directors excluding employee social insurance contributions is CHF 120,000 (net).

The functional allowances total CHF 265,000 net for the Chairman, CHF 20,000 net each for the Vice Chairman and the Chairmen of the Finance and Compensation Committees, CHF 50,000 net for the Chairman of the Audit Committee and CHF 40,000 net for the representative of the Swiss Confederation. Remuneration of CHF 10,000 net is awarded for membership in a standing committee. No functional allowance is paid for participation in ad-hoc committees appointed on a case-by-case basis.

Under the Management Incentive Plan, the members of the Board of Directors are obligated to draw 25% of their Director's fee in the form of shares, with Swisscom adding a 50% top-up to the amount invested in shares. In this manner, the compensation (excluding meeting attendance fees, pension fund benefits and fringe benefits) is made up of a two-thirds' cash portion and a one-third equity share portion. The amount of the share purchase obligation can vary in the case of members who join, leave, assume or give up a function during the year. Shares are allocated on the basis of their value accepted for tax purposes, rounded up to the next whole number of shares, and are subject to a blocking period of three years. The shares which are allocated in April of each reporting year are recorded at market value on the date of allocation. The share-based compensation is augmented by a factor of 1.19 in order to take account of the difference between the tax value and the market value. Further information on the Management Incentive Plan can be found in Note 11 to the consolidated financial statements. In April 2014, a total of 1,374 shares were allocated to the members of the Board of Directors (prior year: 1,667 shares) for a tax value of CHF 449 per share (prior year: CHF 371). Their market value was CHF 534.50 (prior year: CHF 442) per share.

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Meeting attendance fees

For meetings, attendance fees of CHF 1,250 net are paid for each full day and CHF 750 net for each half-day.

Pension fund and fringe benefits

Swisscom assumes the full costs of social insurance, in particular old-age and survivors' insurance and unemployment insurance, for the members of the Board of Directors. The disclosed compensation to the Members of the Board of Directors includes the employee's share of social security contributions. The employer's share of contributions is disclosed separately but included in total remuneration. With regards to the disclosure of services rendered and non-cash benefits and expenses, these are dealt with from a tax point of view. No significant non-cash benefits are paid nor services rendered. Out-of-pocket expenses are reimbursed on the basis of actual costs incurred. Accordingly, neither services rendered and non-cash benefits nor expenses are included in the reported remuneration.

3.3 Total remuneration

Total remuneration paid to the individual members of the Board of Directors for the financial years 2014 and 2013 is presented in the tables below, broken down into individual components. Hugo Gerber's remuneration for his mandate as a member of the Board of Directors of Worklink AG, previously reported in a footnote, is included in total remuneration for the first time 2014. The lower amount of total remuneration for 2014 is attributable to the fact that there were fewer meetings in 2014.

	Base salary and functional allowances				
2014, in CHF thousand	Cash remuneration	Share-based payment	Meeting attendance fees	Employer contributions to social security	Total 2014
Hansueli Loosli	330	195	35	31	591
Frank Esser [1]	69	57	15	8	149
Barbara Frei	114	71	22	12	219
Hugo Gerber [2]	111	61	26	11	209
Michel Gobet	104	61	22	11	198
Torsten G. Kreindl	127	75	26	13	241
Catherine Mühlemann	104	61	21	11	197
Richard Roy [3]	48	7	8	4	67
Theophil Schlatter	162	99	26	16	303
Hans Werder	142	84	25	11	262
Total remuneration to members of the Board of Directors	**1,311**	**771**	**226**	**128**	**2,436**

[1] Elected as of 7 April 2014.
[2] Since 2014 the cash remuneration (including meeting attendance fees) of CHF 8,500 for the mandate as member of the Board of Directors of Worklink AG has been included.
[3] Resigned as of 7 April 2014.

	Base salary and functional allowances				
2013, in CHF thousand	Cash remuneration	Share-based payment	Meeting attendance fees	Employer contributions to social security	Total 2013
Hansueli Loosli	330	195	43	30	598
Barbara Frei	104	61	28	11	204
Hugo Gerber [1]	104	61	30	11	206
Michel Gobet	104	61	28	11	204
Torsten G. Kreindl	127	75	33	13	248
Catherine Mühlemann	104	61	27	11	203
Richard Roy	144	85	33	15	277
Theophil Schlatter	152	90	31	16	289
Hans Werder	142	84	34	12	272
Total remuneration to members of the Board of Directors	**1,311**	**773**	**287**	**130**	**2,501**

[1] In addition, a cash remuneration (including meeting attendance fees) of CHF 9,000 was paid as member of the Board of Directors of Worklink AG.

3.4 Minimum shareholding requirement

Since 2013, the members of the Board of Directors have been required to maintain a minimum shareholding equivalent to one annual emolument (basic emolument plus functional allowance). The members of the Board of Directors have four years to build up the required minimum shareholding, in the form of the blocked shares paid as part of remuneration and, if necessary, through share purchases on the open market. Compliance with the shareholding requirement is reviewed annually by the Compensation Committee. If a member's shareholding falls below the minimum requirement due to a drop in the share price, the difference must be made up by no later than the time of the next review. In justified cases such as personal hardship or legal obligations, the Chairman of the Board of Directors can approve individual exceptions at his discretion.

3.5 Shareholdings of the members of the Board of Directors

Blocked and non-blocked shares held by members of the Board of Directors and/or related parties as at 31 December 2014 and 2013 are listed in the table below:

Number	31.12.2014	31.12.2013
Hansueli Loosli	1,682	1,335
Frank Esser [1]	101	–
Barbara Frei	409	283
Hugo Gerber	1,129	1,020
Michel Gobet	1,496	1,387
Torsten G. Kreindl	1,195	1,061
Catherine Mühlemann	1,119	1,010
Richard Roy [2]	–	1,269
Theophil Schlatter	887	711
Hans Werder	839	688
Total shares of the members of the Group Executive Board	**8,857**	**8,764**

[1] Elected as of 7 April 2014.
[2] Resigned as of 7 April 2014.

No share of the voting rights of any person required to make disclosure thereof exceeds 0.1% of the share capital.

4 Remuneration paid to the Group Executive Board

4.1 Principles

The remuneration policy of Swisscom applicable to the Group Executive Board is designed to attract and retain highly skilled and motivated specialists and executive staff over the long term and provide an incentive to achieve a lasting increase in the enterprise value. It is systematic, transparent and long-term oriented and is predicated on the following principles:

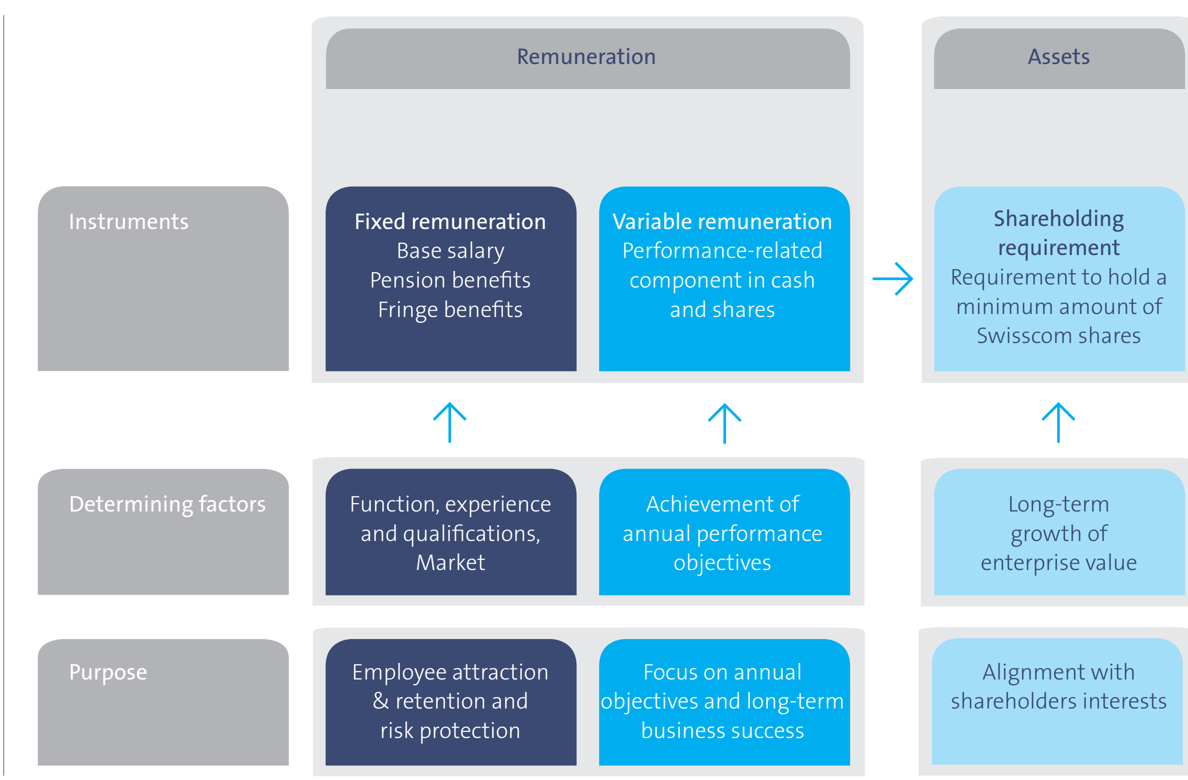
- Total remuneration is competitive and is in an appropriate relation to the market as well as the internal salary structure.
- Remuneration is based on performance in line with the results achieved by Swisscom and the contribution made to results by the area for which the member of the Group Executive Board is responsible.
- Through direct financial participation in the performance of Swisscom's shares, the interests of management are aligned with the interests of shareholders.

The remuneration of the Group Executive Board is a balanced combination of fixed and variable salary components. The fixed component is made up of a base salary, fringe benefits (primarily use of a company car) and pension benefits. The variable remuneration includes a performance-related component settled in cash and shares.

The members of the Group Executive Board are required to maintain a minimum shareholding, which strengthens their direct financial participation in the medium-term performance of Swisscom's share and thus aligns their interests with those of shareholders. To facilitate compliance with the minimum shareholding requirement, Group Executive Board members have the opportunity to draw up to 50% of the variable performance-related component of their salary in shares.

See
www.swisscom.ch/basicprinciples

The basic principles regarding the performance-related remuneration and the profit and participation plans of the Group Executive Board are set out in the Articles of Incorporation (Article 8.1), which can be accessed on the Swisscom website under "Basic principles".



As a rule, the Compensation Committee reviews individual remuneration paid to members of the Group Executive Board every three years of employment. The Compensation Committee decides at its discretion on the level of remuneration, taking into consideration the external market value of the function in question, the internal salary structure and individual performance.
For the purpose of assessing market values, Swisscom regularly takes part in market comparisons carried out by renowned consultancy firms. In the year under review, Swisscom referred to two comparative studies: The "Swiss Headquarters Executive Total Compensation Measurement Study" by Aon Hewitt covers 78 Swiss companies and international groups in all sectors with global or regional headquarters in Switzerland, average revenues of CHF 2.4 billion and an average workforce of 6,500. The international "European Executive Survey", also produced by Aon Hewitt, covers 37 European groups, mainly telecommunications companies, with average revenues of around CHF 30 billion and an average workforce of 73,000 (FTEs). Due to their numerous reference companies, both studies provide the basis for a representative comparison. In the evaluation of these studies, Swisscom takes into account the sector as well as the extent of responsibility in terms of revenue, number of employees and international scope. During the reporting year, Swisscom adjusted the remuneration of two Group Executive Board members to reflect these benchmarks, to take account of their additional functions and to ensure a salary that is in line with the market. For one of these members, the increase will be made in two steps in April 2014 and April 2015.

4.2 Changes to the remuneration system from 2014

With effect from 1 January 2014, Swisscom adjusted the remuneration system for the Group Executive Board so that the variable component of total remuneration in the event that targets are exceeded may not exceed one year's base salary. This adjustment did not change the total remuneration of each individual Group Executive Board member. The performance-related bonus for Group Executive Board members now amounts to up to 70% of the adjusted annual base salary, depending on the function. The Board of Directors has also introduced a restricted share plan which will serve to support the recruitment and retention of employees in key positions. Under this plan, the Board of Directors can, where necessary, pay part of the remuneration of individual Group Executive Board members in the form of restricted share units. These shares must be earned over a three year vesting period. During the reporting year, Swisscom did not allocate any restricted share units to members of the Group Executive Board. As part of the implementation of the OaEC, the Board of Directors added a provision to the employment contracts of the members of the Group Executive Board in 2014 according to which Swisscom may allow wrongfully awarded or paid remuneration to expire or reclaim such remuneration.

4.3 Remuneration components

Base salary

The base salary is the remuneration paid according to the function, qualifications and performance of the individual member of the Group Executive Board. It is determined based on a discretionary decision taking into account the external market value for the function and the salary structure for the Group's executive management. The base salary is paid in cash.

Variable performance-related salary component

The members of the Group Executive Board are entitled to a variable, performance-related salary component which depending on individual function represents 50–70% of the base salary if objectives are achieved (target bonus). The amount of the performance-related component paid out depends on the extent to which the targets are achieved. The extent of the target achievement is set by the Compensation Committee, taking into account the performance evaluation by the CEO. If targets are exceeded, up to 130% of the target bonus may be paid. The maximum performance-related salary component is thus limited to 65%–91% of the base salary, depending on the function. This ensures that the maximum performance-related salary component does not exceed the annual base salary, even taking account of the market value of the component paid in shares. The variable performance-related salary component was paid to the member of the Group Executive Board who left in the first quarter of the reporting year on the basis of the rules applicable in 2013 (target bonus of 117% of the base salary).

Targets for the variable performance-related component

The targets underlying the variable performance-related component are adopted annually in December for the following year by the Board of Directors following a proposal submitted by the Compensation Committee. The relevant targets set for the reporting year are based on the Swisscom Group's budget figures for 2014, and are assigned to three target levels: "Group", "Customers" and "Segments". All Group Executive Board members are measured against Group and customer targets. Group targets consist of financial targets. The customer targets for the reporting year are measured using the Net Promoter Score – a recognised indicator of customer loyalty – taking into consideration the customer group for which the Group Executive Board member is responsible. The segment targets are tailored to the relevant function of each Group Executive Board member and consist of financial and non-financial targets.
Swisscom's target structure aims to strike a balance between financial performance and market performance, taking into account the specific area of responsibility of the individual Group Executive Board member.
The following table illustrates the target structure valid for the CEO and other Group Executive Board members in the year under review, showing the three target levels, individual targets and the respective weighting.

Target levels	Objectives	Weighting of targets level CEO	Weighting of targets level other members of the Group
Group	Net revenue	21%	12–18%
	EBITDA margin	21%	12–18%
	Operating free cash flow	28%	16–24%
Customers	Net Promoter Score	30%	25%
Segments	Targets of segments		15–35%
Total		**100%**	**100%**

Achievement of targets

The Compensation Committee determines the level of target achievement in the following year once the consolidated financial statements become available. Its decision is based on a quantitative assessment of the extent to which targets have been met using a scale for the overachievement and underachievement of each target. In determining the level of target achievement, the Compensation Committee also has a degree of discretion in assessing the effective management performance, allowing special factors such as fluctuations in exchange rates to be taken into account. Based on the level of target achievement, the Compensation Committee submits a proposal for approval to the Board of Directors for the amount of the performance-related salary component to be paid to the Group Executive Board and the CEO.
Most of the financial Group targets were met and some exceeded in the year under review. Customer targets were not all fully met. The other targets of the segments were largely achieved and partially exceeded.

Payment of the variable performance-related component

The variable performance-related component is paid in April of the following year, with 25% being paid in the form of Swisscom shares, in accordance with the Management Incentive Plan. Group Executive Board members may increase this share up to a maximum of 50%. The remaining portion of the performance-related component is settled in cash. The decision of what percentage of the variable performance-related salary component is to be drawn in the form of shares must be communicated prior to the end of the reporting year, but no later than in November following publication of the third-quarter results. The shares are allocated on the basis of the tax value, rounded up to whole numbers of shares, and are subject to a three-year blocking period. The share-based remuneration disclosed in the year under review is augmented by a factor of 1.19 in order to take account of the difference between the market value and the tax value. The market value is determined as of the date of allocation. Shares in respect of the current year are allocated in April 2015. Further information on the Management Incentive Plan can be found in Note 11 to the consolidated financial statements.

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In April 2014, a total of 1,599 shares (2012: 2,707 shares) with a tax value of CHF 449 (2012: CHF 371) per share and a market value of CHF 534.50 (2012: CHF 442) per share were allocated for the 2013 financial year to the members of the Group Executive Board.

Pension fund and fringe benefits

The members of the Group Executive Board, like all eligible employees in Switzerland, are insured against the risks of old age, death and disability through the comPlan pension plan (see pension fund regulations at www.pk-complan.ch). The disclosed pension benefits (amounts which give rise to or increase pension entitlements) encompass all savings, guarantee and risk contributions paid by the employer to the pension plan. It also includes the pro rata costs of the AHV bridging pension paid by comPlan in the event of early retirement and the premium for the supplementary life insurance concluded for Swisscom management staff in Switzerland.
With regards to the disclosure of services rendered and non-cash benefits and expenses, these are dealt with from a tax point of view. The members of the Group Executive Board are entitled to the use of a company car. The disclosed services rendered and non-cash benefits therefore include an amount for private use of the company car. Out-of-pocket expenses are reimbursed on a lump-sum basis in accordance with expense reimbursement rules approved by the tax authorities, and other expenses are reimbursed on an actual cost basis. They are not included in the reported remuneration.

4.4 Total remuneration

The following table shows total remuneration paid to the members of the Group Executive Board for the 2014 and 2013 financial years, broken down into individual components and including the highest amount paid to one member. Any remuneration paid to those stepping down from the Group Executive Board includes the respective maximum remuneration up to the end of the notice period of those members of the Group Executive Board who stepped down in the relevant reporting year. During the reporting period, one member left the Group Executive Board. Members of the Group Executive Board stepping down receive the full variable performance-related component in cash. The increase in the base salary relative to the previous year and the associated reduction in the variable performance-related component is attributable to the change to the remuneration system from 2014. In the year under review, the variable performance-related salary component (CHF 2,681 million in total) was 74% of the base salary (CHF 3,622 million in total). The total remuneration paid to the highest-earning member of the Group Executive Board (CEO, Urs Schaeppi) increased by 3.5% compared to the prior year. The reason for this is that the remuneration of the CEO, which was adjusted upon his assumption of the position in November 2013, affects the entire year in 2014. The reduction in total remuneration paid to the Group Executive Board (excluding remuneration paid to those stepping down from the Group Executive Board) is mainly attributable to the changed composition of the body as of 1 January 2014.

In CHF thousand	Total Group Executive Board 2014	Total Group Executive Board 2013	Thereof Urs Schaeppi 2014	Thereof Urs Schaeppi 2013
Fixed base salary paid in cash	3,622	3,183	882	622
Variable earnings-related remuneration paid in cash	1,969	2,640	463	566
Variable earnings-related remuneration paid in shares [1]	712	853	184	298
Service-related and non-cash benefits	60	45	18	16
Employer contributions to social security [2]	481	488	116	105
Retirement benefits	696	738 [3]	110	106
Total remuneration to members of the Group Executive Board	**7,540**	**7,947**	**1,773**	**1,713**
Benefits paid following retirement from Group Executive Board [4]	252	1,481 [5]	–	–
Total remuneration to members of the Group Executive Board including benefits paid following retirement from Group Executive Board	**7,792**	**9,428**	**1,773**	**1,713**

[1] The shares are reported at market value and are blocked from sale for three years.
[2] Employer contributions to social security (AHV, IV, EO and FAK, incl. administration costs, and daily sickness benefits and accident insurance) are included in the total remuneration.
[3] As compensation for deferred entitlement to shares/option plans, which expired as a result of the switch to Swisscom, an additional CHF 165,000 was deposited into the retirement provision of a member of the Group Executive Board in 2013. (A total of CHF 500,000 gross was awarded to him over the reporting years 2012-2014).
[4] This amount includes the employer social security contributions as well as retirement benefits.
[5] This amount also includes 2014 retirement benefits as compensation for deferred entitlement to shares/option plans.

4.5 Minimum shareholding requirement

Since 2013, the members of the Group Executive Board have been required to hold a minimum amount of Swisscom shares. The minimum shareholding to be held by the CEO shall be equivalent to two years' base salary. The remaining members shall maintain a shareholding equivalent to one year's base salary. The members of the Group Executive Board have four years to build up the required minimum shareholding in the form of the blocked shares paid as part of remuneration and, if necessary, through share purchases on the open market. Compliance with the shareholding requirement is reviewed annually by the Compensation Committee. If a member's shareholding falls below the minimum requirement due to a drop in the share price or a salary adjustment, the difference must be made up by no later than the time of the next review. In justified cases such as personal hardship or legal obligations, the Chairman of the Board of Directors can approve individual exceptions.

4.6 Shareholdings of the members of the Group Executive Board

Blocked and non-blocked shares held by current members of the Group Executive Board or related parties as at 31 December 2014 and 2013 are listed in the table below:

Number	31.12.2014	31.12.2013
Urs Schaeppi (CEO) [1]	2,275	1,716
Mario Rossi	634	383
Hans C. Werner	421	257
Marc Werner [2]	106	–
Christian Petit [3]	1,332	–
Roger Wüthrich-Hasenböhler [2]	879	–
Heinz Herren [2]	1,122	–
Andreas König [4]	–	170
Total shares of the members of the Board of Directors	**6,769**	**2,526**

1 From 23 July to 6 November 2013 CEO ad interim and from 7 November 2013 CEO.
2 Joined the Group Executive Board as of 1 January 2014.
3 Joined the Group Executive Board as of 1 April 2014.
4 Resigned from the Group Executive Board as of 31 March 2014.

No share of the voting rights of any person required to make disclosure thereof exceeds 0.1% of the share capital.

4.7 Employment contracts

The employment contracts of the members of the Group Executive Board are subject to a twelve-month notice period. No termination benefits are payable in addition to the salary payable for a maximum of twelve months. The employment contracts stipulate that Swisscom may allow wrongfully awarded or paid remuneration to expire or reclaim such remuneration. They do not contain a clause on change of control.

5 Other remuneration

5.1 Additional remuneration

Swisscom may pay remuneration to members of the Board of Directors for mandates in group companies and for mandates performed by order of Swisscom (Article 6.4 of the Articles of Incorporation). In 2014, Hugo Gerber was the only member to receive remuneration for an additional mandate for his mandate as a member of the Board of Directors of the Swisscom Group company Worklink AG. The director's fee amounts to CHF 7,500 gross per year. For meetings, attendance fees of CHF 1,000 gross are paid for each full day and CHF 500 gross for each half-day. Out-of-pocket expenses are reimbursed on the basis of actual costs incurred. The remuneration reflects the level of responsibility and scope of activities. It is determined by the Board of Directors of Worklink AG based on a discretionary decision and reviewed every two years for ongoing appropriateness.
The members of the Group Executive Board are not entitled to separate remuneration for any directorships they hold either within or outside the Swisscom Group.

5.2 Remuneration for former members of the Board of Directors or Group Executive Board and related parties

In the year under review, no compensation was paid to former members of the Board of Directors or the Group Executive Board in connection with their earlier activities as a member of a governing body of the company and/or which are not at arm's length. There were also no payments made to individuals who are closely related to any member of the Board of Directors or the Group Executive Board which are not at arm's length.
Related parties are spouses and common-law spouses, close relatives who are financially dependent on the member of the governing body or live in the same household, other persons who are financially dependent on such individuals as well as partnerships or corporate entities that are controlled by the member of the governing body or over which the member of the governing body exercises a significant influence. Close relatives include parents, siblings and children.

5.3 Loans and credits granted

Swisscom Ltd has no statutory basis for the granting of loans, credit facilities and pension benefits apart from the retirement benefits paid to the members of the Board of Directors and Group Executive Board.
In the 2014 financial year, Swisscom provided no guarantees, loans, advances or credit facilities of any kind either to former or current members of the Board of Directors or related parties, or to former or current members of the Group Executive Board or related parties. Nor are there any receivables of any kind outstanding.

Report of the Statutory Auditor

Report of the Statutory Auditor on the remuneration report to the General Meeting of Shareholders of Swisscom Ltd, Ittigen (Berne)

Report of the Statutory Auditor on the remuneration

We have audited the accompanying remuneration report dated 31 December 2014 of Swisscom Ltd for the year ended 31 December 2014. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive compensation in Stock Exchange Listed Companies contained in the sections 3.2 to 3.3, 4.4 and 5.2 to 5.3 on pages 115 to 126 of the remuneration report.

Responsibility of the Board of Directors

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance against Excessive compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's Responsibility

Our responsibility is to express an opinion on the accompanying remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the remuneration report for the year ended 31 December 2014 of Swisscom Ltd complies with Swiss law and articles 14–16 of the Ordinance.

KPMG AG

Rolf Hauenstein Licensed Audit Expert Auditor in Charge	Daniel Haas Licensed Audit Expert

Gümligen-Berne, 4. February 2015

“No one wants to wait for their new Internet connection. I take care of the IT systems that make it possible for the connection to be functioning on the date promised.”

Jana Niederöst
Senior ICT Architect
IT, Network & Innovation

Financial Statements

Through targeted investments we are providing the very best infrastructure for our customers.

1.75 billion CHF

was invested by Swisscom in 2014
in Switzerland's network and
IT infrastructure.

Consolidated income statement

In CHF million, except for per share amounts	Note	2014	2013
Net revenue	6, 7	**11,703**	**11,434**
Goods and services purchased	8	(2,369)	(2,338)
Personnel expense	9, 10, 11	(2,751)	(2,706)
Other operating expense	12	(2,540)	(2,476)
Capitalised self-constructed assets and other income	13	370	388
Operating income before depreciation, amortisation and impairment losses (EBITDA)		**4,413**	**4,302**
Depreciation, amortisation and impairment losses on tangible and intangible assets	23, 24	(2,091)	(2,044)
Operating income (EBIT)		**2,322**	**2,258**
Financial income	14	112	81
Financial expense	14	(372)	(340)
Share of results of associates	25	26	30
Income before income taxes		**2,088**	**2,029**
Income tax expense	15	(382)	(334)
Net income		**1,706**	**1,695**
Share of net income attributable to equity holders of Swisscom Ltd		1,694	1,685
Share of net income attributable to non-controlling interests		12	10
Basic and diluted earnings per share (in CHF)	16	**32.70**	**32.53**

Consolidated statement of comprehensive income

In CHF million	Note	2014	2013
Net income		**1,706**	**1,695**
Other comprehensive income			
Actuarial gains and losses from defined benefit pension plans	10, 31	(1,161)	847
Income tax expense	15, 31	242	(169)
Items that will not be reclassified to income statement, net of tax		**(919)**	**678**
Foreign currency translation adjustments of foreign subsidiaries	31	(46)	63
Change in fair value of available-for-sale financial assets	31	–	1
Change in fair value of cash flow hedges	31	10	7
Gains and losses from cash flow hedges transferred to income statement	31	5	6
Income tax expense	15, 31	12	(15)
Items that are or may be reclassified subsequently to income statement, net of tax		**(19)**	**62**
Other comprehensive income		**(938)**	**740**
Comprehensive income		**768**	**2,435**
Share of comprehensive income attributable to equity holders of Swisscom Ltd		757	2,423
Share of comprehensive income attributable to non-controlling interests		11	12

Consolidated balance sheet

In CHF million	Note	31.12.2014	31.12.2013
Assets			
Cash and cash equivalents	17	302	723
Trade and other receivables	18	2,586	2,516
Other financial assets	19	40	160
Inventories	20	149	152
Current income tax assets	15	17	22
Other non-financial assets	21	252	210
Non-current assets held for sale	22	80	13
Total current assets		**3,426**	**3,796**
Property, plant and equipment	23	9,720	9,156
Goodwill	24	4,987	4,809
Other intangible assets	24	1,921	2,053
Investments in associates	25	171	153
Other financial assets	19	233	193
Deferred tax assets	15	417	279
Other non-financial assets	21	57	57
Total non-current assets		**17,506**	**16,700**
Total assets		**20,932**	**20,496**
Liabilities and equity			
Financial liabilities	26	1,580	1,656
Trade and other payables	27	1,876	1,870
Current income tax liabilities	15	172	184
Provisions	28	112	132
Other non-financial liabilities	30	718	759
Total current liabilities		**4,458**	**4,601**
Financial liabilities	26	7,024	7,167
Defined benefit obligations	10	2,441	1,293
Provisions	28	820	667
Deferred tax liabilities	15	357	456
Other non-financial liabilities	30	375	310
Total non-current liabilities		**11,017**	**9,893**
Total liabilities		**15,475**	**14,494**
Share capital	31	52	52
Capital reserves		136	136
Retained earnings		6,856	7,356
Other reserves	31	(1,590)	(1,571)
Share of equity attributable to equity holders of Swisscom Ltd		**5,454**	**5,973**
Share of equity attributable to non-controlling interests		3	29
Total equity		**5,457**	**6,002**
Total liabilities and equity		**20,932**	**20,496**

Consolidated statement of cash flows

In CHF million	Note	2014	2013
Net income		1,706	1,695
Share of results of associates	25	(26)	(30)
Income tax expense	15	382	334
Depreciation, amortisation and impairment losses	23, 24	2,091	2,044
Expense for share-based payments	11	5	6
Gain on sale of property, plant and equipment	13	(60)	(16)
Loss on disposal of property, plant and equipment	12	11	13
Financial income	14	(112)	(81)
Financial expense	14	372	340
Change in net operating assets and liabilities	34	(213)	104
Income taxes paid	15	(386)	(278)
Cash flow provided by operating activities		**3,770**	**4,131**
Capital expenditure for tangible and other intangible assets	23, 24, 34	(2,460)	(2,445)
Proceeds from sale of tangible and other intangible assets		35	23
Proceeds from sale of non-current assets held for sale	22	205	5
Acquisition of subsidiaries, net of cash and cash equivalents acquired	5	(305)	(60)
Investments in associates	25	(3)	(1)
Purchase of other financial assets		(25)	(158)
Proceeds from other financial assets		167	24
Interest received		10	10
Dividends received	25	30	43
Cash flow used in investing activities		**(2,346)**	**(2,559)**
Issuance of financial liabilities	26	1,500	993
Repayment of financial liabilities	26	(1,765)	(956)
Interest paid		(245)	(253)
Dividends paid to equity holders of Swisscom Ltd	32	(1,140)	(1,140)
Dividends paid to non-controlling interests		(16)	(14)
Acquisition of non–controlling interests	31	(162)	–
Purchase of treasury shares for share-based payments	11, 31	(5)	(6)
Other cash flows from financing activities	34	(14)	(12)
Cash flow used in financing activities		**(1,847)**	**(1,388)**
(Net decrease) Net increase in cash and cash equivalents		**(423)**	**184**
Cash and cash equivalents at 1 January		723	538
Foreign currency translation adjustments in respect of cash and cash equivalents		2	1
Cash and cash equivalents at 31 December		**302**	**723**

Consolidated statement of changes in equity

In CHF million	Share capital	Capital reserves	Retained earnings	Treasury shares	Other reserves	Equity attributable to equity holders of Swisscom	Non-controlling interests	Total equity
Balance at 31 December 2012	**52**	**136**	**6,135**	**–**	**(1,633)**	**4,690**	**27**	**4,717**
Net income	–	–	1,685	–	–	1,685	10	1,695
Other comprehensive income	–	–	676	–	62	738	2	740
Comprehensive income	**–**	**–**	**2,361**	**–**	**62**	**2,423**	**12**	**2,435**
Dividends paid [32]	–	–	(1,140)	–	–	(1,140)	(14)	(1,154)
Purchase of treasury shares for share-based payments [31]	–	–	–	(6)	–	(6)	–	(6)
Allocation of treasury shares for share-based payments [11,31]	–	–	–	6	–	6	–	6
Additions from acquisition of subsidiaries [5]	–	–	–	–	–	–	19	19
Transactions with non-controlling interests	–	–	–	–	–	–	(15)	(15)
Balance at 31 December 2013	**52**	**136**	**7,356**	**–**	**(1,571)**	**5,973**	**29**	**6,002**
Net income	–	–	1,694	–	–	1,694	12	1,706
Other comprehensive income	–	–	(918)	–	(19)	(937)	(1)	(938)
Comprehensive income	**–**	**–**	**776**	**–**	**(19)**	**757**	**11**	**768**
Dividends paid [32]	–	–	(1,140)	–	–	(1,140)	(16)	(1,156)
Purchase of treasury shares for share-based payments [31]	–	–	–	(5)	–	(5)	–	(5)
Allocation of treasury shares for share-based payments [11,31]	–	–	–	5	–	5	–	5
Transactions with non-controlling interests [31]	–	–	(136)	–	–	(136)	(21)	(157)
Balance at 31 December 2014	**52**	**136**	**6,856**	**–**	**(1,590)**	**5,454**	**3**	**5,457**

Reference numbers relate to the notes to the consolidated financial statements.

Notes to the consolidated financial statements

This financial report is a translation from the original German version. In case of any inconsistency the German version shall prevail.

1 General information

The Swisscom Group (hereinafter referred to as "Swisscom") provides telecommunication services and is active primarily in Switzerland and Italy. A more detailed description of Swisscom's business activities is to be found in Notes 3.16 and 6. The consolidated financial statements as of and for the year ended 31 December 2014 comprise Swisscom Ltd, the parent company, and its subsidiaries. A table of the Group subsidiaries is set out in Note 41. Swisscom Ltd is a limited-liability company incorporated in Switzerland under a private statute and has its registered office in Ittigen (Berne). Its address is: Swisscom Ltd, Alte Tiefenaustrasse 6, 3048 Worblaufen. Swisscom Ltd is listed on the SIX Swiss Exchange. As of 31 December 2014, the Swiss Confederation ("Confederation"), as majority shareholder, held 51.0% of the voting rights and issued capital of Swisscom Ltd. The Confederation is obligated by current law to hold the majority of the capital and voting rights. The Board of Directors of Swisscom has approved the issuance of these consolidated financial statements on 4 February 2015. The consolidated financial statements must be approved at the Annual General Meeting of Shareholders of Swisscom Ltd to be held on 8 April 2015.

2 Basis of preparation

The consolidated financial statements of Swisscom have been prepared in accordance with International Financial Reporting Standards (IFRS) and in compliance with the provisions of Swiss law. The reporting period covers twelve months. The consolidated financial statements are presented in Swiss francs (CHF). Unless otherwise indicated, all amounts are stated in millions of Swiss francs. The balance sheet is classified according to maturities. Assets and liabilities due within one year are classified as current. The income statement is classified based upon the nature of the income/expense. The consolidated financial statements have been prepared on the historical cost basis, unless a Standard or Interpretation prescribes another measurement basis for a particular caption in the consolidated financial statements. Certain financial-statement captions are measured at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is determined on the basis of stock exchange quotations or by using recognised valuation models, such as the discounting of anticipated future cash flows. Unless otherwise indicated in the notes to the consolidated financial statements, fair values correspond approximately to the carrying values reported in the balance sheet at the time of drawing up the financial statements.

3 Summary of significant accounting policies

3.1 Consolidation

Subsidiaries

Subsidiaries are all companies over which Swisscom Ltd has the effective ability of controlling their financial and business policies. Control is generally assumed where Swisscom Ltd directly or indirectly holds the majority of the voting rights or potential voting rights of the company. Subsidiaries are included in consolidation from the date on which they are acquired and deconsolidated from the date they are disposed of. Intercompany balances and transactions, income and expenses, shareholdings and dividends as well as unrealised gains and losses are fully eliminated. Unrealised losses on an asset which has been transferred within the Group may be an indication of an impairment in value and trigger an impairment test. Non-controlling interests in subsidiary companies are reported within equity separately from that attributable to the shareholders of Swisscom Ltd. The non-controlling interests in net income or loss are shown in the consolidated income statement as a component of the consolidated net income or loss. Movements in shareholdings of subsidiary companies are reported as transactions within equity insofar as control existed previously and continues to exist. Written put options to owners of non-controlling interests are disclosed as financial liabilities. The balance sheet date for all consolidated subsidiaries is 31 December. There are no material restrictions on the transfer of funds from the subsidiaries to the parent company.

Investments in associates

Shareholdings in associates over which Swisscom exercises significant influence but does not have control are accounted for using the equity method. A significant influence is generally assumed to exist whenever between 20% and 50% of the voting rights are held. Under the equity method, investments in associates are initially recognised at their purchase cost at the date of acquisition. Purchase cost comprises the share of net assets acquired and any applicable goodwill arising. In subsequent accounting periods, the carrying amount of the investment is adjusted by the share of current profits and losses together with the share of movements in other equity captions, less the share of dividends distributed. Unrealised gains and losses from transactions with associates are eliminated on a pro-rata basis.

3.2 Foreign currency translation

Foreign currency transactions which are not denominated in the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary items as of the balance sheet date are translated into the functional currency at the exchange rate prevailing at the balance sheet date and non-monetary items are translated using the exchange rate on the date of the transaction. Translation differences are recognised in the income statement. The consolidated financial statements are presented in Swiss francs. Assets and liabilities of subsidiaries and associates reporting in a different functional currency are translated at the exchange rates prevailing on the balance sheet date whereas the income statement and the cash flow statement are translated at average exchange rates. Translation differences arising from the translation of net assets and income statements are not taken to income but recorded directly in equity as part of other comprehensive income. Upon sale of a foreign Group company, the cumulative foreign exchange differences previously included in the foreign currency translation reserve under equity are taken to income as part of the gain or loss on disposal.
For the consolidated financial statements, the most significant foreign currencies during the reporting years were translated at the following exchange rates:

			Closing rate		Average rate
Currency	31.12.2014	31.12.2013	31.12.2012	2014	2013
1 EUR	1.202	1.228	1.207	1.213	1.229
1 USD	0.990	0.890	0.915	0.920	0.924

3.3 Cash and cash equivalents

Cash and cash equivalents include cash on hand, sight balances and time deposits with financial institutions with a maximum term of three months from the acquisition date. This definition is equally applied for the cash flow statement. Cash and cash equivalents are accounted for at amortised cost.

3.4 Trade and other receivables

Trade and other receivables are measured at amortised cost less impairment losses. Any impairment losses are recorded through the use of valuation allowance accounts. All realised losses lead to the de-recognition of the related receivable.
Receivables and payables are netted whenever Swisscom has a legal right of set-off as of the balance sheet date and intends to either settle on a net basis or realise the asset and settle the liability simultaneously. The right of set-off must exist as of the balance sheet date and it shall be legally enforceable both in the ordinary course of business as well as in the case of the insolvency of the contracting party.

3.5 Other financial assets

Other financial assets are classified either as "at fair value through profit or loss", "loans and receivables", "held-to-maturity" or "available-for-sale". The classification depends on the purpose for which the financial asset was acquired. Management determines the classification of financial assets at the time of acquisition and reviews the classification as of each balance sheet date. Trade date accounting is applied for routine purchases and sales of financial assets. Financial assets are initially recognised at their fair values, including directly related transaction costs. Transaction costs relating to financial assets at fair value through profit or loss are not capitalised on acquisition but expensed immediately as incurred. Financial assets are partially or fully derecognised if Swisscom's rights to the cash flows arising therefrom have either elapsed or were transferred and Swisscom is neither exposed to any risks arising from these assets nor has any entitlement to income from them.

Financial assets at fair value through profit or loss

Financial assets valued at fair value through profit or loss are either held for trading purposes or are classified as such upon initial recognition. They are measured at their fair value. Any gains or losses resulting from subsequent remeasurement are taken to income. Swisscom classifies only derivative financial instruments in this category.

Loans and receivables

After their initial recognition at amortised cost, loans and receivables are measured using the effective interest method. Foreign exchange gains and losses are taken to income. The caption loans and receivables primarily reflects term deposits with original maturities exceeding three months which Swisscom places directly, or through an agent, with the borrower.

Financial assets held to maturity

Held-to-maturity financial assets are fixed-term financial assets for which Swisscom has the ability and intention to hold to maturity. After their initial recognition at amortised cost, financial assets are accounted for using the effective interest method less provisions for impairment. Foreign exchange gains and losses are taken to income. Swisscom has not classified any financial assets in this category.

Available-for-sale financial assets

All other financial assets are classified as available-for-sale. Available-for-sale financial assets are accounted for at fair value and all unrealised changes in fair value are recorded in equity. Foreign exchange gains and losses on available-for-sale debt instruments are recognised in the income statement. When available-for-sale financial assets are sold, impaired or otherwise disposed of, the cumulative gains and losses since acquisition that had been recognised in equity are reclassified from equity and recorded as financial income or expense. If the fair value of an unlisted equity instrument cannot be reliably determined, the instrument is accounted for at cost less provisions for impairment.

3.6 Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories includes all costs of acquisition and manufacture as well as other costs incurred in order to bring the inventories to their present location and condition as intended by management. The cost of inventories is determined using the weighted average cost method. Write-downs are raised for inventories that are difficult to sell. Unsaleable inventories are fully written off.

3.7 Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated depreciation/amortisation and impairment losses. In addition to the purchase cost and the costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, purchase or manufacturing cost also includes the estimated costs for dismantling and restoration of the site. The construction costs of self-constructed assets include directly attributable costs as well as indirect costs of material, manufacture and administration. Borrowing costs are capitalised insofar as they can be allocated directly to the acquisition or production of a qualifying asset. Costs of replacement, renewal or renovation of property, plant and equipment are capitalised as replacement investments if a future inflow of economic benefits is probable and the purchase or manufacturing costs can be measured reliably. The carrying amount of the parts replaced is de-recognised. Maintenance costs and repairs which are not capable of being capitalised are expensed. Systematic depreciation is calculated using the straight-line method with the exception of land, which is not depreciated. The estimated useful lives for the main categories of property, plant and equipment are:

Category	Years
Buildings and leasehold improvements	10 to 40
Cables [1]	30
Ducts [1]	40
Transmission and switching equipment [1]	4 to 15
Other technical installations [1]	3 to 15
Other installations	3 to 15

[1] Technical installations.

Whenever significant parts of an item of property, plant and equipment comprise individual components with differing useful lives, each component is depreciated/amortised separately. The estimated useful lives and residual values are reviewed at least annually as of the balance sheet date and, if necessary, adjusted. Leasehold improvements and installations in leased premises are amortised on a straight-line basis over the shorter of their estimated useful lives and the remaining minimum lease term. The carrying amount of an item of property, plant and equipment is written off on disposal or whenever no future economic benefits are expected from its use. Gains and losses arising on the disposal of property, plant and equipment are calculated as the difference between the disposal proceeds and the carrying amount of the item of property, plant and equipment. They are taken to income and recorded as other income or other operating expenses.

3.8 Business combinations and goodwill

Business combinations are accounted for using the acquisition method. As of the date of the business combination, acquisition costs are recognised at fair value. The purchase consideration includes the amount of cash paid as well as the fair value of the assets ceded, liabilities incurred or assumed as well as own equity instruments ceded. Liabilities depending on future events based upon contractual agreements are recognised at fair value. At the time of acquisition, all identifiable assets and liabilities that satisfy the recognition criteria are recognised at their fair values. The difference between the cost of acquisition and the fair value of the identifiable assets and liabilities acquired or assumed is accounted for as goodwill after taking into account any non-controlling interests. Any negative difference, after further review, is expensed directly. Goodwill acquired in connection with a business combination is recognised under intangible assets. The goodwill is not amortised on a systematic basis but reviewed for impairment at least annually. When an entity is disposed of, the carrying amount of the goodwill is derecognised and recorded as a component of the gain or loss on disposal.

3.9 Other intangible assets

Research and development costs

Research costs are not capitalised but expensed as incurred. Development costs are capitalised as intangible assets only if they can be identified as an intangible asset which will generate future economic benefits and the costs of this asset can be determined reliably.

Other intangible assets

Mobile phone licenses, self-developed software as well as other intangible assets are recorded at purchase or manufacturing cost less accumulated amortisation. Intangible assets resulting from business combinations, such as brands and customer relationships, are recorded at acquisition cost corresponding to fair value as of the date of acquisition, less accumulated amortisation. Systematic amortisation of mobile phone licenses is based on the term of the contract. It begins as soon as the related network is operational, unless other information is at hand which would suggest the need to modify the useful life.

Useful lives of other intangible assets

Systematic amortisation is computed using the straight-line method based on the following estimated useful lives:

Category	Years
Software internally generated and purchased	3 to 7
Customer relationships	7 to 11
Brands	5 to 10
Other intangible assets	3 to 16

The estimated useful lives are reviewed at least once per year as of the balance sheet date and, where necessary, adjusted.

3.10 Non-current assets held for sale

A non-current asset or a disposal group is classified as being held for sale if its carrying amount will be recovered mainly as a result of a sales transaction and not through continued use. This condition is only considered as being met if the non-current asset or disposal group is immediately available for sale in its present condition and disposal is highly likely. In this respect, it must be assumed that the disposal process to which management has committed itself will be completed within one year from the date of such reclassification. Non-current assets or disposal groups that are held for sale are reported in the balance sheet separately under current assets and liabilities. The assets or disposal groups are valued at the lower of their carrying amount and fair value less costs of disposal. Impairment losses resulting from the initial classification are recognised in the income statement. Assets classified as held for sale and disposal groups are no longer depreciated or amortised.

3.11 Impairment losses

Impairment of financial assets

As of each balance sheet date, the carrying amounts of those financial assets for which changes in fair value are not recognised in the income statement are reviewed for any objective indications of impairment in value. An impairment loss is recognised where there is objective evidence of impairment, such as where the borrower is in bankruptcy, in default or other significant financial difficulties. The impairment of a financial asset which is recorded at amortised cost is calculated as the difference between its carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective interest rate. Available-for-sale financial assets whose fair value is less than their acquisition cost for a prolonged period or to a significant degree are considered to be value impaired. In the event of impairment, the losses are reclassified out of equity and recognised as financial expense. As of each balance sheet date, significant financial assets are individually reviewed for impairment. The recording of impairment losses on trade and other receivables varies as a function of the nature of the underlying transaction either in the form of specific valuation allowances or as portfolio-based lump-sum valuation allowances which cover the anticipated default risk. As regards portfolio-based lump-sum valuation allowances, financial assets are regrouped on the basis of similar credit risk characteristics and reviewed on a collective basis for impairment in value; where applicable, an allowance is raised. In determining the anticipated future cash flows of the portfolio, historic default rates are taken into account in addition to the contractually agreed payment conditions. Impairment losses on trade and other receivables are recognised as other operating expenses. Impairment losses on other financial assets are recorded as financial expense.

Impairment of goodwill

For the purposes of the impairment test, goodwill is allocated to cash-generating units. The impairment test is performed in the fourth quarter after completion of business planning. If there is any indication during the year that goodwill may be impaired, the cash-generating unit is tested for impairment at that time. An impairment loss is recognised if the recoverable amount of a cash-generating unit is lower than its carrying amount. The recoverable amount is the greater of the fair value less costs to sell and the value in use. The method used to test impairment is described in Note 24. Any impairment loss on goodwill recognised in prior periods may not be reversed in subsequent periods.

Impairment of property, plant and equipment and other intangible assets

If indications exist that the value of an asset may be impaired, the recoverable amount of the asset is determined. If the recoverable amount of the asset, which is the greater of the fair value less cost to sell and the value in use, is less than its carrying amount, the carrying amount is reduced to the recoverable amount.

3.12 Leases

Finance leases

A lease is recorded as a finance lease when substantially all of the risks and rewards incidental to ownership of an asset are transferred. The asset is initially recorded at the lower of its fair value and the present value of the minimum lease payments and is amortised over the lesser of the asset's useful life and the lease term. The interest component of the lease payments is recognised as interest expense over the lease term using the effective interest method. Leases for land and buildings are recorded separately if the lease payments can be reliably allocated. Gains on sale-and-leaseback transactions are deferred and released on a straight-line basis over the lease term as other income. Losses on sale-and-leaseback transactions are recognised immediately.

Operating leases

Lease arrangements which do not transfer all the significant risks and rewards of ownership are classified as operating leases. Payments are recorded as other operating expense using the straight-line method over the lease period. Gains and losses on sale-and-leaseback transactions are recorded directly in the income statement.

3.13 Financial liabilities

Financial liabilities are initially measured at fair value less direct transaction costs. In subsequent accounting periods, they are re-measured at amortised cost using the effective interest method.

3.14 Trade and other payables

Trade and other payables are recorded at amortised cost.

3.15 Provisions

Provisions for termination benefits

Costs relating to the implementation of personnel downsizing programmes are expensed in the period when management commits itself to a downsizing plan, it is probable that a liability has been incurred, the amount thereof can be reliably estimated and the implementation of the programme has started or the individuals involved have been advised in sufficient detail as to the main terms of the downsizing programme. A public announcement and/or communication to personnel organisations are deemed to be equivalent to commencing the implementation of the programme.

Provisions for dismantling and restoration costs

Swisscom is legally obligated to dismantle transmitter stations and telecommunication installations located on land belonging to third parties following decommissioning and to restore the property owned by third parties in the locations where these installations are located to its original state. The costs of dismantling are capitalised as part of the acquisition costs of the installations and are amortised over the useful lives of the installations. The provisions are recorded at the present value of the aggregate future costs and are reported under long-term provisions. Whenever the provision is remeasured, the present value of the changes in the liability are either added to or deducted from the cost of the related capitalised asset. The amount deducted from the cost of the related capitalised asset shall not exceed its carrying amount. Any excess is taken directly to the income statement.

Other provisions

Provisions are raised whenever a legal or de facto liability exists as a result of an occurrence in the past, an outflow of resources to settle the liability is probable and the amount of the liability can be estimated reliably. Provisions are discounted if the effect is material.

3.16 Segmentation and revenue recognition

General

Net revenue is measured at the fair value of the consideration received less value-added taxes, price reductions, volume rebates and other reductions in sales proceeds. Revenues are recognised when it is probable that a future benefit from the transaction will accrue to Swisscom and the amount can be reliably estimated. When Swisscom acts as principal, revenues are recorded gross. However, when, from an economic point of view, Swisscom acts only as a broker or agent, revenues are reported net of related costs. In multi-component contracts, revenue is determined and reported separately for each identifiable component part. Total consideration for a multi-component contract is distributed over the various component parts at fair value on a pro-rata basis.

Services by segments

Residential Customers

The segment Residential Customers comprises mainly connection fees for broadband services, fixed-network and mobile phone subscriptions as well as national and international telephone and data traffic for residential customers. The segment also includes value-added services, TV offerings, the sale of terminal equipment and the operation of a directories database.

Small and Medium-Sized Enterprises

The segment Small and Medium-Sized Enterprises primarily comprises connection fees for broadband services, fixed-network and mobile phone subscriptions as well as national and international telephone and data traffic for small and medium-sized enterprises.

Corporate Business

The Corporate Business segment focuses on complete communication solutions for large business customers. The product offerings in the field of business ICT infrastructure cover everything from individual products to complete solutions.

Wholesale

Wholesale comprises mainly the use of Swisscom fixed and mobile networks by other telecommunication service providers and the use of third-party networks by Swisscom. It also consists of roaming with foreign operators whose customers use Swisscom's mobile networks, as well as broadband services and regulated products as a result of the unbundling of the "last mile" for other telecommunication service providers.

Network & IT

Network & IT encompasses primarily the planning, operation and maintenance of Swisscom's network infrastructure and related IT systems, both for fixed and mobile phone networks. Network & IT also includes support functions for Swisscom Switzerland in the fields of finance, human resources and strategy.

Fastweb

Fastweb is one of the largest providers of broadband services in Italy. Its product portfolio comprises voice, data, Internet and IP-TV services as well as video-on-demand for residential and corporate customers. In addition, Fastweb offers mobile phone services on the basis of an MVNO contract (as a virtual network operator). It also provides comprehensive network services and customised solutions.

Other Operating Segments

Other Operating Segments mainly comprises Swisscom IT Services, Swisscom Real Estate and Participations. It also comprises the areas Health, Connected Living and Swisscom Hospitality Services. Swisscom IT Services is a provider of information technology services. Its core business consists of the integration and operation of complex IT infrastructures. In addition, Swisscom IT Services provides comprehensive services to the financial industry in the area of system integration and business process outsourcing. Furthermore, Swisscom IT Services offers a full range of SAP services. Participations comprise mainly the subsidiaries Alphapay Ltd, Billag Ltd, Business Fleet Management Ltd, cablex Ltd and Swisscom Broadcast Ltd. Alphapay Ltd is active as a debt collection agent and is specialised in receivables management for third parties. Billag Ltd collects radio and TV license fees on behalf of the Swiss Confederation. Business Fleet Management Ltd offers mobility services. cablex Ltd operates in the field of construction and maintenance of wired and wireless networks in Switzerland, primarily in the field of telecommunication. Swisscom Broadcast Ltd is the leading provider in Switzerland of radio services, of cross-platform services for customers in the media field and of securitised radio transmissions.

Revenue generated from services

Fixed networks

Fixed network services encompass primarily connection fees to residential and corporate customers, national and international telephony traffic for residential and business customers, leased lines, the use of Swisscom's fixed network by other telecommunication service providers, payphone services, operator services as well as prepaid calling cards and the sale of terminal equipment. Installation and connection fees are deferred and released to income over the minimum term of the contract on a straight-line basis. If no minimum contract term has been agreed, the revenue is recorded on the date of installation or connection. Revenue from telephony services is recorded at the time the calls are made. Revenue from the sale of prepaid call cards is deferred and released to income as and when actual minutes are used or when the cards expire. Revenue from leased lines is recorded on a straight-line basis over the duration of the contract. Revenue arising from the sale of equipment is recorded at the time of delivery.

Mobile

Mobile-phone services encompass mainly basic subscription charges, domestic and international mobile phone traffic for calls made by Swisscom customers in Switzerland or abroad and roaming by foreign operators whose customers use Swisscom's networks. Mobile services also include value-added services, data traffic as well as the sale of mobile handsets. Revenue from mobile telephony is recorded on the basis of the actual minutes used. In part, subscriptions with a fixed monthly flat-rate fee are offered, the revenue from which is recognised on a straight-line basis over the term of the contract. Connection fees are deferred and released to income over the minimum term of the contract on a straight-line basis. If no minimum contract term has been agreed, revenue is recognised on the date of connection. Roaming services are recorded as revenue on the basis of the minutes used or the agreed contractual rates at the time the service is provided. Revenue from roaming services with other telecommunication service providers is recorded gross. Value-added services as well as text or multimedia news and the sale of mobile handsets are recognised as revenue at the time the service is provided.

Broadband
Internet services include the range of broadband access lines offered to residential and corporate customers as well as broadband access lines for wholesale customers. Revenues in connection with the provision of these services are deferred and released to income over the minimum contract term on a straight-line basis. If no minimum contract term has been agreed, the revenue is recognised on the date of installation or connection.

Digital TV
In the TV sector, revenue is generated from the range of digital TV services and video-on-demand offered for residential and corporate customers. Revenue from TV services contains non-recurring installation and connection charges and recurring subscription fees. Installation and connection fees related to installations are deferred and released to income over the minimum contract term on a straight-line basis. If no minimum contract term has been agreed upon, the revenue is recorded on the date of installation or connection.

Communication and IT solutions
Services in the field of communication and IT solutions primarily include consultancy services as well as the implementation and maintenance and operation of communication infrastructures. Furthermore, they include applications and services as well as the integration, operation and maintenance of data networks and outsourcing services. Revenues from customer-specific construction contracts are accounted for using the percentage-of-completion method which is based on the ratio of costs incurred to-date to the estimated total costs. Revenue for long-term outsourcing contracts is recorded based on the volume of services provided to the customer. Start-up costs and integration of new outsourcing transactions are capitalised as other assets and amortised on a straight-line basis over the duration of the contract. Revenue from maintenance is recorded evenly over the term of the maintenance contracts.

3.17 Subscriber acquisition and loyalty-programme costs

Swisscom pays commissions to dealers for the acquisition and retention of Swisscom customers. The commission payable is dependent on the type of subscription. Subscriber acquisition and loyalty-programme costs are expensed immediately, since these costs do not meet the criteria for the recognition of an intangible asset.

3.18 Post-employment benefits

Defined benefit obligations and the related pension expense are determined on an actuarial basis using the projected unit credit method. This reflects the number of years of service completed by employees through the date of measurement and the assumptions made concerning future salary growth. The latest actuarial valuation was undertaken as at 31 December 2014. Current pension entitlements are charged to income in the period in which they arise. Actuarial gains and losses are recorded under other comprehensive income in the reporting period in which they arise.

3.19 Share-based payments

The cost of shares issued to employees, members of the Group Executive Board and of the Board of Directors is equal to the fair value of the shares at the date of issuance. The related costs are recorded as personnel expense in the period in which the entitlement arose.

3.20 Income taxes

Income taxes include all current and deferred taxes which are based on income. Taxes which are not based on income, such as taxes on real estate and on capital are recorded as other operating expenses. Deferred taxes are computed using the balance sheet liability method whereby deferred tax is recognised in principle on all temporary differences. Temporary differences arise between the value of an asset or liability reported for tax purposes and its carrying amount in the financial statements and which will reverse in future periods. Deferred tax assets and liabilities are determined using the tax rates that are expected to apply when the temporary difference reverses and based on the tax rates which are in force or announced as of the balance sheet date. Deferred tax assets are only recognised as assets to the extent that it is probable that they can be offset against future taxable income. Income tax liabilities on undistributed profits of Group companies are only recorded if the distribution of profits is to be made in the foreseeable future. Current and deferred tax assets and liabilities are netted when they relate to the same taxing authority and taxable entity.

3.21 Derivative financial instruments

Derivative financial instruments are initially recorded at fair value and subsequently remeasured at fair value. The method of recording the fluctuations in fair value is dependent on the underlying transaction and the intention with regards thereto upon purchase or issuance of this underlying transaction. On the date a derivative contract is entered, management designates the purpose of the hedging relationship: hedge of the fair value of an asset or liability ("fair value hedge") or a hedge of future cash flows in the case of future transactions ("cash flow hedge"). Changes in the fair value of derivative financial instruments that were designated as hedging instruments for "fair value hedges" are recognised in the income statement. Changes in the fair value of derivative financial instruments that were designated as "cash flow hedges" are recognised in the hedging reserve as part of equity. If the recognition of a non-financial asset or non-financial liability results from an anticipated future transaction, the cumulative revaluation gains and losses are reclassified from equity and included in the acquisition cost of the asset or liability. If a hedge of a future transaction later results in the recording of a financial asset or financial liability, the amount included in equity is transferred to the income statement in the same period in which the financial asset or financial liability impacts the result. Otherwise, the amounts recorded in equity are recognised in the income statement as income or expense in the same period the cash flows of the intended or agreed future transaction occur. Changes in the fair value of derivative financial instruments that are not designated as hedging instruments are taken immediately to income.

3.22 New and amended Standards and Interpretations

Amended International Financial Reporting Standards and Interpretations which will have to be applied for the first time in the accounting period

As from 1 January 2014 onwards, Swisscom adopted various amendments to existing International Financial Reporting Standards (IFRS) and Interpretations, which have no material impact on the results or financial position of the Group.

Standard	Name
Amendments to IFRS 10, IFRS 12 and IAS 27	Definition of Investment entities
Amendments to IAS 39	Novation of OTC derivatives and continuing designation for hedge accounting
IFRIC 21	Levies

Amended International Financial Reporting Standards and Interpretations, whose application is not yet mandatory

The following Standards and Interpretations published up to the end of 2014 are mandatory for accounting periods beginning on or after 1 January 2015:

Standard	Name	Effective from
IFRS 9	Financial instruments	1 January 2018
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	1 January 2016
Amendments to IFRS 11	Accounting for acquisitions of interests in a joint operation	1 January 2016
IFRS 14	Regulatory accrual item	1 January 2016
IFRS 15	Revenue from contracts with customers	1 January 2017
Amendments to IAS 1	Disclosure initiative	1 January 2016
Amendments to IAS 16 and IAS 38	Clarification acceptable methods of depreciation and amortisation	1 January 2016
Amendments to IAS 16 and IAS 41	Agriculture: Bearer plants	1 January 2016
Amendments to IAS 19	Defined benefit plans: employee contributions	1 January 2015
Amendments to IAS 27	Equity method in separate financial statements	1 January 2016
Various	Improvements to IFRS 2010–2012	1 January 2015
Various	Improvements to IFRS 2011–2013	1 January 2015
Various	Improvements to IFRS 2012–2014	1 January 2016

Swisscom will review its financial reporting for the impact of the new and amended Standards which take effect on or following 1 January 2015 and for which Swisscom did not make voluntary early application. At present, Swisscom anticipates no material impact on consolidated financial reporting with the exception of the amendment described in the following paragraph.

IFRS 15 "Revenue from Contracts with Customers": in contrast to the revenue recognition standards currently in force, the new Standard provides for a single, principles-based, five-step model which is to be applied to all contracts with customers. In accordance with IFRS 15, the amount which is expected to be received from customers as consideration for the transfer of goods and services is to be recognised as revenue. As regards determining the time or period, it is no longer a question of the transfer of risks and opportunities but of the transfer of control over the goods and services to the customers. As regards multi-component contracts, IFRS 15 explicitly rules that the transaction price is to be allocated to each distinct performance obligation in relation to the relative stand-alone selling prices. Furthermore, the new Standard contains new rules regarding the costs of fulfilment and obtaining a contract as well as guidelines as to the question when such costs are to be capitalised. In addition, the new Standard requires new, more detailed note disclosure information. Swisscom anticipates that the wide-ranging amendments, in particular in the area of accounting for multi-component contracts and the prescribed capitalisation of customer acquisition costs, will impact consolidated financial reporting. However, a reliable estimate of the impact of IFRS 15 can only be made once a detailed analysis has been performed in a conclusive manner.

4 Significant accounting judgments, estimates and assumptions in applying accounting policies

The preparation of consolidated financial statements is dependent upon estimates and assumptions being made in applying the accounting policies for which management can exercise a certain degree of judgment. In applying the relevant accounting policies to the consolidated financial statements, certain assumptions and estimates have to be made about the future that may have a material influence on the amount and presentation of assets and liabilities, revenues and expenses as well as the disclosures in the notes. The estimates used in drawing up the consolidated financial statements and valuations are based on empirical values and other factors which are deemed appropriate in the given circumstances. The following estimates used and assumptions made in applying the accounting policies have a critical influence on the consolidated financial statements.

Goodwill

As of 31 December 2014, the carrying amount of goodwill from acquisitions totalled CHF 4,987 million. The recoverability of goodwill is tested for impairment annually during the fourth quarter. In addition, an extraordinary review is undertaken whenever there are indications that impairment has occurred. The value of goodwill is primarily dependent upon projected cash flows, the discount rate (WACC) and long-term growth rate. The significant assumptions are disclosed in Note 24. Changes to these assumptions may result in an impairment loss in the following year.

Post-employment benefits

Defined-benefit obligations are calculated on the basis of various financial and demographic assumptions. The key assumptions for valuing the retirement-benefit obligations are the discount rate, future salary and pension increases, interest on pension plan savings as well as life expectancy. As of 31 December 2014, the funding deficit of CHF 2,441 million was recognised as a liability in the consolidated balance sheet. Changes in estimates can impact recorded defined-benefit obligations. The equal distribution of risk prescribed by law and in the regulations in the event of a funding deficit is not taken into account when measuring the obligation. See Note 10.

Provisions for dismantling and restoration costs

Provisions are raised for costs incurred in connection with dismantling and restoring telecommunication installations and transmitter stations. As of 31 December 2014, the carrying amount of these provisions totalled CHF 646 million. The level of the provisions is primarily determined by estimates of future costs for dismantling and restoration and the timing of the dismantling. An increase in the estimated costs by 10% would result in an increase in the provision of CHF 60 million. A postponement of the date of dismantling by ten years would lead to a decrease in the provisions of CHF 29 million. See Note 28.

Provisions for regulatory proceedings

Various proceedings are in course in connection with the setting of prices for regulated access services. Swisscom has set up provisions on the basis of its own estimate of the expected financial outcome thereof. As of 31 December 2014, the provisions for regulatory proceedings aggregated CHF 106 million. Further developments in the proceedings or a decision by the competent court may result in a revised assessment of the financial outcome in subsequent years, thereby leading to an increase or decrease of the recorded provisions. See Note 28.

Proceedings conducted by the Competition Commission

The Competition Commission (ComCo) is conducting an investigation into ADSL prices against Swisscom. The proceedings are described in Note 29. In the event that Swisscom is deemed to have violated Antitrust Law, ComCo is entitled to impose sanctions. On the basis of a legal opinion, Swisscom considers it unlikely that ComCo will impose direct sanctions. Accordingly, no provisions were recognised in the 2014 consolidated financial statements in connection with these proceedings. Further developments in the proceedings may result in a revised assessment of the financial outcome in subsequent years and lead to the need to record provisions.

Allowances for doubtful receivables

Allowances for doubtful receivables are recorded in order to cover foreseeable losses arising from a customer's inability to pay. As of 31 December 2014, the carrying value of allowances for trade and other receivables totalled CHF 210 million. In determining the appropriateness of the allowance, several factors are considered. These include the ageing structure of receivables, the current financial solvency of the customer and the historical experience with receivable losses. The actual level of receivable losses may be higher than the amount recognised if the actual financial situation of the customers is worse than originally expected. See Note 18.

Deferred income tax assets

The recognition of deferred tax assets and liabilities is based on the judgment of management. Deferred tax assets on tax loss carry-forwards are only recognised if it is probable that they can be used. Whether or not they can be used depends on whether taxable profits can be achieved in the future which can be offset against the available tax loss carry-forwards. In order to assess the probability of their future use, estimates must be made of various factors such as future profitability. If the actual results differ from the estimates, this can lead to a change in the assessment of recoverability of the deferred tax assets. On 31 December 2014, recognised deferred tax assets amounted to CHF 950 million. See Note 15.

Useful lives of property, plant and equipment

As of 31 December 2014, the carrying amount of property, plant and equipment totalled CHF 9,720 million. In assessing the useful life of an item of property, plant and equipment, the expected use of the asset by the company, expected physical wear and tear, technological developments as well as past experience with comparable assets are considered. The assessment of useful lives is based upon the judgment of management. A change in the useful lives may impact the future level of depreciation and amortisation recorded. See Notes 3.7 and 23.

5 Business combinations

Business combinations in 2014

In 2014, Swisscom made payments totalling CHF 305 million for the acquisition of Group companies. Of this amount, CHF 288 million relates to the takeover of PubliGroupe in September 2014.

Public takeover of PubliGroupe SA

In June 2014, Swisscom launched a public takeover bid for PubliGroupe SA (PubliGroupe). Swisscom offered the shareholders of PubliGroupe a price of CHF 214 per share, which corresponds to a total purchase consideration of CHF 474 million. Upon expiration of the offer period on 25 August 2014, Swisscom held 98.37% of the share capital of PubliGroupe and the takeover was consummated on 5 September 2014. The purchase consideration for the 98.37% of the share capital was CHF 466 million. Because the threshold of 98% within the framework of public takeover bid was exceeded, Swisscom may initiate a procedure to have the remaining non-controlling interests cancelled in consideration for the payment of the offer price of CHF 214 per share. The purchase consideration of CHF 8 million for the remaining 1.63% of the share capital was recognised as a liability in the third quarter of 2014.

The takeover of PubliGroupe was primarily to achieve full control over and further develop the Local Group. PubliGroupe is active primarily in the Swiss directories market and owns a 51% shareholding in LTV Yellow Pages Ltd and a 49% shareholding in Swisscom Directories Ltd and local.ch Ltd (Local Group). Prior to the acquisition, Swisscom had held a 49% interest in LTV Yellow Pages Ltd and a 51% shareholding in Swisscom Directories Ltd and local.ch Ltd. Until then, Swisscom Directories Ltd and local.ch Ltd were treated as fully consolidated subsidiaries in the consolidated financial statements of Swisscom and LTV Yellow Pages Ltd was accounted for as an associated company. Of the purchase consideration, an amount of CHF 162 million represents the acquisition of the outstanding non-controlling interests in Swisscom Directories Ltd and local.ch Ltd. As Swisscom held a controlling interest in Swisscom Directories Ltd and local.ch Ltd prior to the takeover, the transaction is dealt with in shareholders' equity. The carrying value in Swisscom's consolidated financial statements of its 49% shareholding in LTV Yellow Pages Ltd at the time of the takeover amounted to CHF 26 million. In accordance with IFRS, the difference of CHF 82 million between the carrying value and the fair value was recognised as other financial income in the third quarter of 2014. Following the takeover, LTV Yellow Pages Ltd and local.ch Ltd were merged into Swisscom Directories Ltd. PubliGroupe holds, in addition, further shareholdings in media companies and media service providers as well as being the owner of real estate properties. Swisscom plans to sell the shareholdings as well as the real-estate properties to the media companies. For further information see Note 22. Swisscom will examine all options regarding the further shareholdings. By the end of 2014, various investments were sold to media companies for a price of CHF 57 million.

In accordance with IFRS, the acquisition costs for the acquisition of PubliGroupe amounted to CHF 420 million. This is comprised of the purchase price for PubliGroupe shares of CHF 474 million and the fair value of the previous 49% participation in LTV Yellow Pages Ltd of CHF 108 million, less the fair value of the non-controlling shares of Swisscom Directories Ltd and local.ch Ltd of CHF 162 million. The business combination was accounted for provisionally in the consolidated financial statements as at 31 December 2014, since not all the necessary information concerning the acquired foreign operations was available at the time of preparing these year-end financial statements. The provisional allocation of acquisition costs to the net assets of PubliGroupe may be analysed as follows:

In CHF million	2014
Cash and cash equivalents	16
Other financial assets	42
Non-current assets held for sale. See Note 22.	137
Investments in associates. See Note 25.	48
Property, plant and equipment	4
Other intangible assets	63
Receivables from pension plans	15
Other current and non-current assets	48
Deferred tax liabilities	(11)
Financial liabilities	(20)
Other current and non-current liabilities	(114)
Identifiable assets and liabilities	**228**
Goodwill	192
Purchase consideration	**420**
Cash and cash equivalents acquired	(16)
Investments in associates. See Note 25.	(108)
Deferred payment of purchase price	(8)
Total cash outflow	**288**

The gross value of the trade receivables acquired amounts to CHF 47 million. At the time of the takeover, it was anticipated that, of this amount, CHF 7 million was irrecoverable. The main reasons for the recognition of goodwill are the future anticipated synergies and additional market shares as well as the qualified employees. Transaction costs of CHF 1 million were recorded as other operating expenses in connection with the takeover of PubliGroupe. Swisscom's consolidated financial statements as of and for the year ended 31 December 2014 reflect additional net revenues of CHF 41 million as well as net income of CHF 6 million since the takeover of PubliGroupe on 5 September 2014. On the assumption that PubliGroupe had been included in the consolidated financial statements as from 1 January 2014, there would have resulted consolidated pro-forma net revenues of CHF 11,753 million and a consolidated pro-forma net income of CHF 1,712 million.

Business combinations in 2013

Payments totalling CHF 60 million were made in 2013 for the acquisition of Group companies. Of this amount, CHF 3 million relates to deferred consideration for business combinations in prior years and CHF 57 million for businesses acquired in 2013. The newly acquired companies in 2013 are viewed individually as non-significant business combinations and are thus reported on an aggregate basis.

In February 2013, Hospitality Services acquired the operating business of Deuromedia. Deuromedia provides IP-based infotainment solutions for the hospitality market.

At the end of March 2013, Datasport Ltd acquired the entire share capital of Abavent GmbH. Abavent GmbH is a German provider of sporting events.

In April 2013, Swisscom IT Services acquired the business platform from Entris Banking and in doing so, the entire capital of Entris Integrator AG. Using the business platform of Entris Integrator AG, banks execute their banking activities such as the processing of payment transactions, credit and security settlements or e-banking. Following acquisition, the investee changed its name to Swisscom

Banking Provider Ltd. In addition, in June 2013, Swisscom IT Services Ltd acquired the entire share capital of Entris Operations AG. Entris Operations AG processes primarily the cash and securities settlement operations for some 50 banks. Following acquisition, Entris Operations AG was merged into Swisscom Banking Provider Ltd.
Furthermore, Swisscom increased its shareholding in CT Cinetrade Ltd (Cinetrade) from 49% to 75% in April 2013. Cinetrade offers TV-related services, Pay-TV, transmissions of sporting events and video-on-demand. Cinetrade additionally operates one of the leading cinema chains in Switzerland. In December, Swisscom Switzerland acquired a 67% equity holding in DL-Groupe GMG Ltd, which provides services in the field of IP-based managed unified communication and collaboration services. The aggregate allocation of acquisition costs to the net assets may be analysed as follows:

In CHF million	2013
Cash and cash equivalents	55
Property, plant and equipment	32
Other intangible assets	66
Other current and non-current assets	43
Deferred tax liabilities	(15)
Other current and non-current liabilities	(84)
Identifiable assets and liabilities	**97**
Share of identifiable net assets attributable to non-controlling interests	(19)
Goodwill	159
Purchase costs	**237**
Cash and cash equivalents acquired	(55)
Investments in associates. See Note 25.	(105)
Option from business combinations. See Note 33.	(20)
Cash outflow from business combinations of the current year	**57**
Cash outflow from business combinations of prior years	3
Total cash outflow from business combinations	**60**

The main reasons for the recognition of goodwill are the future anticipated synergies and additional market shares as well as the qualified employees. In the 2013 consolidated financial statements, additional net revenues of CHF 172 million and net income of CHF 17 million were generated from these business combinations. Assuming that the subsidiary companies acquired in 2013 had been included in the consolidated financial statements as from 1 January 2013, there would have resulted consolidated pro-forma net revenues of CHF 11,529 million and a consolidated pro-forma net income of CHF 1,700 million.

6 Segment information

Operating segments requiring to be reported are determined on the basis of the management approach. Accordingly, external segment reporting reflects the internal organisational and management structure used within the Group as well as internal financial reporting to the Chief Operating Decision Maker. The segment information disclosed is in line with that of the internal reporting systems. Reporting is divided into the segments "Residential Customers", "Small and Medium-Sized Enterprises", "Corporate Business", "Wholesale" and "Network & IT" which are grouped under Swisscom Switzerland, "Fastweb" and "Other Operating Segments". In addition, unallocated costs are reported separately under "Group Headquarters".
In segment reporting, the business divisions of Swisscom Switzerland are reported as individual segments. The support functions of finance, human resources and strategy of Swisscom Switzerland are embedded in the division Network & IT. No network costs are recharged for the financial management of customer segments. The results of the customer segments Residential Customers, Small and Medium-Sized Enterprises, Corporate Business and the segment Wholesale thus report their contribution margins prior to network costs. Network costs are planned, monitored and controlled by the business division Network & IT which is managed as a cost centre. For this reason,

no revenue is credited to the Network & IT division within segment reporting. The segment results of Network & IT consist of operating expenses and depreciation and amortisation less capitalised self-constructed assets and other income. The sum of the segment results of Swisscom Switzerland corresponds in aggregate to the operating results (EBIT) of Swisscom Switzerland. Fastweb is one of the largest fixed-network operators and a leading provider of IP-based services in Italy. It is reported in the consolidated financial statements as a separate segment. Other Operating Segments principally comprise Swisscom IT Services, Swisscom Real Estate and the area Participations. Group Headquarters which includes unallocated costs, comprises mainly the Group central divisions of Swisscom, Swisscom Re Ltd and the employment company Worklink Ltd.

The services offered by each operating segment are described in Note 3.16. The segment results of the segments Fastweb and Other Operating Segments correspond to the operating result (EBIT) of these units. The latter reflects the net revenues from external customers and other segments less segment expenses and depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets. Segment expenses include the costs of materials and services, personnel costs and other operating costs less capitalised self-constructed assets and other income. The segment expense includes ordinary employer contributions as retirement-benefit expense. The difference between the ordinary employer contributions and the retirement-benefit expense as provided for under IAS 19 is reported in the column "Eliminations". In 2014, no costs are included in the column "Eliminations" as a reconciling item to retirement-benefit expense in accordance with IAS 19 (prior year: gain of CHF 17 million).

Group Headquarters charges no management fees to other segments for its financial management services; similarly, the segment Network & IT recharges no network costs to the other segments. Other inter-segment services are recharged at market prices. Unrealised gains and losses may arise as a result of recharging services and sales of assets between the segments. These are eliminated and are reported in the segment information in the column "Eliminations". Capital expenditures by segment include additions to property, plant and equipment and other intangible assets.

Segment information for 2014 of Swisscom may be analysed as follows:

2014, in CHF million	Swisscom Switzerland	Fastweb	Other operating segments	Group Head-quarters	Elimi-nation	Total
Net revenue from external customers	8,571	2,043	1,088	1	–	11,703
Net revenue with other segments	60	4	801	1	(866)	–
Net revenue	**8,631**	**2,047**	**1,889**	**2**	**(866)**	**11,703**
Segment result	**2,403**	**(119)**	**186**	**(126)**	**(22)**	**2,322**
Financial income and financial expense, net						(260)
Share of results of associates						26
Income before income taxes						**2,088**
Income tax expense						(382)
Net income						**1,706**
Associates	68	47	56	–	–	171
Assets held for sale	–	–	80	–	–	80
Capital expenditure in property, plant and equipment and other intangible assets	1,571	682	236	–	(29)	2,460
Depreciation, amortisation and impairment losses	1,173	744	175	5	(6)	2,091
Gain (loss) on disposal of property, plant and equipment, net	(2)	–	51	–	–	49
Share of results of associates	26	–	–	–	–	26

Segment information 2014 of Swisscom Switzerland is to be analysed as follows:

2014, in CHF million	Residential Customers	Small and Medium-Sized Enterprises	Corporate Business	Whole-sale	Network & IT	Elimi-nation	Total Swisscom Switzer-land
Net revenue from external customers	5,168	1,139	1,694	570	–	–	8,571
Net revenue with other segments	158	20	94	359	–	(571)	60
Net revenue	**5,326**	**1,159**	**1,788**	**929**	**–**	**(571)**	**8,631**
Segment result	**2,823**	**850**	**832**	**381**	**(2,483)**	**–**	**2,403**
Associates	3	–	–	64	1	–	68
Capital expenditure in property, plant and equipment and other intangible assets	172	25	83	–	1,291	–	1,571
Depreciation, amortisation and impairment losses	128	6	68	–	971	–	1,173
Gain (loss) on disposal of property, plant and equipment, net	(1)	–	–	–	(1)	–	(2)
Share of results of associates	2	–	–	24	–	–	26

Segment information 2013 of Swisscom is to be analysed as follows:

2013, in CHF million	Swisscom Switzerland	Fastweb	Other operating segments	Group Head-quarters	Elimi-nation	Total
Net revenue from external customers	8,389	2,013	1,032	–	–	11,434
Net revenue with other segments	60	5	787	1	(853)	–
Net revenue	**8,449**	**2,018**	**1,819**	**1**	**(853)**	**11,434**
Segment result	**2,443**	**(120)**	**108**	**(135)**	**(38)**	**2,258**
Financial income and financial expense, net						(259)
Share of results of associates						30
Income before income taxes						**2,029**
Income tax expense						(334)
Net income						**1,695**
Associates	93	49	11	–	–	153
Assets held for sale	–	–	13	–	–	13
Capital expenditure in property, plant and equipment and other intangible assets	1,516	695	244	–	(10)	2,445
Depreciation, amortisation and impairment losses	1,104	740	195	8	(3)	2,044
Gain (loss) on disposal of property, plant and equipment, net	(10)	–	13	–	–	3
Share of results of associates	30	–	–	–	–	30

Segment information 2013 of Swisscom Switzerland is to be analysed as follows:

2013, in CHF million	Residential Customers	Small and Medium-Sized Enterprises	Corporate Business	Whole-sale	Network & IT	Elimi-nation	Total Swisscom Switzer-land
Net revenue from external customers	4,985	1,128	1,688	588	–	–	8,389
Net revenue with other segments	160	23	99	378	–	(600)	60
Net revenue	**5,145**	**1,151**	**1,787**	**966**	**–**	**(600)**	**8,449**
Segment result	**2,790**	**859**	**832**	**384**	**(2,423)**	**1**	**2,443**
Associates	29	–	–	63	1	–	93
Capital expenditure in property, plant and equipment and other intangible assets	199	17	92	–	1,208	–	1,516
Depreciation, amortisation and impairment losses	108	5	75	–	917	(1)	1,104
Gain (loss) on disposal of property, plant and equipment, net	–	–	(1)	–	(9)	–	(10)
Share of results of associates	9	–	–	21	–	–	30

Disclosures by geographical regions

Swisscom's operations are conducted mainly in Switzerland where it provides a comprehensive range of telecommunication services. Business activities abroad mainly relate to Fastweb and Swisscom Hospitality Services. Fastweb primarily provides fixed-network and IP-based products in Italy. Swisscom Hospitality Services is a provider of broadband and Internet-based solutions for hotel guests in virtually all of Europe, the United States and Asia. Net revenues and assets are allocated to regions. Net revenues and assets are allocated according to the registered office of the related Group company.

	2014		2013	
In CHF million	Net revenue	Non-current assets	Net revenue	Non-current assets
Switzerland	9,586	13,423	9,358	12,726
Italy	2,048	3,281	2,020	3,414
Other countries in Europe	55	151	48	87
Other countries outside Europe	14	–	8	1
Not allocated	–	651	–	472
Total	**11,703**	**17,506**	**11,434**	**16,700**

Disclosures by products and services

In CHF million	2014	2013
Mobile access lines single subscriptions	2,852	2,874
Fixed access lines single subscriptions	3,832	4,027
Bundles	1,938	1,576
Other	3,080	2,956
Not allocated	1	1
Total net revenue	**11,703**	**11,434**

The products and services offered by each operating segment are described in Note 3.16.

Significant customers

Swisscom has a large number of customers. No individual customers accounted for more than 10% of segment revenue in 2013 and 2014.

7 Net revenue

In CHF million	2014	2013
Net revenue from services	10,874	10,556
Net revenue from sale of merchandise	828	875
Net revenue from the right of use of intangible assets	1	3
Total net revenue	**11,703**	**11,434**

Further information on Swisscom's business activities is set out in Notes 3.16 and 6.

8 Goods and services purchased

In CHF million	2014	2013
Raw materials and supplies	42	24
Services purchased	503	502
Customer premises equipment and merchandise	1,103	1,022
National traffic fees	176	180
International traffic fees	246	265
Traffic fees of foreign subsidiaries	299	345
Total goods and services purchased	**2,369**	**2,338**

9 Personnel expense

In CHF million	2014	2013
Salary and wage costs	2,194	2,132
Social security expenses	232	224
Expense of defined benefit plans. See Note 10.	244	258
Expense of defined contribution plans. See Note 10.	10	11
Expense of share-based payments. See Note 11.	5	6
Salary and wage costs of the employment company Worklink	5	2
Termination benefits	(1)	6
Other personnel expense	62	67
Total personnel expense	**2,751**	**2,706**

Termination benefit programmes

Swisscom supports employees affected by downsizing through a social plan. Depending on the relevant social plan as well as age and length of service, certain employees affected by downsizing may transfer to the employment company Worklink Ltd. The employment company Worklink Ltd hires out participating employees to third parties on a temporary basis. For further information see Note 28.

10 Post-employment benefits

Defined-benefit plans

Swisscom maintains several pension plans for employees in Switzerland and Italy. Expenses of defined benefit plans totalled CHF 268 million in 2014 (prior year: CHF 295 million). Of this amount, CHF 244 million (prior year: CHF 258 million) was recorded as personnel expense and CHF 24 million (prior year: CHF 37 million) as finance expense.

comPlan

The majority of Swisscom's employees in Switzerland are insured for the risks of old age, death and disability by the independent pension plan, comPlan. The benefits of comPlan exceed the minimum laid down in the Federal Law on Occupational Retirement, Survivors' and Disability Insurance (BVG). The ordinary employer contributions encompass risk contributions of 3.35% and contributions varying with age of 5-13% of the insured salary to be credited to the individual retirement savings' accounts. The standard retirement age is 65. Employees qualify for early retirement at the earliest on their 58th birthday, whereby the rate of conversion is reduced in line with the longer expected duration of pension payments. Furthermore, employees may choose to take their entire pension or part thereof in the form of a capital payment. The amount of the pension paid results from the conversion rate which is applied to the accumulated savings of the individuals concerned in the case of retirement. For individuals retiring at the age of 65, the rate of conversion is 6.4% up to the end of 2013. From 2014 onwards, the conversion rate was reduced to 6.11%. The accumulated savings result from employee and employer contributions which are paid into the individual savings account of each individual insured person as well as the interest accruing on the accumulated savings. The interest rate to be applied to the accumulated pension savings is defined annually by the Foundation Council of comPlan. comPlan has the legal form of a foundation. The Foundation Council, which is constituted by an equal number of representatives of the employer and employees, is responsible for the management of the Foundation. The duties of the Foundation Council are laid down in the BVG and the Pension Fund Rules. In accordance with BVG, a temporary shortfall is permitted. The Foundation Council must take appropriate measures in order to solve the shortfall within a reasonable time. Pursuant to BVG, additional employer and employee contributions may be incurred whenever a significant shortfall in accordance with BVG arises. In such cases, the risk is split between the employer and employees and the employer is not legally obligated to assume more than 50% of the additional contributions. As of 31 December 2014, the funding ratio as defined by BVG of comPlan was 111% (prior year: 106%). The Investment Commission is the central management, coordination and monitoring body for the management of the pension plan assets. The pension plan assets are administered using mandated, independent financial service providers. Monitoring is supported by an external investment controller. The Foundation Council determines the investment strategy within the framework of the legal provisions. Within its terms of reference, the Investment Commission may undertake the asset allocation.

Other pension plans

In addition to various smaller pension plans in Switzerland, other pension plans include the pension plan for Fastweb employees and the pension plan of the PubliGroupe. Employees of the Italian subsidiary Fastweb have acquired entitlements to future pension benefits up to the end of 2006. These benefits are recorded in the balance sheet as defined-benefit obligations. With the PubliGroupe pension fund, employees of PubliGroupe Group companies in Switzerland are insured against the risks of age, death and disability. The amount of the pension paid results from the conversion rate which is applied to the accumulated savings of the individuals concerned in the case of retirement. For individuals retiring at the age of 65, the rate of conversion is 6.4%. The accumulated savings result from employee and employer contributions which are paid into the individual savings account of each individual insured person as well as the interest accruing on the accumulated savings.

Pension cost

Defined-benefit pension plans

In CHF million	comPlan	Other plans	2014	comPlan	Other plans	2013
Current service cost	234	6	240	244	7	251
Plan amendments	–	–	–	–	(3)	(3)
Administration expense	3	1	4	3	1	4
Employment termination benefits	–	–	–	6	–	6
Total recognised in personnel expense	**237**	**7**	**244**	**253**	**5**	**258**
Interest cost on net defined benefit obligations	24	–	24	37	–	37
Total recognised in financial expense	**24**	**–**	**24**	**37**	**–**	**37**
Total expense of defined benefit plans recognised in income statement	**261**	**7**	**268**	**290**	**5**	**295**

In addition, other comprehensive income includes an actuarial loss of CHF 1,161 million (prior year: actuarial gain of CHF 847 million) which may be analysed as follows:

In CHF million	comPlan	Other plans	2014	comPlan	Other plans	2013
Actuarial gains and losses from:						
Change of the financial assumptions	1,536	52	1,588	(384)	(24)	(408)
Experience adjustments to defined benefit obligations	(102)	–	(102)	(165)	2	(163)
Return on plan assets excluding the recognised part of financial result	(315)	(10)	(325)	(272)	(4)	(276)
Total expense (income) of defined benefit plans recognised in other comprehensive income	**1,119**	**42**	**1,161**	**(821)**	**(26)**	**(847)**

Defined-contribution pension plans

Expenses in 2014 for defined-contribution plans aggregated CHF 10 million (prior year: CHF 11 million).

Status of pension plans

In CHF million	comPlan	Other plans	2014	comPlan	Other plans	2013
Defined benefit obligations						
Balance at 1 January	**9,533**	**162**	**9,695**	**9,823**	**107**	**9,930**
Current service cost	234	6	240	244	7	251
Interest cost on defined benefit obligations	218	–	218	188	2	190
Employee contributions	162	–	162	152	2	154
Benefits paid	(259)	–	(259)	(331)	(6)	(337)
Actuarial losses (gains)	1,434	52	1,486	(549)	(22)	(571)
Additions from acquisition of subsidiaries	–	589	589	–	85	85
Plan amendments	–	–	–	–	(13)	(13)
Employment termination benefits	–	–	–	6	–	6
Transfer of pension plans to comPlan	84	(84)	–	–	–	–
Balance at 31 December	**11,406**	**725**	**12,131**	**9,533**	**162**	**9,695**
Plan assets						
Balance at 1 January	**8,286**	**116**	**8,402**	**7,772**	**50**	**7,822**
Interest income on plan assets	194	–	194	151	2	153
Employer contributions	259	7	266	273	3	276
Employee contributions	162	–	162	152	2	154
Benefits paid	(259)	–	(259)	(331)	(4)	(335)
Return on plan assets excluding the recognised part of financial result	315	10	325	272	4	276
Additions from acquisition of subsidiaries	–	604	604	–	70	70
Plan amendments	–	–	–	–	(10)	(10)
Administration expense	(3)	(1)	(4)	(3)	(1)	(4)
Transfer of pension plans to comPlan	72	(72)	–	–	–	–
Balance at 31 December	**9,026**	**664**	**9,690**	**8,286**	**116**	**8,402**
Net defined benefit obligations						
Net defined benefit obligations recognised at 31 December	**2,380**	**61**	**2,441**	**1,247**	**46**	**1,293**

Movements in recognised defined-benefit obligations are to be analysed as follows:

In CHF million	comPlan	Other plans	2014	comPlan	Other plans	2013
Balance at 1 January	**1,247**	**46**	**1,293**	**2,051**	**57**	**2,108**
Pension cost, net	261	7	268	290	5	295
Employer contributions and benefits paid	(259)	(7)	(266)	(273)	(5)	(278)
Additions from acquisition of subsidiaries	–	(15)	(15)	–	15	15
Expense (income) of defined benefit plans recognised in other comprehensive income	1,119	42	1,161	(821)	(26)	(847)
Transfer of pension plans to comPlan	12	(12)	–	–	–	–
Balance at 31 December	**2,380**	**61**	**2,441**	**1,247**	**46**	**1,293**

The weighted average duration of the net present value of the recorded pension obligations is 18 years (prior year: 17 years).

Breakdown of pension plan assets

comPlan

The breakdown of the comPlan's pension assets by the various investment categories and investment strategy is as follows:

Category	Investment strategy	Quoted	Not quoted	Total	Quoted	Not quoted	Total
				31.12.2014			31.12.2013
Government bonds Switzerland	10.0%	5.3%	7.7%	13.0%	10.8%	8.4%	19.2%
Corporate bonds Switzerland	8.0%	8.7%	–	8.7%	11.2%	–	11.2%
Government bonds World-developed markets	11.0%	11.0%	–	11.0%	10.2%	–	10.2%
Corporate bonds World-developed markets	8.0%	7.9%	–	7.9%	1.2%	–	1.2%
Government bonds World-emerging markets	6.0%	6.6%	–	6.6%	5.5%	–	5.5%
Private Debt	5.0%	–	1.0%	1.0%	–	–	–
Third-party debt instruments	**48.0%**	**39.5%**	**8.7%**	**48.2%**	**38.9%**	**8.4%**	**47.3%**
Equity shares Switzerland	5.0%	6.2%	–	6.2%	7.7%	–	7.7%
Equity shares world developed markets	12.0%	12.7%	–	12.7%	14.4%	–	14.4%
Equity shares world emerging markets	8.0%	8.1%	–	8.1%	6.0%	–	6.0%
Equity instruments	**25.0%**	**27.0%**	**–**	**27.0%**	**28.1%**	**–**	**28.1%**
Real estate Switzerland	11.0%	8.1%	2.3%	10.4%	6.6%	1.0%	7.6%
Real estate World	4.0%	4.1%	–	4.1%	3.8%	–	3.8%
Real estate	**15.0%**	**12.2%**	**2.3%**	**14.5%**	**10.4%**	**1.0%**	**11.4%**
Commodities	4.0%	1.2%	2.6%	3.8%	3.0%	–	3.0%
Private markets	7.0%	–	5.1%	5.1%	1.3%	3.6%	4.9%
Hedge Funds	–	–	–	–	0.7%	–	0.7%
Cash and cash equivalents and other investments	1.0%	–	1.4%	1.4%	–	4.6%	4.6%
Cash and cash equivalents and alternative investments	**12.0%**	**1.2%**	**9.1%**	**10.3%**	**5.0%**	**8.2%**	**13.2%**
Total plan assets	**100.0%**	**79.9%**	**20.1%**	**100.0%**	**82.4%**	**17.6%**	**100.0%**

The investment strategy pursues the goal of achieving the highest possible return on assets within the framework of its risk tolerance and thus of generating income on a long-term basis in order to meet all financial obligations. This is achieved through a broad diversification of risks over various investment categories, markets, currencies and industry segments in both developed and emerging markets. The interest-rate duration of interest-bearing investments is 5.71 years (prior year: 4.74 years) and the average rating of these investments is A. Within the overall portfolio, all foreign-currency positions are hedged against the Swiss franc following a currency strategy to the extent necessary to meet a pre-determined ratio. The unquoted and therefore rather illiquid investments make up 20% of total plan assets. Following this investment strategy, comPlan anticipates a target value for the value fluctuation reserve of 16.0% (basis: 2015 financial year).

Other pension plans

The split of the assets of the other plans over the various investment categories and investment strategy is as follows:

Category	Investment strategy	Quoted	Not quoted	Total	Quoted	Not quoted	Total
				31.12.2014			31.12.2013
Switzerland	21.0%	16.8%	–	16.8%	6.7%	–	6.7%
Abroad	18.0%	13.7%	–	13.7%	–	–	–
Third-party debt instruments	**39.0%**	**30.5%**	**–**	**30.5%**	**6.7%**	**–**	**6.7%**
Switzerland	16.5%	22.9%	–	22.9%	20.9%	–	20.9%
Abroad	8.0%	9.4%	–	9.4%	–	–	–
Equity instruments	**24.5%**	**32.3%**	**–**	**32.3%**	**20.9%**	**–**	**20.9%**
Switzerland	26.0%	14.1%	11.5%	25.6%	5.1%	–	5.1%
Real estate	**26.0%**	**14.1%**	**11.5%**	**25.6%**	**5.1%**	**–**	**5.1%**
Private markets	3.5%	–	2.8%	2.8%	–	–	–
Cash and cash equivalents and other investments	7.0%	–	8.8%	8.8%	–	67.3%	67.3%
Cash and cash equivalents and alternative investments	**10.5%**	**–**	**11.6%**	**11.6%**	**–**	**67.3%**	**67.3%**
Total plan assets	**100.0%**	**76.9%**	**23.1%**	**100.0%**	**32.7%**	**67.3%**	**100.0%**

The investment strategy pursues the goal of achieving the highest possible return on assets within the framework of its risk tolerance and thus of generating income on a long-term basis in order to meet all financial obligations. This is achieved through a broad diversification of risks over various investment categories, markets, currencies and industry segments.

Additional information on plan assets

As of 31 December 2014, plan assets include Swisscom Ltd shares and bonds with a fair value of CHF 7 million (prior year: CHF 6 million). The effective return on plan assets in 2014 amounted to CHF 519 million (prior year: CHF 429 million).
In 2015, Swisscom expects to make payments to the pension funds for ordinary employee contributions totalling CHF 239 million (excluding payments for early retirements and changes to the pension plan).

Actuarial assumptions

	2014		2013	
Assumptions	**comPlan**	**Other plans**	**comPlan**	**Other plans**
Discount rate at 31 December	1.13%	1.31%	2.30%	2.85%
Expected rate of salary increases	1.75%	1.81%	2.24%	2.19%
Expected rate of pension increases	0.10%	0.10%	0.10%	0.10%
Interest on old age savings accounts	1.13%	1.13%	2.30%	2.30%
Longevity at age of 65 – men (number of years)	21.39	21.39	21.29	21.29
Longevity at age of 65 – women (number of years)	23.86	23.86	23.76	23.76

The discount rate is based upon CHF-denominated corporate bonds with an AA rating issued by domestic and foreign issuers and listed on the Swiss Exchange. Future growth factors for salaries correspond to a long-term historical average value which is specific to Swisscom. Growth in pensions reflects comPlan's ability to meet future pension increases based on the assumptions made. Interest accruing on the retirement savings equates the discount rate. From 2012 on, Swisscom applies the BVG 2010 generation tables for life-expectancy assumptions.

Sensitivity analysis comPlan

	Defined benefit obligations		Current service cost [1]	
In CHF million	Increase Assumption	Decrease Assumption	Increase Assumption	Decrease Assumption
Discount rate (change +/–0.5%)	(855)	990	(37)	45
Expected rate of salary increases (changes +/– 0.5%)	78	(73)	8	(7)
Expected rate of pension increases (change +0.5%; –0.1%)	749	(141)	27	(5)
Interest on old age savings accounts (change +/– 0.5%)	117	(106)	8	(7)
Longevity at age of 65 (change +/–1 year)	156	(158)	4	(4)

[1] The sensitivity refers to the current service cost recorded in personnel expense.

The sensitivity analysis takes into consideration the movement in pension-fund obligations as well as current service costs in adjusting the actuarial assumptions by half a percentage point and a year, respectively. In the process, only one of the assumptions is adjusted each time, the other parameters remain unchanged. In the sensitivity analysis in view of a negative movement in pension increases, only a change of -0.1% was made as the reduction in pension benefits is not possible.

11 Share-based payments

In CHF million	2014	2013
Share-based payments Management Incentive Plan	3	2
Other share-based payments	2	4
Total expense of share-based payments	**5**	**6**

Management Incentive Plan

The Management Incentive Plan is an equity-share plan for members of the Group Executive Board and Board of Directors as well as for other members of management. The members of the Board of Directors are paid a portion of the management fee in Swisscom shares. Members of the Group Executive Board receive 25% of their variable performance-related salary component in Swisscom shares. Group Executive Board members may increase this share up to a maximum of 50%. The shares are allocated based on their tax values. The level of the earnings-related compensation and the number of shares allocated are determined in the subsequent business year once the financial statements are finalised. The shares allocated to the members of the Group Executive Board are based on the variable earnings-related compensation of the prior year as reported. The tax value per share amounts to CHF 449 (prior year: CHF 371). The shares are subject to a retention period of three years from the grant date. The shares are vested immediately upon delivery.
In 2014, the allocation and cost of share-based payments to the members of the Board of Directors and of the Group Executive Board may be analysed as follows:

Allocation 2014	Number of allocated shares	Market price in CHF	Expense in CHF million
Members of the Board of Directors	1,374	535	0.7
Members of the Group Executive Board [1]	1,599	535	0.9
Other Management Members	1,760	535	0.9
Total 2014	**4,733**	**535**	**2.5**

[1] Allocation for the financial year 2013.

In 2013, the allocation and cost of share-based payments to the members of the Board of Directors and of the Group Executive Board may be analysed as follows:

Allocation 2013	Number of allocated shares	Market price in CHF	Expense in CHF million
Members of the Board of Directors	1,667	442	0.7
Members of the Group Executive Board [1]	2,707	442	1.2
Total 2013	**4,374**	**442**	**1.9**

[1] Allocation for the financial year 2012.

Other share-based payments plans

As recognition for exceptional services rendered during the financial year, equity share premiums may be awarded to a maximum of 10% of employees. In 2014, 4,520 shares with a market price of CHF 535 per share were issued gratuitously and an expense of CHF 2 million was recorded. In the prior year, 10,270 shares with a market price of CHF 442 were issued gratuitously for exceptional services rendered and an expense of CHF 4 million was recorded.

12 Other operating expense

In CHF million	2014	2013
Rental expense	346	334
Maintenance expense	322	312
Loss on disposal of property, plant and equipment	11	13
Energy costs	83	102
Information technology cost	239	221
Advertising and selling expenses	221	215
Dealer commissions	349	364
Consultancy expenses and freelance employees	199	201
Allowances for receivables	87	83
Administration expense	145	161
Miscellaneous operating expenses	538	470
Total other operating expense	**2,540**	**2,476**

13 Capitalised costs of self-constructed assets and other income

In CHF million	2014	2013
Capitalised self-constructed assets	267	256
Gain on sale of property, plant and equipment. See Note 22.	60	16
Income from employment company Worklink (personnel hire)	6	4
Miscellaneous income	37	112
Total capitalised self-constructed assets and other income	**370**	**388**

Capitalised costs of self-constructed assets include personnel costs for the production of technical installations, the construction of network infrastructures and the development of software for internal use.

14 Financial income and financial expense

In CHF million	2014	2013
Interest income on financial assets	10	8
Change in fair value of interest rate swaps	–	30
Capitalised borrowing costs	12	15
Gain on successive company acquisitions. See Note 5.	82	–
Adjustment to dismantlement and restoration costs. See Note 28.	–	21
Foreign exchange gains	1	5
Other financial income	7	2
Total financial income	**112**	**81**
Interest expense on financial liabilities	(228)	(259)
Change in fair value of interest rate swaps	(46)	–
Interest expense on defined benefit obligations. See Note 10.	(24)	(37)
Present-value adjustments on provisions	(16)	(15)
Expense of early repayment of financial liabilities. See Note 26.	(41)	–
Other financial expense	(17)	(29)
Total financial expense	**(372)**	**(340)**
Financial income and financial expense, net	**(260)**	**(259)**

The net interest expense on financial assets and financial liabilities is to be analysed as follows:

In CHF million	2014	2013
Interest income on cash and cash equivalents	1	1
Interest income on other financial assets	9	7
Total interest income on financial assets	**10**	**8**
Interest expense on bank loans, debenture bonds and private placements	(189)	(214)
Interest expense on finance lease liabilities	(36)	(41)
Interest expense on other financial liabilities	(3)	(4)
Total interest expense on financial liabilities	**(228)**	**(259)**
Total financial income and financial expense, net	**(218)**	**(251)**

15 Income taxes

Income tax expense

In CHF million	2014	2013
Current income tax expense	373	322
Adjustments recognised for current tax of prior periods	5	(20)
Deferred tax expense	4	32
Total income tax expense recognised in income statement	**382**	**334**
Thereof Switzerland	412	354
Thereof foreign countries	(30)	(20)

Additionally the other comprehensive income includes positive income taxes of CHF 254 million (prior year: expense of CHF 184 million) which may be analysed as follows:

In CHF million	2014	2013
Foreign currency translation adjustments of foreign subsidiaries	15	(14)
Actuarial gains and losses from defined benefit pension plans	242	(169)
Change in fair value of cash flow hedges	(2)	–
Gains and losses from cash flow hedges transferred to income statement	(1)	(1)
Total income tax expense recognised in other comprehensive income	**254**	**(184)**

Analysis of income taxes

The applicable income tax rate which serves to prepare the following analysis of income tax expense is the weighted average income tax rate calculated on the basis of the Group operating subsidiaries in Switzerland. The applicable income tax rate is 20.9% (prior year: 20.6%). The increase of the applicable income tax rate is the result of higher tax rates in various Swiss cantons.

In CHF million	2014	2013
Income before income taxes in Switzerland	2,206	2,149
Income before income taxes foreign countries	(118)	(120)
Income before income taxes	**2,088**	**2,029**
Applicable income tax rate	20.9%	20.6%
Income tax expense at the applicable income tax rate	**436**	**418**
Reconciliation to reported income tax expense		
Effect of share of results of associates	(5)	(6)
Effect of tax rate changes on deferred taxes	(21)	(2)
Effect of use of different income tax rates in Switzerland	(2)	(7)
Effect of use of different income tax rates in foreign countries	(10)	(12)
Effect of non-recognition of tax loss carry-forwards	9	9
Effect of recognition and offset of tax loss carry-forwards not recognised in prior years	(2)	(47)
Effect of deferred tax assets written off	–	4
Effect of impairment losses on goodwill	–	5
Effect of exclusively tax-deductible expenses and income	(16)	(20)
Effect of non-taxable income and non-deductible expenses	(12)	8
Effect of income tax of prior periods	5	(16)
Total income tax expense	**382**	**334**
Effective income tax rate	18.3%	16.5%

In 2013, previously unrecognised tax loss carry-forwards arising from mergers of Group companies were claimed for tax purposes. The positive impact on income tax expense in 2013 amounted to CHF 21 million.

Deferred tax assets and liabilities

Movements in current tax assets and liabilities are to be analysed as follows:

In CHF million	2014	2013
Current income tax liabilities at 1 January, net	**162**	**134**
Recognised in income statement	378	302
Recognised in other comprehensive income	1	3
Income taxes paid in Switzerland	(377)	(307)
Income taxes paid in foreign countries	(9)	29
Additions from acquisition of subsidiaries	–	1
Current income tax liabilities at 31 December, net	**155**	**162**
Thereof current income tax assets	(17)	(22)
Thereof current income tax liabilities	172	184
Thereof Switzerland	159	168
Thereof foreign countries	(4)	(6)

Recognised deferred tax assets and liabilities are to be analysed as follows:

In CHF million	31.12.2014 Assets	31.12.2014 Liabilities	31.12.2014 Net amount	31.12.2013 Assets	31.12.2013 Liabilities	31.12.2013 Net amount
Property, plant and equipment	47	(467)	(420)	41	(342)	(301)
Intangible assets	–	(341)	(341)	–	(364)	(364)
Provisions	79	(4)	75	24	(14)	10
Defined benefit obligations	509	–	509	268	–	268
Tax loss carry-forwards	216	–	216	203	–	203
Other	97	(76)	21	83	(76)	7
Total tax assets (tax liabilities)	**948**	**(888)**	**60**	**619**	**(796)**	**(177)**
Thereof deferred tax assets			417			279
Thereof deferred tax liabilities			(357)			(456)
Thereof Switzerland			(91)			(328)
Thereof foreign countries			151			151

In 2014, deferred tax assets and liabilities have changed as follows:

In CHF million	Balance at 31.12.2013	Recognised in income statement	Recognised in other comprehensive income	Change in scope of consolidation	Foreign currency translation adjustments	Balance at 31.12.2014
Property, plant and equipment	(301)	(119)	–	–	–	(420)
Intangible assets	(364)	35	–	(12)	–	(341)
Provisions	10	65	–	–	–	75
Defined benefit obligations	268	–	242	(1)	–	509
Tax loss carry-forwards	203	16	–	–	(3)	216
Other	7	(1)	13	2	–	21
Total	**(177)**	**(4)**	**255**	**(11)**	**(3)**	**60**

In 2013, deferred tax assets and liabilities have changed as follows:

In CHF million	Balance at 31.12.2012	Recognised in income statement	Recognised in other comprehensive income	Change in scope of consolidation	Foreign currency translation adjustments	Balance at 31.12.2013
Property, plant and equipment	(243)	(57)	–	(4)	3	(301)
Intangible assets	(380)	32	–	(13)	(3)	(364)
Provisions	41	(31)	–	–	–	10
Defined benefit obligations	419	16	(169)	2	–	268
Tax loss carry-forwards	165	36	–	–	2	203
Other	47	(28)	(12)	–	–	7
Total	**49**	**(32)**	**(181)**	**(15)**	**2**	**(177)**

Deferred tax assets relating to unused tax loss carry-forwards and to deductible temporary differences are recognised if it is probable that they can be offset against future taxable profits or existing temporary differences. At as 31 December 2014, various subsidiaries recognised deferred tax assets on tax loss carry-forwards and other temporary differences totalling CHF 950 million (prior year: CHF 619 million) since it was foreseeable that tax loss carry-forwards could be offset against future taxable profits. Of this amount, tax loss carry-forwards and other temporary differences of CHF 237 million (prior year: CHF 247 million) were recognised by subsidiaries reporting a loss in 2013 or 2014. On the basis of the approved business plans of these subsidiaries, Swisscom considers it probable that the tax loss carry-forwards and temporary differences can be offset against future taxable profits.

Tax loss carry-forwards and other temporary differences for which no deferred tax assets were recorded, expire as follows:

In CHF million	31.12.2014	31.12.2013
Expiring within 1 year	1	1
Expiring within 1 to 2 years	2	1
Expiring within 2 to 3 years	2	–
Expiring within 3 to 4 years	8	–
Expiring within 4 to 5 years	14	8
Expiring within 5 to 6 years	29	8
Expiring within 6 to 7 years	23	23
No expiration	115	134
Total unrecognised tax loss carry-forwards	**194**	**175**
Thereof Switzerland	62	23
Thereof foreign countries	132	152

No deferred tax liabilities (prior year: CHF 6 million) were recognised on the undistributed earnings of subsidiaries as of 31 December 2014. Temporary differences of subsidiaries and associates, on which no deferred income taxes were recognised as of 31 December 2014, amounted to CHF 779 million (prior year: CHF 1,264 million).

16 Earnings per share

Undiluted earnings per share are calculated by dividing net income attributable to shareholders of Swisscom Ltd by the weighted average number of shares outstanding. Treasury shares are not counted in the number of outstanding shares.

In CHF million, except where indicated	2014	2013
Share of net income attributable to equity holders of Swisscom Ltd	1,694	1,685
Weighted average number of shares outstanding (number)	51,801,267	51,800,666
Basic and diluted earnings per share (in CHF)	**32.70**	**32.53**

Swisscom has no share options and share subscription rights outstanding which could lead to a dilution of earnings per share.

17 Cash and cash equivalents

In CHF million	31.12.2014	31.12.2013
Cash and sight balances	302	723
Total cash and cash equivalents	**302**	**723**

As in the prior year, Swisscom had no term deposits outstanding in 2014.

18 Trade and other receivables

In CHF million	31.12.2014	31.12.2013
Billed revenue	2,413	2,321
Accrued revenue	236	206
Allowances	(195)	(164)
Total trade receivables, net	**2,454**	**2,363**
Accruals from international roaming traffic	60	91
Receivables from debt-collection activities	26	26
Receivables from construction contracts	33	30
Other receivables	28	22
Allowances	(15)	(16)
Total other receivables, net	**132**	**153**
Total trade and other payables	**2,586**	**2,516**

All trade and other receivables are due within one year. Trade receivables are the object of active credit risk management which focuses on the assessment of country risks, on-going review of credit risks and the monitoring of the receivables. Credit-risk concentrations in Swisscom are minimised due to the large number of customers. Risks are monitored by country.
The geographical distribution of trade receivables is as follows:

In CHF million	31.12.2014	31.12.2013
Switzerland	1,759	1,701
Italy	854	809
Other countries	36	17
Total billed and accrued revenue	**2,649**	**2,527**
Switzerland	(51)	(45)
Italy	(140)	(118)
Other countries	(4)	(1)
Total allowance for receivables	**(195)**	**(164)**
Total trade receivables, net	**2,454**	**2,363**

Analysis of maturity and allowances

The due dates of trade receivables as well as the related allowances are to be analysed as follows:

	31.12.2014		31.12.2013	
In CHF million	Gross amount	Allowance	Gross amount	Allowance
Not overdue	1,858	(8)	1,733	(8)
Past due up to 3 months	421	(6)	400	(6)
Past due 4 to 6 months	78	(6)	80	(4)
Past due 7 to 12 months	93	(31)	92	(15)
Past due over 1 year	199	(144)	222	(131)
Total	**2,649**	**(195)**	**2,527**	**(164)**

The table below presents the changes in allowances for trade and other receivables.

In CHF million	Trade receivables	Other receivables
Balance at 31 December 2012	**209**	**15**
Additions to allowances	88	1
Write-off of irrecoverable receivables subject to allowance	(131)	–
Release of unused allowances	(5)	–
Foreign currency translation adjustments	3	–
Balance at 31 December 2013	**164**	**16**
Additions to allowances	93	1
Write-off of irrecoverable receivables subject to allowance	(60)	–
Release of unused allowances	(6)	(2)
Additions from acquisition of subsidiaries	7	–
Foreign currency translation adjustments	(3)	–
Balance at 31 December 2014	**195**	**15**

Construction contracts

Information on uncompleted construction contracts as of the balance sheet date is as follows:

In CHF million	2014	2013
Contract costs of current projects	104	108
Recognised gains less losses	6	3
Contract costs including share of gains and losses, net	**110**	**111**
Less progress billings	(79)	(84)
Total net receivables from construction contracts	**31**	**27**
Thereof receivables from construction contracts	33	29
Thereof liabilities from construction contracts	(2)	(2)
Advance payments received	72	61

In 2014, construction contracts generated net revenues of CHF 293 million (prior year: CHF 295 million).

19 Other financial assets

In CHF million	Loans and receivables	Available-for-sale	Derivative financial instruments	Total
Balance at 31 December 2012	**173**	**41**	**23**	**237**
Additions	161	4	–	165
Disposals	(25)	(3)	(20)	(48)
Change in fair value recognised in income statement	–	–	3	3
Change in fair value recognised in equity	–	1	–	1
Foreign currency translation adjustments recognised in income statement	(4)	(1)	–	(5)
Balance at 31 December 2013	**305**	**42**	**6**	**353**
Additions	24	8	–	32
Disposals	(159)	(15)	–	(174)
Additions from acquisition of subsidiaries	24	18	–	42
Change in fair value recognised in income statement	–	–	5	5
Foreign currency translation adjustments recognised in income statement	15	–	–	15
Balance at 31 December 2014	**209**	**53**	**11**	**273**
Thereof other current financial assets	20	9	11	40
Thereof other non-current financial assets	189	44	–	233

Loans and receivables

As of 31 December 2014, term deposits totalled CHF 11 million (prior year: CHF 156 million). As of 31 December 2014, financial assets in the amount of CHF 149 million were not freely available. These assets serve as security for bank loans.

Available-for-sale financial assets

Available-for-sale financial assets primarily include financial investments in equity instruments. As a general rule, shares not quoted on stock exchanges are recorded at cost since their fair value cannot be reliably determined. As of 31 December 2014, the carrying amount of investments in shares recorded at cost totalled CHF 30 million (prior year: CHF 21 million).

Derivative financial instruments

As at 31 December 2014, derivative financial instruments with a positive market value of CHF 11 million were recognised (prior year: CHF 6 million). Derivative financial instruments include foreign-currency swaps and interest-rate swaps. See Note 33.

20 Inventories

In CHF million	31.12.2014	31.12.2013
Raw material and supplies	6	6
Customer premises equipment and merchandise	141	147
Advance payments made	5	–
Finished and semi-finished goods	5	6
Total inventories, gross	**157**	**159**
Allowances on inventories	(8)	(7)
Total inventories, net	**149**	**152**

In 2014, inventory-related costs amounting to CHF 1,145 million (prior year: CHF 1,046 million) were recorded under the cost of goods and services purchased.

21 Other non-financial assets

In CHF million	31.12.2014	31.12.2013
Prepaid expenses	164	148
Value-added taxes receivable	7	14
Advance payments made	55	29
Other assets	26	19
Total other current non-financial assets	**252**	**210**
Prepaid expenses	10	12
Other assets	47	45
Total other non-current non-financial assets	**57**	**57**

22 Non-current assets held for sale

On 31 December 2014, the carrying value of non-current assets held for sale amounted to CHF 80 million (prior year: CHF 13 million). Included therein are real-estate properties and investments in associates of the business segment Other Operating Segments with a carrying value of CHF 70 million and CHF 10 million, respectively. As of 31 December 2013, the long-term assets held for resale comprised exclusively real-estate properties of the segment Other Operating Segments. As part of the takeover of PubliGroupe, one real-estate property and investments in associates were acquired which are intended to be disposed of in the next twelve months. The associates relate to various shareholdings in media companies in Switzerland. In the provisional takeover balance sheet of PubliGroupe, the fair values of the real-estate property and the investments in associates amount to CHF 137 million. By the end of 2014, investments in associates of CHF 57 million were sold. See Note 5 for further information. In 2014, real-estate properties and investments in associates were sold for a purchase price of CHF 205 million (prior year: CHF 5 million) resulting in a gain on disposal of CHF 33 million (prior year: CHF 4 million) which was recognised as other income.

23 Property, plant and equipment

In CHF million	Land, buildings and leasehold improvements	Technical installations	Other assets	Advances made and assets under construction	Total
Acquisition costs					
Balance at 31 December 2012	**2,872**	**24,572**	**3,320**	**649**	**31,413**
Additions	11	1,318	219	379	1,927
Disposals	(26)	(816)	(288)	–	(1,130)
Additions from acquisition of subsidiaries	2	–	30	–	32
Adjustment to dismantlement and restoration costs	–	(32)	13	–	(19)
Reclassifications to non-current assets held for sale	(39)	–	–	–	(39)
Other reclassifications	12	135	109	(257)	(1)
Foreign currency translation adjustments	–	58	–	–	58
Balance at 31 December 2013	**2,832**	**25,235**	**3,403**	**771**	**32,241**
Additions	9	1,453	237	290	1,989
Disposals	(68)	(656)	(225)	–	(949)
Additions from acquisition of subsidiaries	2	–	2	–	4
Adjustment to dismantlement and restoration costs	–	123	34	–	157
Reclassifications to non-current assets held for sale	(102)	–	–	–	(102)
Other reclassifications	114	175	170	(471)	(12)
Foreign currency translation adjustments	(2)	(82)	–	–	(84)
Balance at 31 December 2014	**2,785**	**26,248**	**3,621**	**590**	**33,244**
Accumulated depreciation/amortisation and impairment losses					
Balance at 31 December 2012	**2,046**	**18,521**	**2,297**	**–**	**22,864**
Depreciation and amortisation	29	1,047	263	–	1,339
Disposals	(21)	(815)	(281)	–	(1,117)
Reclassifications to non-current assets held for sale	(26)	–	–	–	(26)
Foreign currency translation adjustments	–	25	–	–	25
Balance at 31 December 2013	**2,028**	**18,778**	**2,279**	**–**	**23,085**
Depreciation and amortisation	31	1,072	287	–	1,390
Disposals	(41)	(656)	(212)	–	(909)
Other reclassifications	1	(1)	(2)	–	(2)
Foreign currency translation adjustments	–	(40)	–	–	(40)
Balance at 31 December 2014	**2,019**	**19,153**	**2,352**	**–**	**23,524**
Net carrying amount					
Net carrying amount at 31 December 2014	**766**	**7,095**	**1,269**	**590**	**9,720**
Net carrying amount at 31 December 2013	**804**	**6,457**	**1,124**	**771**	**9,156**
Net carrying amount at 31 December 2012	**826**	**6,051**	**1,023**	**649**	**8,549**

In 2014, borrowing costs amounting to CHF 12 million were capitalised (prior year: CHF 15 million). The average interest rate used for the capitalisation of borrowing costs was 2.2% (prior year: 2.5%). As of 31 December 2014, the carrying amount of property, plant and equipment acquired under finance leases amounted to CHF 438 million (prior year: CHF 524 million). See Note 28 for further information on the adjustments to the costs of dismantling and restoration.

24 Goodwill and other intangible assets

In CHF million	Goodwill	Internally generated software	Purchased software	Customer relationships	Brands	Other intangible assets	Total
Acquisition costs							
Balance at 31 December 2012	**6,210**	**1,218**	**1,693**	**1,089**	**266**	**978**	**11,454**
Additions	–	127	196	–	–	220	543
Disposals	–	(349)	(143)	(21)	–	(55)	(568)
Reclassifications	–	137	52	–	–	(188)	1
Additions from acquisition of subsidiaries	159	2	–	51	7	6	225
Foreign-currency translation adjustments	38	2	15	18	5	1	79
Balance at 31 December 2013	**6,407**	**1,137**	**1,813**	**1,137**	**278**	**962**	**11,734**
Additions	–	156	195	–	–	156	507
Disposals	(9)	(80)	(68)	(3)	–	(30)	(190)
Reclassifications	–	97	58	–	–	(143)	12
Additions from acquisition of subsidiaries	192	1	4	21	–	44	262
Foreign-currency translation adjustments	(46)	(4)	(22)	(22)	(6)	(3)	(103)
Balance at 31 December 2014	**6,544**	**1,307**	**1,980**	**1,133**	**272**	**986**	**12,222**
Accumulated amortisation and impairment losses							
Balance at 31 December 2012	**1,548**	**838**	**1,243**	**697**	**148**	**197**	**4,671**
Amortisation	–	202	230	130	28	88	678
Impairment losses	23	1	1	–	–	2	27
Disposals	–	(347)	(142)	(21)	–	(49)	(559)
Foreign-currency translation adjustments	27	2	11	11	3	1	55
Balance at 31 December 2013	**1,598**	**696**	**1,343**	**817**	**179**	**239**	**4,872**
Amortisation	–	223	239	109	27	102	700
Impairment losses	–	–	1	–	–	–	1
Disposals	(9)	(79)	(68)	(3)	–	(29)	(188)
Reclassifications	–	–	–	–	–	2	2
Foreign-currency translation adjustments	(32)	(2)	(16)	(18)	(3)	(2)	(73)
Balance at 31 December 2014	**1,557**	**838**	**1,499**	**905**	**203**	**312**	**5,314**
Net carrying amount							
Net carrying amount at 31 December 2014	**4,987**	**469**	**481**	**228**	**69**	**674**	**6,908**
Net carrying amount at 31 December 2013	**4,809**	**441**	**470**	**320**	**99**	**723**	**6,862**
Net carrying amount at 31 December 2012	**4,662**	**380**	**450**	**392**	**118**	**781**	**6,783**

As of 31 December 2014, other intangible assets included advance payments made and uncompleted development projects of CHF 128 million (prior year: CHF 190 million). Apart from goodwill, there are no intangible assets with indefinite useful lives. As of 31 December 2014, accumulated impairment losses on goodwill of CHF 1,557 million were recorded. The increase in goodwill of CHF 192 million in 2014 results from the takeover of PubliGroupe. See Note 5 for further information. Goodwill arising from investments in associates is classified as part of the investments in associates.

Goodwill impairment testing

Goodwill is allocated to the cash-generating units of Swisscom according to their business activities. Goodwill acquired in a business combination is allocated to each cash-generating unit expected to benefit from the synergies of the business combination. The allocation of the goodwill to the cash-generating units is as follows:

In CHF million	31.12.2014	31.12.2013
Residential Customers Swisscom Switzerland	2,787	2,630
Small and Medium-Sized Enterprises Swisscom Switzerland	656	656
Corporate Business Swisscom Switzerland	734	734
Fastweb	592	604
Other cash-generating units	218	185
Total goodwill	**4,987**	**4,809**

Goodwill was tested for impairment in the fourth quarter of 2014 after the business planning had been completed. The recoverable amount of a cash-generating unit is determined based on its value in use, using the discounted cash flow (DCF) method. The projected free cash flows are estimated on the basis of the business plans approved by management in general covering a three-year period. A planning horizon of five years is used for the impairment test of Fastweb. For the free cash flows extending beyond the detailed planning period, a terminal value was computed by capitalising the normalised cash flows using a constant growth rate. The growth rates applied are those customarily assumed for the country or market. The key assumptions underlying the calculations are as follows:

	2014			2013		
Cash-generating unit	WACC pre-tax	WACC post-tax	Long-term growth rate	WACC pre-tax	WACC post-tax	Long-term growth rate
Residential Customers Swisscom Switzerland	6.51%	5.13%	0%	6.43%	5.09%	0%
Small and Medium-Sized Enterprises Swisscom Switzerland	6.54%	5.13%	0%	6.45%	5.09%	0%
Corporate Business Swisscom Switzerland	6.56%	5.13%	0%	6.46%	5.09%	0%
Fastweb	10.60%	7.70%	1.0%	10.90%	8.00%	1.0%
Other cash-generating units	6.6–8.2%	5.1–6.4%	0–1.0%	6.4–11.9%	5.1–9.7%	0–1.5%

The application of pre- or post-tax discount rates (WACC pre-tax and WACC post-tax) results in the same value in use. The discount rates used take into consideration the specific risks relating to the cash-generating unit being considered. The projected cash flows and management assumptions are corroborated by external sources of information. The approach taken and assumptions made for the impairment tests of Swisscom Switzerland and Fastweb are presented below.

Residential Customers, Small- and Medium-Sized Enterprises and Corporate Business – Swisscom Switzerland

The impairment test of goodwill is conducted on these cash-generating units. The recoverable amount was determined based on the value in use using the discounted cash flow (DCF) method. The forecast of future cash flows is based upon the three-year business plan approved by management. For the free cash flows extending beyond the detailed planning period, a long-term growth of zero was assumed, as in the prior year. The change from the prior year is a result of structural changes in the telecommunications sector leading to improved growth prospects. As of the measurement date, the recoverable amount at all cash-generating units, based on their value in use, was higher than the carrying amount relevant for the impairment test. Swisscom is of the opinion that none of the anticipated changes in key assumptions which can be reasonably expected would cause the carrying amount of the cash-generating units to exceed the recoverable amount.

Fastweb

The impairment test of Fastweb was undertaken in the fourth quarter of 2014. The recoverable amount was determined on the basis of the value in use using the discounted cash flow method. The basis for projecting future cash flows is the business plan prepared by management for the five years 2015 to 2019. This plan takes into consideration historical empirical values and management's expectations regarding the future development of the relevant market. The impairment test took into account the following assumptions:

Assumptions	Description
Average annual growth in revenue during the detailed planning period	In the business plan, an average annual growth in revenue of 3.3% is expected for the detailed planning period up to 2019. In the prior year, an average annual growth in revenue of 4.1% had been expected for the detailed planning period 2014–2018.
Projected EBITDA margin (EBITDA as % of net revenue)	The projected EBITDA margin in 2019 is 41%. In the previous year, for the year 2018 also an EBITDA margin of 41%, was assumed.
Projected capital expenditure rate (capex as % of net revenue)	In the period up to 2019, it is anticipated that capital expenditure in relation to net revenue will be normalised to 18%. Last year a rate of investment of 17% was anticipated for the year 2018.
Post-tax discount rate	The post-tax discount rate is 7.70% (prior year: 8.00%) and the related pre-tax discount rate is 10.60% (prior year: 10.90%). The discount rate is calculated using the Capital Asset Pricing Model (CAPM). This latter comprises the weighted cost of own equity and of external borrowing costs. The risk free interest rate on which the discount rate is based on, is derived from ten-year bonds issued by the German government with a zero interest rate, but at least an interest rate of 3%. A premium for the country risk of Italy is then added.
Long-term growth rate	The normalised free cash flows in the terminal value were capitalised with a constant growth rate of 1.0% as in the prior year. The growth rate employed corresponds to that customarily used for the country and market based upon experience values as well as future projections and which are corroborated by external information sources. The growth rate employed does not exceed the long-term average growth rate customarily used for the country and market.

As of the date of the impairment test, no impairment of goodwill resulted. The recoverable amount exceeded the carrying amount by EUR 1,164 million (CHF 1,405 million). The following changes in material assumptions lead to a situation where the value in use equals the carrying amount:

	Assumptions	Sensitivity
Average annual growth rate through 2019 with the same EBITDA margin as in the business plan	3.3%	–0.4%
Projected EBITDA margin 2019	41%	34%
Capital expenditure rate 2019	18%	25%
Post-tax discount rate	7.70%	10.20%
Long-term growth rate	1.0%	–2.4%

25 Investments in associates

In CHF million	2014	2013
Balance at 1 January	**153**	**268**
Additions	3	1
Disposals	(108)	(105)
Additions from acquisition of subsidiaries. See Note 5.	48	–
Gain on successive company acquisitions	82	–
Dividends	(30)	(43)
Share of net results	26	30
Foreign currency translation adjustments	(3)	2
Balance at 31 December	**171**	**153**

The participations which are reflected in the consolidated financial statements of Swisscom using the equity method of accounting are set out in Note 41. Dividends income of CHF 30 million (prior year: CHF 43 million) is attributable mainly to the dividends paid by LTV Yellow Pages and Belgacom International Carrier Services.

In September 2014, Swisscom acquired PubliGroupe SA in a public takeover which, at the time of the transaction, owned 51% of the share capital of LTV Yellow Pages Ltd. The remaining 49% of LTV Yellow Pages Ltd was held by Swisscom. As a result of the takeover, Swisscom assumed full control over LTV Yellow Pages Ltd which previously was reflected in Swisscom's consolidated financial statements as an associate. At the time of the takeover, the carrying value of the 49% shareholding in LTV Yellow Pages Ltd in Swisscom's consolidated financial statements amounted to CHF 26 million. The difference of CHF 82 million between the carrying value and the fair value of the 49% shareholding was recognised as other income in the fourth quarter of 2014. The fair value of the 49% shareholding of CHF 108 million was accounted for as a component of the acquisition costs of the PubliGroupe takeover. See Note 5 for further information. In addition, a 48% shareholding in Zanox Ltd (Zanox) was acquired as part of the takeover of PubliGroupe which is accounted for in accordance with the equity method in the consolidated financial statements of Swisscom. Zanox is the European market leader in performance advertising.

In 2013, Swisscom increased its shareholding in Cinetrade from 49% to 75%. As of the acquisition date, there was a difference between the carrying value of Cinetrade and its fair value of CHF 2 million, which was recognised as other financial income. See Notes 5 and 14.

The following table provides selected summarised key financial data of the associates:

In CHF million	2014	2013
Income statement		
Net revenue	2,347	2,328
Operating expense	(2,223)	(2,174)
Operating income	124	154
Net income	**122**	**119**
Balance sheet at 31 December		
Current assets	1,131	972
Non-current assets	935	988
Current liabilities	(1,087)	(876)
Non-current liabilities	(316)	(352)
Equity	**663**	**732**

26 Financial liabilities

In CHF million	31.12.2014	31.12.2013
Bank loans	960	8
Debenture bonds	547	1,324
Private placements	–	206
Finance lease liabilities	14	13
Other interest-bearing financial liabilities	2	2
Derivative financial instruments. See Note 33.	49	76
Other non-interest-bearing financial liabilities	8	27
Total current financial liabilities	**1,580**	**1,656**
Bank loans	921	1,345
Debenture bonds	4,557	4,184
Private placements	925	920
Finance lease liabilities	547	642
Other interest-bearing financial liabilities	3	2
Derivative financial instruments. See Note 33.	49	51
Other non-interest-bearing financial liabilities	22	23
Total non-current financial liabilities	**7,024**	**7,167**
Total financial liabilities	**8,604**	**8,823**

Bank loans and credit limit

			Carrying amount	
In CHF million	Due within	Par value in CHF	31.12.2014	31.12.2013
Bank loans in CHF variable interest-bearing	2015	530	530	–
Bank loans in CHF variable interest-bearing	2016	300	300	300
Bank loans in CHF variable interest-bearing	2017	130	130	130
Bank loans in EUR variable interest-bearing	2015	421	421	430
Bank loans in EUR variable interest-bearing	2020	361	361	368
Bank loans in USD fixed interest-bearing	2028	96	139	125
Total			**1,881**	**1,353**

During 2014, Swisscom took up short-term bank loans on a weekly basis. As of the balance sheet date, there were, as a result, short-term Swiss-franc denominated bank loans totalling CHF 530 million outstanding (prior year: none). The effective interest rate of these bank loans was 0.17%. In the prior year, Swisscom had taken up bank loans in EUR. The bank loan of EUR 300 million (CHF 368 million) bears variable interest rate and has a seven-year term. The EUR 300 million financing was designated for hedge accounting of net investments in foreign investments. In the prior year, Swisscom repaid maturing bank loans amounting to CHF 150 million. As of 31 December 2014, no transaction costs were recognised in connection with the bank loans, as in the prior year. The effective interest rate of the CHF denominated bank loans is 0.62%. For the bank loans in USD and EUR, the rate is 4.62% and 0.55%, respectively. A portion of the EUR-denominated bank loans totalling EUR 350 million was transformed into variable-rate CHF financing through foreign-currency swaps. The bank loans may become due for immediate repayment if the shareholding of the Swiss Confederation in the capital of Swisscom falls below one third or if another shareholder can exercise control over Swisscom.
Swisscom has a confirmed bank line of credit amounting to CHF 100 million maturing in 2016 and a further confirmed line of credit of CHF 2,000 million from banks maturing in 2019. As of 31 December 2014, these lines of credit had not been drawn down, as in the prior year.

Debenture bonds

In CHF million	Maturity years	Par value in CHF	Nominal interest rate	Carrying amount 31.12.2014	31.12.2013
Debenture bond in CHF	2007–2017	600	3.75%	609	610
Debenture bond in CHF	2008–2015	500	4.00%	506	505
Debenture bond in CHF	2009–2014	1,250	3.50%	–	1,282
Debenture bond in CHF	2009–2018	1,425	3.25%	1,430	1,502
Debenture bond in CHF	2010–2022	500	2.63%	498	497
Debenture bond in CHF	2012–2024	500	1.75%	503	503
Debenture bond in EUR	2013–2020	601	2.00%	597	609
Debenture bond in EUR	2014–2021	601	1.88%	597	–
Debenture bond in CHF	2014–2026	200	1.50%	202	–
Debenture bond in CHF	2014–2029	160	1.50%	162	–
Total				**5,104**	**5,508**

In 2014, Swisscom took up a debenture bond in an amount of EUR 500 million (CHF 601 million). The coupon rate was 1.875% with a term of 7.5 years. The debenture bond was issued by Lunar Funding V, an independent Irish multi-purpose vehicle. It is secured by a loan note from Lunar Funding V to Swisscom in the same amount. The amount taken up was applied to refinance existing financial loans. In addition, the EUR 500 million financing was designated for hedge accounting of net investments in foreign shareholdings. As in the prior year, Swisscom had issued a debenture bond of EUR 500 million (CHF 614 million) through the intermediary of Lunar Funding V and which was designated for hedge accounting of net investments in foreign shareholdings. During the current financial year, Swisscom took up two Swiss-franc denominated debenture bonds, one in the amount of CHF 200 million with a term of 12 years and a coupon rate of 1.50% and the other of CHF 160 million with a term of 15 years with a coupon rate of 1.50%. During the current financial year, Swisscom repaid upon maturity debenture bonds totalling CHF 1,250 million. In addition, of the debenture bond maturing in 2018, a premature partial redemption took place amounting to CHF 75 million (nominal value). The difference of CHF 8 million between the partial redemption amount of CHF 83 million and the carrying value of the redeemed debenture bond of CHF 75 million was recognised as other financial expense. In the prior year, Swisscom repaid a debenture bond of CHF 550 million upon maturity. The effective interest rate on the Swiss-franc denominated debenture bonds is 2.98% and 2.08% for those denominated in EUR. The investors are entitled to sell the debentures back to Swisscom and/or Lunar Funding V if a shareholder other than the Swiss Confederation gains a majority share in Swisscom and at the same time, the company's rating falls below BBB–/Baa3.

Private placements

In CHF million	Due within	Par value in CHF	Carrying amount 31.12.2014	31.12.2013
Private placements in CHF domestic	2016	350	350	350
Private placements in CHF abroad	2017	250	245	243
Private placements in CHF abroad	2018	72	68	68
Private placements in CHF abroad	2019	278	262	260
Private placements in EUR abroad	2014	205	–	205
Total			**925**	**1,126**

Swisscom repaid private placements amounting to EUR 167 million (CHF 201 million) in 2014 and, in the prior year, a private placement totalling EUR 108 million. The interest rate risk of private placements maturing in 2016 is hedged with interest-rate swaps and was designated as cash flow hedges for hedge accounting purposes. The duration of the hedges is identical to the duration of the hedged private placements. The total EUR-denominated private placement was transformed into variable CHF financing using foreign currency swaps for the whole period through to maturity. The swap of fixed interest-bearing EUR financing into variable CHF financing was designated as a fair value hedge. As in the prior year, no transaction costs were recorded as of 31 December 2014 in connection with the private placements. The effective interest rate on the private placements is 1.67%. The CHF private placements of CHF 600 million maturing in 2017 through 2019 may become due for immediate repayment if the shareholding of the Swiss Confederation in the capital of Swisscom falls below 35% or if another shareholder can exercise control over Swisscom. The investors in the remaining private placements are entitled to resell their investments to Swisscom should the Swiss Confederation permanently give up its majority shareholding in Swisscom.

Liabilities arising from finance leases

Swisscom concluded two agreements in 2001 for the sale of real estate. At the same time, Swisscom entered into long-term agreements to lease back part of the real estate sold which, in part, qualify as finance leases. The gain realised on real estate classified as finance leases was deferred. As of 31 December 2014, the deferred gains totalled CHF 167 million (prior year: CHF 183 million). The deferred gains are released to other income over the term of the individual leases. The effective interest rate of the finance lease liabilities was 6.25%.

In the third quarter of 2014, Swisscom repurchased, prior to contractual maturity, real estate used for operating purposes which was accounted for previously as a finance lease. The difference of CHF 33 million between the purchase price of CHF 98 million and the carrying value of the finance-lease liability of CHF 65 million was recognised as finance expense.

The minimum lease payments and financial liabilities relating to these leaseback agreements are set out in the following table:

In CHF million	31.12.2014	31.12.2013
Within 1 year	48	54
Within 1 to 2 years	47	54
Within 2 to 3 years	42	53
Within 3 to 4 years	41	48
Within 4 to 5 years	38	48
After 5 years	1,240	1,564
Total future minimum lease payments	**1,456**	**1,821**
Less future financing costs	(895)	(1,166)
Total finance lease liabilities	**561**	**655**
Thereof current finance lease liabilities	14	13
Thereof non-current finance lease liabilities	547	642

The future payments of the liabilities arising under finance leases, expressed in terms of their present value, as of 31 December 2013 and 2014 were as follows:

In CHF million	31.12.2014	31.12.2013
Within 1 year	14	13
Within 1 to 2 years	14	14
Within 2 to 3 years	9	13
Within 3 to 4 years	9	9
Within 4 to 5 years	6	8
After 5 years	509	598
Total present value of finance lease liabilities	**561**	**655**

In addition, operating lease arrangements exist for miscellaneous real estate with terms of 1 to 25 years. See note 35. In 2014, conditional rental payments of CHF 3 million were recorded as rental expense (prior year: CHF 4 million).

27 Trade and other payables

In CHF million	31.12.2014	31.12.2013
Supplier invoices received	1,102	1,082
Goods and services received not yet invoiced	449	503
Total trade payables	**1,551**	**1,585**
Accruals from international roaming traffic	48	33
Liabilities from debt-collection activities	28	23
Liabilities from construction contracts	2	2
Miscellaneous liabilities	247	227
Total other liabilities	**325**	**285**
Total trade and other payables	**1,876**	**1,870**

28 Provisions

In CHF million	Termination benefits	Dismantlement and restoration costs	Regulatory proceedings	Other	Total
Balance at 31 December 2012	**66**	**512**	**104**	**158**	**840**
Additions to provisions	31	57	13	46	147
Present-value adjustments	–	13	2	–	15
Release of unused provisions	(31)	(100)	–	(17)	(148)
Use of provisions	(21)	(1)	(1)	(32)	(55)
Balance at 31 December 2013	**45**	**481**	**118**	**155**	**799**
Additions to provisions	8	162	3	44	217
Present-value adjustments	–	13	2	1	16
Release of unused provisions	(9)	(6)	–	(30)	(45)
Use of provisions	(16)	(4)	(17)	(24)	(61)
Additions from acquisition of subsidiaries	6	–	–	1	7
Foreign currency translation adjustments	–	–	–	(1)	(1)
Balance at 31 December 2014	**34**	**646**	**106**	**146**	**932**
Thereof current provisions	32	–	16	64	112
Thereof non-current provisions	2	646	90	82	820

Provisions for termination benefits

As of 31 December 2014, provisions of CHF 34 million for personnel reduction costs were recognised, the largest share of which relates to various downsizing programmes resulting from reorganisations within the operating segments of Swisscom Switzerland.

Provisions for dismantling and restoration costs

The provisions for dismantling and restoration costs relate to the dismantling of telecommunication installations and transmitter stations and the restoration to its original state of the land owned by third parties on which they are located. The provisions are computed by reference to estimates of future anticipated dismantling costs and are discounted using an average interest rate of 1.69% (prior year: 2.79%). The effect of using different interest rates amounted to CHF 151 million (prior year: CHF 21 million). In 2013, as a result of new location and expansion strategies, Swisscom reassessed the costs of dismantling and restoration. As a result the provisions for dismantling and restoring telecommunication installations were increased by CHF 57 million. As regards transmitter stations, the reassessment resulted in a decrease of provisions by CHF 79 million. In 2014, adjustments in an aggregate amount of CHF 157 million (prior year: CHF 19 million) were recorded under property, plant and equipment and of CHF 1 million (prior year: CHF 23 million) was recognised in the income statement. The non-current portion of the provisions is expected to be settled after 2020.

Provisions for regulatory proceedings

In accordance with the revised Telecommunications Act, Swisscom provides interconnection services and other access services to other telecommunication service providers in Switzerland. In previous years, several telecommunication service providers demanded from the Federal Communications Commission (ComCom) a reduction in the prices charged to them by Swisscom. As a result of legal opinions, Swisscom set up provisions in prior years. The provisions recognised in 2013 consolidated financial statements have not changed materially during the current financial year. As of 31 December 2014, the provisions relating to the proceedings for interconnection and other access services of Swisscom (Switzerland) Ltd amounted to CHF 106 million. Settlements made in 2014 amounted to CHF 17 million. Any settlements are dependent upon the date on which legally binding rulings and decisions are issued.

Other provisions

Other provisions include provisions for environmental, contractual and tax risks. The non-current portion of the provisions will most likely be settled between 2015 and 2017.

29 Contingent liabilities

Proceedings conducted by the Competition Commission

The Competition Commission (ComCo) is currently investigating a number of companies in the Swisscom Group. The investigation into the relationship of ADSL wholesale prices to the ADSL retail prices is described below. If it is proven that Swisscom has infringed the rules of fair competition, ComCo is entitled to impose sanctions pursuant to the Anti-Trust Law. This sanction depends on the length, severity and nature of the violation and may amount to up to 10% of the revenue generated by the company in question in the relevant markets in Switzerland over the last three financial years. On 20 October 2005, ComCo launched an investigation into Swisscom Ltd and Swisscom (Switzerland) Ltd into possible abuse of a dominant market position. The object of the investigation is the question whether Swisscom has set the prices for ADSL pre-services for Internet service providers at such a high level that no scope remains for these providers for an adequate profit margin in relation to the end-customer prices demanded by Swisscom itself (price squeezing). Swisscom contests the allegation of market dominance and refutes the accusation of price squeezing. It is of the opinion that the prices for its ADSL pre-services leave its ADSL competitors enough room for a reasonable profit margin. With its decision of 5 November 2009, ComCo sanctioned Swisscom for abuse of a market-dominant position in the case of ADSL services and levied a fine of CHF 220 million. Swisscom appealed against the ruling at the Federal Administrative Court on 7 December 2009. On the basis of a legal opinion, Swisscom concludes that, from the present-day perspective, it is improbable that a court of final appeal will levy sanctions. It thus has raised no provisions in the consolidated financial statements as of 31 December 2013 and 2014. In the event of a legally binding decision on abuse, claims could be asserted against Swisscom under civil law. Swisscom considers it unlikely that such civil claims can be enforced.

Regulatory proceedings

Swisscom provides interconnection and other access services for other telecommunication service providers in Switzerland in accordance with the revised Swiss Federal Telecommunications Act (TCA). Other access proceedings in accordance with the revised TCA are pending with the Federal Communications Commission (ComCom) and the Federal Administrative Court.

30 Other non-financial liabilities

In CHF million	31.12.2014	31.12.2013
Deferred revenue	407	375
Value-added taxes payable	120	128
Advance payments received	54	126
Other current non-financial liabilities	137	130
Total other current non-financial liabilities	**718**	**759**
Deferred gain on sale and leaseback of real estate	167	183
Other non-current non-financial liabilities	208	127
Total other non-current non-financial liabilities	**375**	**310**

Deferred revenues mainly comprise deferred payments for prepaid cards and prepaid subscription fees. The deferred gain from the sale and leaseback of real estate is released to the income statement under other income over the lease term. See Notes 13 and 26.

31 Additional information concerning equity

Share capital and treasury shares

As of 31 December 2014, the total number of shares issued remained unchanged from the prior year at 51,801,943 shares. All shares have a par value of CHF 1 and are fully paid up. Each share entitles the holder to one vote. Shares with an aggregate market value of CHF 5 million (prior year: CHF 6 million) were allocated for share-based compensation plans. See Note 11.
The holdings of treasury shares have changed as follows:

	Number	Average price in CHF	In CHF million
Balance at 31 December 2012	**446**	**361**	**–**
Purchases on the market	15,000	435	6
Allocated for share-based compensation	(14,644)	442	(6)
Balance at 31 December 2013	**802**	**435**	**–**
Purchases on the market	8,600	525	5
Allocated for share-based compensation	(9,253)	535	(5)
Balance at 31 December 2014	**149**	**525**	**–**

After deducting 149 treasury shares (prior year: 802 shares), the balance of shares outstanding as at 31 December 2014 totalled 51,801,794 (prior year: 51,801,141 shares).

Other reserves

In CHF million	Hedging reserve	Fair value reserve	Foreign currency translation adjustments	Total other reserves
Balance at 31 December 2012	**(31)**	**6**	**(1,608)**	**(1,633)**
Foreign currency translation adjustments of foreign subsidiaries	–	–	63	63
Change in fair value of available-for-sale financial assets	–	1	–	1
Change in fair value of cash flow hedges	7	–	–	7
Fair value losses of cash flow hedges transferred to income statement	6	–	–	6
Income tax expense	(1)	–	(14)	(15)
Balance at 31 December 2013	**(19)**	**7**	**(1,559)**	**(1,571)**
Foreign currency translation adjustments of foreign subsidiaries	–	–	(46)	(46)
Change in fair value of cash flow hedges	10	–	–	10
Fair value losses of cash flow hedges transferred to income statement	5	–	–	5
Income tax expense	(3)	–	15	12
Balance at 31 December 2014	**(7)**	**7**	**(1,590)**	**(1,590)**

The hedging reserves comprise the changes in the fair value of hedging instruments which were designated as cash flow hedges. Changes in the fair value of available-for-sale financial assets are recognised in the fair value reserves. Reserves arising from foreign currency translation adjustments comprise the differences from the foreign currency translation of the financial statements of subsidiaries and associates from the functional currency into Swiss francs. On 31 December 2014, cumulative foreign currency translation losses before taxes at Fastweb amounted to CHF 1,960 million (prior year: CHF 1,917 million).

Other comprehensive income

Other comprehensive income in 2014 may be analysed as follows:

2014, in CHF million	Retained earnings	Hedging reserve	Fair value reserve	Foreign currency translation adjustments	Equity holders of Swisscom	Non-controlling interests	Total other comprehensive income
Actuarial gains and losses from defined benefit pension plans	(1,160)	–	–	–	(1,160)	(1)	(1,161)
Income tax expense	242	–	–	–	242	–	242
Items that will not be reclassified to income statement, net of tax	**(918)**	**–**	**–**	**–**	**(918)**	**(1)**	**(919)**
Foreign currency translation adjustments of foreign subsidiaries	–	–	–	(46)	(46)	–	(46)
Change in fair value of cash flow hedges	–	10	–	–	10	–	10
Fair value losses of cash flow hedges transferred to income statement	–	5	–	–	5	–	5
Income tax expense	–	(3)	–	15	12	–	12
Items that are or may be reclassified subsequently to income statement, net of tax	**–**	**12**	**–**	**(31)**	**(19)**	**–**	**(19)**
Total other comprehensive income	**(918)**	**12**	**–**	**(31)**	**(937)**	**(1)**	**(938)**

Other comprehensive income in 2013 may be analysed as follows:

2013, in CHF million	Retained earnings	Hedging reserve	Fair value reserve	Foreign currency translation adjustments	Equity holders of Swisscom	Non-controlling interests	Total other comprehensive income
Actuarial gains and losses from defined benefit pension plans	845	–	–	–	845	2	847
Income tax expense	(169)	–	–	–	(169)	–	(169)
Items that will not be reclassified to income statement, net of tax	**676**	**–**	**–**	**–**	**676**	**2**	**678**
Foreign currency translation adjustments of foreign subsidiaries	–	–	–	63	63	–	63
Gains and losses from available-for-sale financial assets transferred to income statement	–	–	1	–	1	–	1
Change in fair value of cash flow hedges	–	7	–	–	7	–	7
Fair value losses of cash flow hedges transferred to income statement	–	6	–	–	6	–	6
Income tax expense	–	(1)	–	(14)	(15)	–	(15)
Items that are or may be reclassified subsequently to income statement, net of tax	**–**	**12**	**1**	**49**	**62**	**–**	**62**
Total other comprehensive income	**676**	**12**	**1**	**49**	**738**	**2**	**740**

Share of equity attributable to non-controlling interests

In 2014, transactions with non-controlling shares worth CHF 157 million were recognised. As part of the takeover of PubliGroupe, the outstanding 49% of the non-controlling shares in Swisscom Directories Ltd and local.ch Ltd were acquired for CHF 162 million. The difference between the purchase price of CHF 162 million and the book value of the minority interest of CHF 26 million was recognised as an equity transaction with no effect on income. For further information see Note 5.

32 Dividends

Distributable reserves are determined on the basis of equity as reported in the statutory financial statements of the parent company, Swisscom Ltd, and not on the equity as reported in the consolidated financial statements. At 31 December 2014, Swisscom Ltd's distributable reserves amounted to CHF 5,513 million. The dividend is proposed by the Board of Directors and must be approved by the Annual General Meeting of Shareholders. The dividend proposed for the 2014 financial year is not recorded as a liability in these consolidated financial statements. Treasury shares are not entitled to a dividend.
Swisscom paid the following dividends in 2013 and 2014:

In CHF million, except where indicated	2014	2013
Number of registered shares eligible for dividend (in millions of shares)	51.802	51.801
Ordinary dividend per share (in CHF)	22.00	22.00
Dividends paid	**1,140**	**1,140**

The dividend payments for the 2012 and 2013 financial years were funded entirely from retained earnings. The Board of Directors proposes to the Annual Shareholders' Meeting of Swisscom Ltd to be held on 8 April 2015 the payment of an ordinary dividend of CHF 22 per share in respect of the 2014 financial year. This equates to a total dividend distribution of CHF 1,140 million. The dividend payment is foreseen on 15 April 2015.

33 Financial risk management and supplementary disclosures regarding financial instruments

Swisscom is exposed to various financial risks resulting from its operating and financial activities. The most significant financial risks arise from changes in foreign exchange rates, interest rates as well as creditworthiness and the ability of counterparties to meet their payment obligations. A further risk arises from the ability to ensure adequate liquidity. Swisscom's financial risk management is conducted in accordance with established guidelines with the aim of limiting potential adverse effects on the financial situation of Swisscom. In particular, these guidelines contain risk limits for approved financial instruments and specify risk monitoring processes. Financial risk management, with the exception of the management of credit risks arising from business operations, is handled by the central Treasury Department. It identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. The implemented risk management process also calls for routine reports on the development of financial risks.

Market price risks

Foreign exchange risks

Swisscom is exposed to foreign exchange risks; these can impact the Group's financial results and consolidated equity. Foreign exchange risks which have an impact on cash flows (transaction risks) are partially hedged by financial instruments and designated for hedge accounting. In addition, foreign exchange risks with an impact on equity (translation risks) are partially hedged through financial instruments and designated for hedge accounting. The aim of Swisscom's foreign exchange risk management policy is to limit the volatility of planned cash flows. Forward currency contracts, currency options and currency swaps may be employed to hedge transaction risks. These hedging measures concern principally the USD and EUR. EUR-denominated financing is employed in order to hedge the translation risk of positions in EUR. As of the balance sheet date, Swisscom contracted financial liabilities totalling EUR 1,300 million (CHF 1,563 million) which were designated for hedge accounting for net investments in foreign shareholdings.
The currency risks and hedging contracts for foreign currencies as of 31 December 2014 are to be analysed as follows:

In CHF million	EUR	USD	Other
At 31 December 2014			
Cash and cash equivalents	35	4	2
Trade and other receivables	4	–	7
Other financial assets	21	173	–
Financial liabilities	(2,019)	(144)	–
Trade and other payables	(67)	(74)	(15)
Net exposure at carrying amounts	**(2,026)**	**(41)**	**(6)**
Net forecasted cash flows exposure in the next 12 months	(362)	(455)	–
Net exposure before hedges	**(2,388)**	**(496)**	**(6)**
Forward currency contracts	336	–	–
Foreign currency swaps	–	446	–
Currency swaps	421	–	–
Hedges	**757**	**446**	**–**
Net exposure	**(1,631)**	**(50)**	**(6)**

The currency risks and hedging contracts for foreign currencies as of 31 December 2013 are to be analysed as follows:

In CHF million	EUR	USD	Other
At 31 December 2013			
Cash and cash equivalents	60	3	–
Trade and other receivables	8	8	11
Other financial assets	3	142	–
Financial liabilities	(1,721)	(130)	–
Trade and other payables	(59)	(54)	(13)
Net exposure at carrying amounts	**(1,709)**	**(31)**	**(2)**
Net forecasted cash flows exposure in the next 12 months	(367)	(343)	–
Net exposure before hedges	**(2,076)**	**(374)**	**(2)**
Forward currency contracts	211	209	–
Foreign currency swaps	46	–	–
Currency swaps	635	–	–
Hedges	**892**	**209**	**–**
Net exposure	**(1,184)**	**(165)**	**(2)**

Foreign-currency sensitivity analysis

The following sensitivity analysis shows the impact on the income statement should the EUR/CHF and USD/CHF exchange rates change in line with their implicit volatility over the next twelve months. This analysis assumes that all other variables, in particular the interest rate level, remain constant.

In CHF million	31.12.2014	31.12.2013
Income impact on balance sheet items		
EUR volatility of 4.29% (previous year: 4.93%)	87	84
USD volatility of 9.72% (previous year: 9.58%)	4	3
Hedges for balance sheet items		
EUR volatility of 4.29% (previous year: 4.93%)	(18)	(31)
USD volatility of 9.72% (previous year: 9.58%)	–	–
Planned cash flows		
EUR volatility of 4.29% (previous year: 4.93%)	16	18
USD volatility of 9.72% (previous year: 9.58%)	44	33
Hedges for planned cash flows		
EUR volatility of 4.29% (previous year: 4.93%)	(14)	(13)
USD volatility of 9.72% (previous year: 9.58%)	(43)	(20)

The volatility of the balance sheet positions and planned cash flows is partially offset by the volatility of the related hedging contracts.

Interest rate risks

Interest rate risks arise from fluctuations in interest rates which could have a negative impact on the financial position of Swisscom. Fluctuations in interest rates lead to changes in interest income and expense. Furthermore, they may impact the market value of certain financial assets, liabilities and hedging instruments. Swisscom actively manages interest rate risks. The main aim thereof is to limit the volatility of planned cash flows. Swisscom employs interest rate swaps and options to hedge its interest rate risk.

The structure of interest-bearing financial instruments at nominal values is as follows:

In CHF million	31.12.2014	31.12.2013
Fixed interest-bearing financial liabilities	5,997	6,498
Variable interest-bearing financial liabilities	2,444	2,094
Total interest-bearing financial liabilities	**8,441**	**8,592**
Fixed interest-bearing financial assets	(115)	(231)
Variable interest-bearing financial assets	(348)	(753)
Total interest-bearing financial assets	**(463)**	**(984)**
Total interest-bearing financial assets and liabilities, net	**7,978**	**7,608**
Variable interest-bearing	2,096	1,341
Fixed through interest rate swaps	(350)	(350)
Variable through interest rate swaps	–	42
Variable interest-bearing, net	**1,746**	**1,033**
Fixed interest-bearing	5,882	6,267
Fixed through interest rate swaps	350	350
Variable through interest rate swaps	–	(42)
Fixed interest-bearing, net	**6,232**	**6,575**
Total interest-bearing financial assets and liabilities, net	**7,978**	**7,608**

Interest-rate sensitivity analysis

The following sensitivity analysis shows the effects on the income statement and equity if CHF interest rates move by 100 basis points. In computing sensitivity in equity, negative interest rates are excluded.

	Income statement		Equity	
In CHF million	Increase 100 base points	Decrease 100 base points	Increase 100 base points	Decrease 100 base points
At 31 December 2014				
Variable financing	(21)	21	–	–
Interest rate swaps	4	(4)	5	(6)
Cash flow sensitivity, net	**(17)**	**17**	**5**	**(6)**
At 31 December 2013				
Variable financing	(13)	13	–	–
Interest rate swaps	3	(3)	9	(2)
Cash flow sensitivity, net	**(10)**	**10**	**9**	**(2)**

Credit risks

Credit risks from operating activities

Swisscom is exposed to credit risks arising from its operating activities. Swisscom has no significant concentrations of credit risk. The Group has policies in place to ensure that products and services are only sold to creditworthy customers. Furthermore, outstanding receivables are continually monitored as part of its operating activities. Swisscom recognises credit risks through individual and general lump-sum allowances. In addition, the danger of risk concentrations is minimised by the large number of customers. Given that the financial assets as of the balance sheet date are neither impaired nor in default, there are no indications that the debtors will not be capable of meeting their payment obligations. Further information on financial assets is set out in Notes 17, 18 and 19.

Credit risks from financial transactions

Swisscom is exposed to the risk of counterparty default through the use of derivative financial instruments and financial investments. Requirements to be met by counterparties are defined in guidelines governing derivative financial instruments and financial investments. Furthermore, individual limits by counterparty have been set. These limits and counterparty credit assessments are reviewed regularly. Swisscom signs netting agreements as issued by ISDA (International Swaps and Derivatives Association) with the respective counterparties in order to control the risk inherent in derivative transactions. The carrying amount of financial assets corresponds to the credit risk and is to be analysed as follows:

In CHF million	Note	31.12.2014	31.12.2013
Cash and cash equivalents	17	302	723
Trade and other receivables	18	2,586	2,516
Loans and receivables	19	209	305
Derivative financial instruments	19	11	6
Total carrying amount of financial assets		**3,108**	**3,550**

The carrying amounts of cash and cash equivalents and other financial assets and the related Standard & Poor's ratings of the counterparties are to be summarised as follows:

In CHF million	31.12.2014	31.12.2013
AAA	13	422
AA+	129	149
AA	15	–
AA–	149	135
A+	1	136
A	123	151
A–	3	3
BBB+	7	–
BBB	–	16
BBB-	10	–
Without rating	72	22
Total	**522**	**1,034**

Liquidity risk

Prudent liquidity management includes the holding of adequate reserves of cash and cash equivalents and marketable securities as well as the provision of adequate financing. Swisscom has processes and policies in place that guarantee sufficient liquidity in order to settle current and future obligations. Swisscom has a confirmed line of credit of CHF 100 million maturing in 2016 from banks and a further confirmed line of credit of CHF 2,000 million from banks maturing in 2019. As of 31 December 2014, these lines of credit had not been drawn down, as in the prior year.

The contractual maturities of financial liabilities including estimated interest payments as of 31 December 2014 are as follows:

In CHF million	Carrying amount	Contractual payments	Due within 1 year	Due within 1 to 2 years	Due within 3 to 5 years	Due after 5 years
At 31 December 2014						
Non-derivative financial liabilities						
Bank loans	1,881	1,975	963	383	370	259
Debenture bonds	5,104	5,778	640	120	2,293	2,725
Private placements	925	970	6	356	608	–
Finance lease liabilities	561	1,456	48	47	121	1,240
Other interest-bearing financial liabilities	5	5	2	–	1	2
Other non-interest-bearing financial liabilities	30	30	8	6	–	16
Trade and other payables	1,876	1,876	1,853	7	16	–
Derivative financial liabilities						
Derivative financial instruments	98	157	58	8	11	80
Total	**10,480**	**12,247**	**3,578**	**927**	**3,420**	**4,322**

The contractual maturities of financial liabilities including estimated interest payments as of 31 December 2013 are as follows:

In CHF million	Carrying amount	Contractual payments	Due within 1 year	Due within 1 to 2 years	Due within 3 to 5 years	Due after 5 years
At 31 December 2013						
Non-derivative financial liabilities						
Bank loans	1,353	1,455	14	442	677	322
Debenture bonds	5,508	6,184	1,419	626	2,395	1,744
Private placements	1,126	1,192	217	7	687	281
Finance lease liabilities	655	1,821	54	54	149	1,564
Other interest-bearing financial liabilities	4	3	1	1	1	–
Other non-interest-bearing financial liabilities	50	50	27	8	–	15
Trade and other payables	1,870	1,870	1,870	–	–	–
Derivative financial liabilities						
Derivative financial instruments	127	180	81	44	10	45
Total	**10,693**	**12,755**	**3,683**	**1,182**	**3,919**	**3,971**

Estimation of fair values

The carrying amounts of trade receivables and payables as well as other receivables and payables are a reasonable estimate of their fair value because of their short-term maturities. The carrying amounts of cash and cash equivalents and current loans receivable correspond to the fair values. The fair value of available-for-sale financial investments is based on quoted stock exchange prices or equates to their purchase cost. The fair values of other non-current financial assets are computed on the basis of the maturing future payments, discounted at market interest rates. The fair value of non-publicly traded interest-bearing financial liabilities is estimated on the basis of the maturing future payments discounted at market interest rates. The fair value of publicly traded interest-bearing financial liabilities is based upon stock-exchange quotations as at the balance-sheet date. The fair value of finance lease obligations is estimated on the basis of the maturing future payments, discounted at market interest rates. The fair value of publicly traded derivative financial instruments as well as investments held for trading or for sale is based on quoted stock exchange prices as of the balance sheet date. Interest rate swaps and currency swaps are discounted at market interest rates. Foreign-currency forward contracts and foreign-currency swaps are valued by reference to foreign-exchange forward rates as of the balance sheet date.

Fair value hierarchy

The fair value hierarchy encompasses the following three levels:

- **Level 1:** stock-exchange quoted prices in active markets for identical assets or liabilities;
- **Level 2:** other factors which are observable on markets for assets and liabilities, either directly or indirectly;
- **Level 3:** factors that are not based on observable market data.

Asset/liability valuation categories and fair value of financial instruments

The carrying values and fair values of financial assets and financial liabilities with their corresponding valuation categories are summarised in the following table. Not reflected therein are cash and cash equivalents, trade receivables and payables as well as miscellaneous receivables and payables whose carrying value corresponds to a reasonable estimation of their fair value.

	Carrying amount				Fair Value		
In CHF million	Loans and receivables	Available-for-sale	At fair value through profit or loss	Financial liabilities	Level 1	Level 2	Level 3
At 31 December 2014							
Derivative financial instruments	–	–	11	–	–	11	–
Available-for-sale financial assets	–	23	–	–	5		18
Financial assets measured at fair value	**–**	**23**	**11**	**–**	**5**	**11**	**18**
Other loans and receivables	209	–	–	–	–	240	–
Financial assets not measured at fair value	**209**	**–**	**–**	**–**	**–**	**240**	**–**
Derivative financial instruments	–	–	98	–	–	98	–
Financial liabilities measured at fair value	**–**	**–**	**98**	**–**	**–**	**98**	**–**
Bank loans	–	–	–	1,881	–	1,922	–
Debenture bonds	–	–	–	5,104	5,610	–	–
Private placements	–	–	–	925	–	957	–
Finance lease liabilities	–	–	–	561	–	1,173	–
Other interest-bearing financial liabilities	–	–	–	5	–	5	–
Other non-interest-bearing financial liabilities	–	–	–	30	–	30	–
Financial liabilities not measured at fair value	**–**	**–**	**–**	**8,506**	**5,610**	**4,087**	**–**

In CHF million	Carrying amount				Fair Value		
	Loans and receivables	Available-for-sale	At fair value through profit or loss	Financial liabilities	Level 1	Level 2	Level 3
At 31 December 2013							
Derivative financial instruments	–	–	6	–	–	6	–
Available-for-sale financial assets	–	21	–	–	1	–	20
Financial assets measured at fair value	**–**	**21**	**6**	**–**	**1**	**6**	**20**
Other loans and receivables	305	–	–	–	–	308	–
Financial assets not measured at fair value	**305**	**–**	**–**	**–**	**–**	**308**	**–**
Derivative financial instruments	–	–	127	–	–	127	–
Financial liabilities measured at fair value	**–**	**–**	**127**	**–**	**–**	**127**	**–**
Bank loans	–	–	–	1,353	–	1,383	–
Debenture bonds	–	–	–	5,508	5,836	–	–
Private placements	–	–	–	1,126	–	1,147	–
Finance lease liabilities	–	–	–	655	–	1,194	–
Other interest-bearing financial liabilities	–	–	–	4	–	4	–
Other non-interest-bearing financial liabilities	–	–	–	50	–	50	–
Financial liabilities not measured at fair value	**–**	**–**	**–**	**8,696**	**5,836**	**3,778**	**–**

In addition, as of 31 December 2014, there were available-for-sale financial assets with a carrying value of CHF 30 million (prior year: CHF 21 million) which are valued at acquisition cost.
Level 3 financial instruments developed as follows in 2013 and 2014:

In CHF million	Available-for-sale financial assets
Balance at 31 December 2012	20
Additions	1
Disposals	(1)
Change in fair value recognised in equity	1
Change in fair value recognised in income statement	(1)
Balance at 31 December 2013	**20**
Additions	1
Disposals	(3)
Balance at 31 December 2014	**18**

The level-3 assets consist of investments in various investment funds and individual companies. The fair value was calculated by using a valuation model. In 2013 and 2014, there were no reclassifications between the various levels.

Asset/liability valuation categories and results of financial instruments

The results for each asset/liability valuation category are to be analysed as follows:

In CHF million	Loans and receivables	Available-for-sale	At fair value through profit or loss	Financial liabilities	Hedging transactions
2014					
Interest income (interest expense)	10	–	(2)	(223)	(3)
Change in fair value	–	–	(46)	–	–
Foreign currency translation adjustments	1	–	3	–	–
Gains and losses transferred from equity	–	–	–	–	(2)
Net result recognised in income statement	**11**	**–**	**(45)**	**(223)**	**(5)**
Change in fair value	–	–	–	–	10
Gains and losses transferred to income statement	–	–	–	–	5
Net result recognised in other comprehensive income	**–**	**–**	**–**	**–**	**15**
Total net result by asset/liability category	**11**	**–**	**(45)**	**(223)**	**10**

In CHF million	Loans and receivables	Available-for-sale	At fair value through profit or loss	Financial liabilities	Hedging transactions
2013					
Interest income (interest expense)	8	–	(4)	(250)	(5)
Change in fair value	–	–	30	–	–
Foreign currency translation adjustments	8	(1)	4	(8)	–
Gains and losses transferred from equity	–	–	–	–	(1)
Net result recognised in income statement	**16**	**(1)**	**30**	**(258)**	**(6)**
Change in fair value	–	1	–	–	7
Gains and losses transferred to income statement	–	–	–	–	6
Net result recognised in other comprehensive income	**–**	**1**	**–**	**–**	**13**
Total net result by asset/liability category	**16**	**–**	**30**	**(258)**	**7**

In addition, in 2014, allowances for trade and other receivables amounting to CHF 87 million (prior year: CHF 83 million) were recorded under other operating expenses.

Derivative financial instruments

At 31 December 2013 and 2014, the following derivative financial instruments were recorded:

In CHF million	Contract value 31.12.2014	Contract value 31.12.2013	Positive fair value 31.12.2014	Positive fair value 31.12.2013	Negative fair value 31.12.2014	Negative fair value 31.12.2013
Fair value hedges	–	42	–	–	–	(13)
Cash flow hedges	824	728	6	–	(10)	(16)
Other derivative financial instruments	929	911	5	6	(88)	(98)
Total derivative financial instruments	**1,753**	**1,681**	**11**	**6**	**(98)**	**(127)**
Thereof current derivative financial instruments			11	–	(49)	(76)
Thereof non-current derivative financial instruments			–	6	(49)	(51)

Fair Value Hedges

In CHF million	Contract value 31.12.2014	Contract value 31.12.2013	Positive fair value 31.12.2014	Positive fair value 31.12.2013	Negative fair value 31.12.2014	Negative fair value 31.12.2013
Currency swaps in EUR	–	42	–	–	–	(13)
Total fair value hedges	**–**	**42**	**–**	**–**	**–**	**(13)**

In 2007, for the purpose of hedging the foreign currency and interest rate risks of financing in EUR, cross-currency swaps for EUR 48 million were entered into which were designated as fair value hedges for hedge accounting. Of this amount, EUR 35 million matured in 2014, which were reported as negative fair values of CHF 13 million in the prior year. As of the balance-sheet date, Swisscom reported no instruments designated as fair value hedges for hedge accounting purposes.

Cash Flow Hedges

	Contract value		Positive fair value		Negative fair value	
In CHF million	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Currency swaps in USD	235	–	6	–	–	–
Interest rate swaps in CHF	350	350	–	–	(9)	(13)
Forward currency contracts in USD	–	167	–	–	–	(2)
Forward currency contracts in EUR	239	211	–	–	(1)	(1)
Total cash flow hedges	**824**	**728**	**6**	**–**	**(10)**	**(16)**

Swisscom entered into interest rate swaps with final maturities in 2016 in order to hedge interest rate risks of CHF 350 million of the variable CHF-denominated interest-bearing private placements. These hedges were designated as cash flow hedges for hedge accounting purposes. As of 31 December 2014, these interest rate swaps were recorded with a negative fair value of CHF 9 million (prior year:CHF 13 million). CHF 10 million was recognised in the hedging reserve within consolidated equity for these hedging instruments (prior year:CHF 13 million). In 2009, interest rate swaps designated for hedge accounting for the premature hedging of the interest rate risk for the intended issuance of debenture loans totalling CHF 500 million were closed out. The effective share of CHF 24 million was left in the other reserves. It is being released to interest expense over the hedged duration of debenture bonds issued in 2009. As of 31 December 2014, a negative amount of CHF 2 million (prior year: CHF 5 million) is recognised in the hedging reserve as part of consolidated equity.
As of 31 December 2014, derivative financial instruments include currency swaps of USD 237 million and forward currency contracts of EUR 199 million, which serve to hedge future purchases of goods and services in the respective currencies. The hedges were designated for hedge accounting purposes. The hedges disclose a positive fair value of CHF 6 million (prior year: negative market value of CHF 3 million). A positive amount of CHF 5 million was recognised in the hedging reserve within consolidated equity for these designated hedging instruments (prior year: negative amount of CHF 4 million).

Other derivative financial instruments

	Contract value		Positive fair value		Negative fair value	
In CHF million	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Currency swaps in EUR	421	592	–	–	(47)	(96)
Interest rate swaps in CHF	200	200	–	6	(40)	(1)
Currency swaps in USD	211	2	5	–	–	–
Currency swaps in EUR	–	75	–	–	–	–
Forward currency contracts in USD	–	42	–	–	(1)	(1)
Forward currency contracts in EUR	97	–	–	–	–	–
Total other derivative financial instruments	**929**	**911**	**5**	**6**	**(88)**	**(98)**

In 2010 in order to hedge currency and interest rate risks arising in connection with EUR-denominated financing, interest rate swaps were entered into covering EUR 350 million with a duration of five years. These hedges were not designated for hedge accounting. Already in 2007, interest rate swaps for EUR 228 million had been entered to hedge currency and interest rate risks arising in connection with EUR-denominated financing and which had not been designated for hedge accounting. Of this amount, EUR 167 million matured in 2014.
Furthermore, derivative financial instruments as at 31 December 2014 include interest rate swaps covering CHF 200 million with maturities ending in 2040 with a negative market value of CHF 40 million (prior year: positive value of CHF 6 million and a negative market value of CHF 1 million) which were not designated for hedge accounting.

In addition, foreign currency forward contracts and currency swaps for EUR and USD which serve to hedge future transactions in connection with Swisscom's operating activities were not designated for hedge accounting purposes are included in derivative financial instruments.

Cross-border lease agreements

Between 1996 until 2002, Swisscom entered into various cross-border lease agreements, under the terms of which parts of its fixed line and mobile phone networks were sold or leased on a long-term basis and leased back. Swisscom defeased a significant part of the lease obligations through the acquisition of investment-grade financial investments. The financial assets were irrevocably deposited with a trust. In accordance with Interpretation SIC 27 "Evaluating the Substance of Transactions involving the Legal Form of a Lease", these financial assets and liabilities in the same amount are netted and not recorded in the balance sheet. As of 31 December 2014, the financial liabilities and assets, including accrued interest, which arose from cross-border lease agreements amounted to USD 66 million or CHF 65 million, which, in compliance with SIC 27, were not recognised in the balance sheet (prior year: USD 63 million or CHF 56 million).

Netting of financial instruments

In CHF million	Gross amount	Settlement	Net amount
At 31 December 2014			
Receivables from international roaming			
Billed revenue	26	(19)	7
Accruals	164	(104)	60
Total receivables from international roaming	**190**	**(123)**	**67**
Liabilities from international roaming			
Supplier invoices received	34	(19)	15
Accruals	152	(104)	48
Total liabilities from international roaming	**186**	**(123)**	**63**
At 31 December 2013			
Receivables from international roaming			
Billed revenue	37	(26)	11
Accruals	238	(147)	91
Total receivables from international roaming	**275**	**(173)**	**102**
Liabilities from international roaming			
Supplier invoices received	41	(26)	15
Accruals	180	(147)	33
Total liabilities from international roaming	**221**	**(173)**	**48**

Swisscom enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting agreements. Under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. The ISDA agreements do not meet the criteria for balance-sheet netting as Swisscom has presently no legally enforceable right to offset the recognised amounts and such a right may only be applied to future occurrences such as a credit default or other credit events. In 2014, Swisscom recorded an amount of CHF 2 million for which such netting agreements existed. In the event of netting, derivative assets of CHF 11 million and derivative liabilities of CHF 98 million would be reduced to CHF 9 million and CHF 96 million, respectively. In the prior year, Swisscom recognised an amount of CHF 6 million for which such netting agreements existed. In the event of netting, the derivative assets in the prior year of CHF 6 million would be reduced to CHF zero and the derivative liabilities would be reduced from CHF 127 million to CHF 121 million.

Charges for international roaming between telecom enterprises are settled over a clearing centre. Receivables and payables arising from roaming charges between the contracting parties are netted and settled on a net basis. Those receivables and payables for which Swisscom has a legal right of offset are netted in Swisscom's consolidated financial statements.

Management of equity resources

Managed capital is defined as equity including non-controlling interests. Swisscom seeks to maintain a robust equity basis. This basis enables it to guarantee the continuing existence of the company as a going concern and to offer investors an appropriate return in relation to the risks entered into. Furthermore, Swisscom maintains funds to enable investments to be made which will bring future benefits to customers as well as generate further returns for investors. The managed capital is monitored through the equity ratio which is the ratio of consolidated equity to total assets. The following table illustrates the calculation of the equity ratio:

In CHF million	31.12.2014	31.12.2013
Share of equity attributable to equity holders of Swisscom Ltd	5,454	5,973
Share of equity attributable to non-controlling interests	3	29
Total capital	**5,457**	**6,002**
Total assets	20,932	20,496
Equity ratio in %	26.1	29.3

In its strategic targets, the Federal Council has ruled that Swisscom's net indebtedness shall not exceed approximately 2.1 times the operating result before taxes, interest and depreciation and amortisation (EBITDA). Exceeding this limit temporarily is permitted. The net-debt-to-EBITDA ratio is as follows:

In CHF million	31.12.2014	31.12.2013
Debenture bonds	5,104	5,508
Bank loans	1,881	1,353
Private placements	925	1,126
Finance lease liabilities	561	655
Other financial liabilities	133	181
Total financial liabilities	**8,604**	**8,823**
Cash and cash equivalents	(302)	(723)
Current financial assets	(40)	(160)
Non-current fixed interest-bearing deposits	(142)	(128)
Net debt	**8,120**	**7,812**
Operating income before depreciation and amortisation (EBITDA)	4,413	4,302
Ratio net debt/EBITDA	1.8	1.8

Net debt consists of total financial liabilities less cash and cash equivalents, current financial assets as well as non-current fixed interest-bearing financial investments.

34 Supplementary information on the statement of cash flows

Changes in operating assets and liabilities

In CHF million	2014	2013
Trade and other receivables	4	178
Inventories	(7)	8
Other non-financial assets	(41)	7
Trade and other payables	(85)	(172)
Provisions	(40)	(16)
Other non-financial liabilities	(22)	119
Defined benefit obligations	(22)	(20)
Total changes in operating assets and liabilities	**(213)**	**104**

Other cash flows from financing activities

In 2014, other cash flows from financing activities aggregated CHF 14 million (prior year: CHF 12 million). This relates mainly to payments in connection with hedging contracts and the commitment fee for the guaranteed credit limit.

Non-cash investing and financing transactions

Additions to property, plant and equipment include additions from finance leases amounting to CHF 13 million (prior year: CHF 10 million). As a result of changes in the assumptions made in estimating the provisions for dismantling and restoration costs, an increase of CHF 157 million net was recognised in property, plant and equipment (prior year: reduction of CHF 19 million). See Note 23.

35 Future commitments

Commitments for future capital expenditures

Firm contractual commitments for future investments in property, plant and equipment and other intangible assets as of 31 December 2014 aggregated CHF 1,004 million (prior year: CHF 862 million).

Operating leases

Operating leases relate primarily to the rental of real estate for business purposes. See Note 26. In 2014, payments for operating leases amounted to CHF 316 million (prior year: CHF 301 million). Future minimum lease payments in respect of operating lease contracts are as follows:

In CHF million	31.12.2014	31.12.2013
Within 1 year	153	104
Within 1 to 2 years	136	95
Within 2 to 3 years	120	76
Within 3 to 4 years	104	62
Within 4 to 5 years	91	50
After 5 years	455	240
Total future minimum lease payments	**1,059**	**627**

36 Research and development

Costs aggregating CHF 18 million for research and development were expensed in 2014 (prior year: CHF 20 million).

37 Related parties

Majority shareholder, associates and non-controlling interests

Transactions and balances outstanding at year end with related entities and individuals for 2014 are as follows:

In CHF million	Income	Expense	Receivables	Liabilities
Confederation	397	160	178	668
Associates	100	145	9	6
Other minority shareholders	–	1	–	2
Total 2014/Balance at 31 December 2014	**497**	**306**	**187**	**676**

Transactions and balances outstanding at year end with related entities and individuals for 2013 are as follows:

In CHF million	Income	Expense	Receivables	Liabilities
Confederation	372	170	186	382
Associates	131	206	14	10
Other minority shareholders	8	–	1	–
Total 2013/Balance at 31 December 2013	**511**	**376**	**201**	**392**

Majority shareholder

Pursuant to the Swiss Federal Telecommunication Enterprises Act ("Telekommunikationsunternehmungsgesetz, TUG"), the Swiss Confederation ("the Confederation") is obligated to hold a majority of the share capital and voting rights of Swisscom. On 31 December 2014, the Confederation as majority shareholder held 51.0% (prior year: 51.2%) of the issued shares of Swisscom Ltd. Any reduction of the Confederation's holding below a majority would require a change in law which would need to be voted upon the Federal Assembly, which would also be subject to a facultative referendum by Swiss voters. As the majority shareholder, the Swiss Confederation has the power to control the decisions of the general meetings of shareholders which are taken by the absolute majority of effectively cast votes. This relates primarily to the approval of dividend distributions and the election of the members of the Board of Directors. Swisscom supplies telecommunication services to and in addition, procures services from the Confederation, the majority shareholder in Swisscom. The Confederation comprises the various departments and administrative bodies of the Confederation and the other companies controlled by the Confederation (primarily the Post, Swiss Federal Railways, RUAG as well as Skyguide). All transactions are conducted on the basis of normal relationships with customers and suppliers and on conditions applicable to unrelated third parties. In addition, financing transactions are entered into with the Swiss Post on normal commercial terms.

Associates and non-controlling interests

Services provided to/from associates and non-controlling interests are based upon market prices. The associates are listed in Note 41.

Post-employment benefits funds

Transactions between Swisscom and the various pension funds are detailed in Note 10.

Key management compensation

In CHF million	2014	2013
Current compensation	1.5	1.6
Share-based payments	0.8	0.8
Social security contributions	0.1	0.1
Total compensation to members of the Board of Directors	**2.4**	**2.5**
Current compensation	5.6	5.8
Share-based payments	0.7	0.9
Benefits paid following retirement from Group Executive Board	0.3	1.5
Pension contributions	0.7	0.7
Social security contributions	0.5	0.5
Total compensation to members of the Group Executive Board	**7.8**	**9.4**
Total compensation to members of the Board of Directors and of the Group Executive Board	**10.2**	**11.9**

Individuals in key positions of Swisscom are the members of the Board of Directors and the Group Executive Board of Swisscom Ltd. Compensation paid to members of the Board of Directors consists of basic emoluments plus functional allowances and meeting attendance fees. One third of the entire compensation of the Board of Directors (excluding meeting allowances) is paid in shares. Compensation paid to the members of the Group Executive Board consists of a fixed basic salary component settled in cash, a variable performance-related portion settled in cash and shares, services provided and non-cash benefits as well as pension and social-insurance benefits. 25% of the variable performance-related share of the members of the Group Executive Board is paid out in shares. The Group Executive Board members may increase this share to 50% at their discretion. See Note 11. The disclosures required by the Swiss Ordinance against Excessive Compensation in Listed Companies (OaEC) are set out in the chapter containing the Remuneration Report. Shares in Swisscom Ltd held by the members of the Board of Directors and Group Executive Board are set out in the Notes to the Consolidated Financial Statements of Swisscom Ltd.

38 Service concession agreements

On 21 June 2007 and in accordance with the Swiss Federal Telecommunications Act (TCA), ComCom granted Swisscom a basic-service license for 2008 to 2017. As licensee, Swisscom (Switzerland) Ltd is required to offer the entire range of the basic service to all sections of the Swiss population throughout the whole territory of Switzerland during the ten-year duration of the license. The license covers the whole territory of Switzerland. The basic service is to guarantee access to a minimum offering of telecommunication services. Within the framework of the basic service, everyone has the right to a connection which allows national and international telephone calls in real time, the transmission and reception of fax messages and access to the Internet. The basic service also provides for the maintenance of a prescribed number of public telephones per municipality (Publifon). The Federal Council periodically sets price ceilings for basic services.

39 Risk assessment process

Swisscom has a centralised risk management system in place that distinguishes between strategic and operative risks. All identified risks are quantified as a function of the probability of occurrence and possible impact and are set forth in a risk report. The risk report is discussed periodically by the Audit Committee of Swisscom. Management aims to monitor and control risks on an ongoing basis. A risk assessment is undertaken to identify the risks arising from the application of the accounting principles or from financial reporting. Control mechanisms are defined within the scope of the internal control system to minimise the risks connected with financial reporting. Residual risks are classified according to their possible impact and monitored accordingly. See Notes 4 and 33.

40 Events after the balance sheet date

Approval of the consolidated financial statements

The Board of Directors of Swisscom approved the release of these consolidated financial statements on 4 February 2015.

Discontinuation of the minimum exchange rate CHF/EUR by the Swiss National Bank

On 15 January 2015, the Swiss National Bank announced it would no longer defend the CHF/EUR minimum exchange rate. Subsequently, the value of the Swiss franc rose sharply against the euro and other currencies that are relevant for Swisscom. The translation effect at subsidiaries and associates that use a different functional currency results in lower amounts in the consolidated financial statements and an increase in the cumulative exchange differences recognised in equity. Nevertheless, the exchange rate at the time of the release of the consolidated financial statements had no material impact on the total cash flow from operating activities and investing activities or on net income for 2015.

41 List of Group companies

Registered name	Registered office	Shareholding in %	Currency	Share capital in millions
Switzerland				
Alphapay Ltd	Zurich	100	CHF	0.5
Axept Webcall AG	Opfikon	100	CHF	0.2
BFM Business Fleet Management Ltd	Ittigen	100	CHF	1.0
Billag Ltd	Fribourg	100	CHF	0.1
cablex Ltd	Berne	100	CHF	5.0
CT Cinetrade Ltd	Zurich	75	CHF	0.5
Curabill Treuhand GmbH	St. Gallen	100	CHF	–
Datasport Ltd	Gerlafingen	100	CHF	0.2
DL-Groupe GMG AG	Geneva	66.7	CHF	0.1
iware SA	Morges	100	CHF	0.1
kitag kino-theater Ltd	Zurich	75	CHF	1.0
Medgate Holding Ltd	Zug	40	CHF	6.2
Mona Lisa Capital Ltd	Ittigen	99.5	CHF	5.0
myKompass Ltd.	Luzern	20	CHF	0.1
MyStrom Ltd	Ittigen	100	CHF	0.1
PG Lab SA	Lausanne	100	CHF	0.1
Plazavista Entertainment AG	Zurich	75	CHF	0.1
PubliGroupe Ltd	Lausanne	98.4 [1]	CHF	2.3
Société Immobilière Dos-Vie S.A.	Delémont	100	CHF	0.7
Swisscom Banking Provider Ltd	Muri bei Bern	100	CHF	5.0
Swisscom Broadcast Ltd	Berne	100	CHF	25.0
Swisscom Directories Ltd	Zurich	100	CHF	1.5
Swisscom Energy Solutions Ltd	Ittigen	50.1	CHF	13.3
Swisscom Event & Media Solutions Ltd	Ittigen	100	CHF	0.1
Swisscom Real Estate Ltd	Ittigen	100	CHF	100.0
Swisscom IT Services Ltd	Berne	100	CHF	150.0
Swisscom IT Services Finance Custom Solutions Ltd	Olten	100	CHF	0.1
Swisscom Switzerland Ltd	Ittigen	100	CHF	1,000.0
Teleclub AG	Zurich	75	CHF	1.2
Teleclub Programm AG	Zurich	25	CHF	0.6
Transmedia Communications Ltd	Geneva	21.8	CHF	1.9
Wingo Ltd	Fribourg	100	CHF	3.0
Worklink AG	Berne	100	CHF	0.5
Belgium				
Belgacom International Carrier Services SA	Brussels	22.4	EUR	1.5
Hospitality Services Belgium SA	Brussels	100	EUR	0.6
Swisscom Belgium N.V.	Brussels	100	EUR	4,330.2
Denmark				
Swisscom Hospitality Denmark A/S	Hellerup	100	DKK	0.6
Germany				
Abavent GmbH	Kempten	100	EUR	0.3
Hospitality Services Germany GmbH	Munich	100	EUR	0.1
Spree7 GmbH	Berlin	80	EUR	–
Swisscom Telco GmbH	Eschborn	100	EUR	–
Zanox Ltd	Berlin	47.5	EUR	0.2
Finland				
Swisscom Hospitality Finland Oy	Helsinki	100	EUR	0.1
Vilant Systems Oy	Espoo	20	EUR	–

[1] Share of Swisscom after expiry of offer period. A procedure for the cancellation of the remaining minority shareholdings was initiated. See Note 5.

Registered name	Registered office	Shareholding in %	Currency	Share capital in millions
France				
Hospitality Services France SA	Paris	96	EUR	5.6
local.fr SA	Bourg-en-Bresse	67	EUR	0.5
Great Britain				
Hospitality Networks and Services UK Ltd	London	100	GBP	1.6
Italy				
Fastweb S.p.A.	Milan	100	EUR	41.3
Hospitality Services Italia S.r.l.	Milan	100	EUR	0.1
Metroweb S.p.A. [1]	Milan	10.6	EUR	29.2
Swisscom Italia S.r.l.	Milan	100	EUR	2,502.6
Liechtenstein				
Swisscom Re Ltd	Vaduz	100	CHF	5.0
Luxembourg				
Hospitality Services Luxembourg SA	Luxembourg	100	EUR	–
Netherlands				
Bone B.V.	Utrecht	100	EUR	–
Improve Digital B.V.	Amsterdam	85	EUR	–
NGT International B.V.	Capelle a/d IJssel	100	EUR	–
SVBmedia Group B.V.	Rotterdam	100	EUR	2.5
Swisscom Hospitality Benelux B.V.	The Hague	100	EUR	–
Norway				
Swisscom Hospitality Norway A/S	Oslo	100	NOK	0.3
Austria				
Hospitality Services GmbH	Vienna	100	EUR	0.3
Swisscom IT Servics Finance SE	Vienna	100	EUR	0.1
Portugal				
HSIA Hospitality Services Portugal	Lisbon	100	EUR	1.1
Romania				
Swisscom Hospitality s.r.l.	Brasov	100	RON	1.9
Sweden				
Sellbranch AB	Stockholm	50.1	SEK	0.1
Spain				
Hospitality Networks and Services España SA	Barcelona	100	EUR	0.1
Singapore				
Swisscom IT Services Finance Pte Ltd	Singapore	100	SGD	0.1
USA				
Hospitality Services North America Corp.	Dulles	98	USD	1.6
Swisscom Cloud Lab Ltd	Delaware	100	USD	–

[1] Investment is accounted for using the equity method. Through its representation on the Board of Directors of the company, Swisscom can exercise a significant influence.

Report of the Statutory Auditor

Report of the Statutory Auditor on the Consolidated Financial Statements to the General Meeting of Shareholders of Swisscom Ltd, Ittigen (Berne)

Report of the Statutory Auditor on the Consolidated Financial Statements

As statutory auditor, we have audited the accompanying consolidated financial statements on pages 132 to 201 of Swisscom Ltd, which comprise the income statement, statement of comprehensive income, balance sheet, statement of cash flows, statement of changes in equity and notes for the year ended 31 December 2014.

Board of Directors' Responsibility

The board of directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The board of directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards as well as International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2014 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the board of directors.

We recommend that the consolidated financial statements submitted to you be approved.

KPMG AG

Rolf Hauenstein
Licensed Audit Expert
Auditor in Charge

Daniel Haas
Licensed Audit Expert

Gümligen-Berne, 4 February 2015

Financial statements of Swisscom Ltd Income statement

In CHF million	2014	2013
Net revenue from sale of goods and services	238	235
Other income	30	40
Total net revenue and other income	**268**	**275**
Personnel expense	(84)	(89)
Other operating expense	(107)	(108)
Total operating expenses	**(191)**	**(197)**
Operating income	**77**	**78**
Financial expense	(263)	(220)
Financial income	220	256
Income from participations	2,447	135
Income tax expense	(9)	(10)
Net income	**2,472**	**239**

Balance sheet

In CHF million	Note	31.12.2014	31.12.2013
Assets			
Cash and cash equivalents		156	571
Other financial assets		–	135
Receivables from Group companies		127	166
Dividends receivable from subsidiaries	9	2,400	89
Other receivables from third parties		3	2
Other assets		10	8
Total current assets		**2,696**	**971**
Participations	9	7,767	7,148
Loans to third parties	10	104	92
Loans to Group companies		5,153	7,573
Total non-current assets		**13,024**	**14,813**
Total assets		**15,720**	**15,784**
Liabilities and equity			
Financial liabilities to third parties	5	1,506	1,535
Financial liabilities to Group companies		1,719	2,996
Trade payables due to third parties		6	6
Other payables to third parties	4	106	139
Other payables to Group companies		15	17
Total current liabilities		**3,352**	**4,693**
Financial liabilities to third parties	5	6,514	6,552
Financial liabilities to Group companies		224	239
Provisions		55	57
Total non-current liabilities		**6,793**	**6,848**
Total liabilities		**10,145**	**11,541**
Share capital		52	52
Capital surplus reserves		21	21
Retained earnings		5,502	4,170
Total equity	7	**5,575**	**4,243**
Total liabilities and equity		**15,720**	**15,784**

Notes to the financial statements

1 General information

The financial statements of Swisscom Ltd, the parent company of the Swisscom Group, comply with Swiss law.

2 Contingent liabilities

At 31 December 2014, guarantees in favour of third parties for the account of Group companies amount to CHF 260 million (prior year: CHF 142 million).

3 Fire insurance values of property, plant and equipment

The fire insurance values of property, plant and equipment correspond generally to their replacement value or fair value.

4 Amounts payable to pension funds

As of 31 December 2014, amounts payable to pension funds totalled CHF 1 million (prior year: none).

5 Debenture bonds issued

The amounts, interest rates and maturities of debenture bonds issued by Swisscom Ltd are as follows:

	31.12.2014		31.12.2013	
In CHF million or EUR	Par value	Nominal interest rate	Par value	Nominal interest rate
Debenture bond in CHF 2007–2017	600	3.75	600	3.75
Debenture bond in CHF 2008–2015	500	4.00	500	4.00
Debenture bond in CHF 2009–2014	–	–	1,250	3.50
Debenture bond in CHF 2009–2018	1,425	3.25	1,500	3.25
Debenture bond in CHF 2010–2022	500	2.63	500	2.63
Debenture bond in CHF 2012–2024	500	1.75	500	1.75
Debenture bond in EUR 2013–2020	500	2.00	500	2.00
Debenture bond in EUR 2014–2021	500	1.88	–	–
Debenture bond in CHF 2014–2026	200	1.50	–	–
Debenture bond in CHF 2014–2029	160	1.50	–	–

6 Treasury shares

Swisscom Ltd recognises treasury shares separately as assets and establishes a reserve for treasury shares in the same amount in equity. Treasury shares are measured at the lower of cost and market value. Details of the balance of and movements in treasury shares are set out in Note 31 to the consolidated financial statements.

7 Equity

Movements in the number of shares in circulation as well as the equity of Swisscom Ltd are as follows:

In CHF million	Number of shares	Share capital	Capital surplus reserves	Retained earnings	Total equity
Balance at 1 January 2013	**51,801,943**	**52**	**21**	**5,071**	**5,144**
Net income	–	–	–	239	239
Dividends paid	–	–	–	(1,140)	(1,140)
Balance at 31 December 2013	**51,801,943**	**52**	**21**	**4,170**	**4,243**
Net income	–	–	–	2,472	2,472
Dividends paid	–	–	–	(1,140)	(1,140)
Balance at 31 December 2014	**51,801,943**	**52**	**21**	**5,502**	**5,575**

Swisscom Ltd is a holding company established under Swiss law. According to the provisions of law governing the appropriation of retained earnings by holding companies, the share capital and appropriations to the general legal reserve to the extent of 20% of share capital as well as the reserve for treasury shares may not be distributed. As of 31 December 2014, distributable reserves aggregated CHF 5,513 million. Any dividend distribution must be proposed by the Board of Directors and approved by the Annual General Meeting of Shareholders.

8 Significant shareholders

On 31 December 2014, the Swiss Confederation (Confederation), as majority shareholder, held 51.0% (prior year: 51.2%) of the issued share capital of Swisscom Ltd. The Federal Telecommunication Enterprises Act (TUG) stipulates that the Confederation must hold the majority of the capital and voting rights of Swisscom Ltd.

9 Participations and recording of dividends from subsidiaries

Participations are accounted for at acquisition cost less provisions for impairment, as required. Dividend income from subsidiary companies is accrued provided that the annual general meetings of the subsidiaries approve the payment of a dividend prior to approval of the annual financial statements of Swisscom Ltd by the Board of Directors. A list of direct and indirect shareholdings of Swisscom Ltd is provided in Note 41 to the consolidated financial statements.

10 Assets subject to restriction

As of 31 December 2014, financial assets totalling CHF 103 million were not freely available (prior year: CHF 92 million). These assets serve to secure commitments arising from bank loans.

11 Information on risk assessment process

Swisscom Ltd is fully integrated into the risk assessment process of Swisscom Group. This Group-wide risk assessment process also takes into consideration the nature and scope of business activities and the specific risks to which Swisscom Ltd is exposed. See Note 39 to the consolidated financial statements.

12 Shareholdings of the members of the Board of Directors and the Group Executive Board

The table below discloses the number of restricted and non-restricted shares held by the members of the Board of Directors and the Group Executive Board and as well as individuals related to them as of 31 December 2014 and 2013.

Number	31.12.2014	31.12.2013
Hansueli Loosli	1,682	1,335
Frank Esser [1]	101	–
Barbara Frei	409	283
Hugo Gerber	1,129	1,020
Michel Gobet	1,496	1,387
Torsten G. Kreindl	1,195	1,061
Catherine Mühlemann	1,119	1,010
Richard Roy [2]	–	1,269
Theophil Schlatter	887	711
Hans Werder	839	688
Total shares of the members of the Group Executive Board	**8,857**	**8,764**

[1] Elected as of 7 April 2014.
[2] Resigned as of 7 April 2014.

Number	31.12.2014	31.12.2013
Urs Schaeppi (CEO) [1]	2,275	1,716
Mario Rossi	634	383
Hans C. Werner	421	257
Marc Werner [2]	106	–
Christian Petit [3]	1,332	–
Roger Wüthrich-Hasenböhler [2]	879	–
Heinz Herren [2]	1,122	–
Andreas König [4]	–	170
Total shares of the members of the Board of Directors	**6,769**	**2,526**

[1] From 23 July to 6 November 2013 CEO ad interim and from 7 November 2013 CEO.
[2] Joined the Group Executive Board as of 1 January 2014.
[3] Joined the Group Executive Board as of 1 April 2014.
[4] Resigned from the Group Executive Board as of 31 March 2014.

No share of the voting rights of any person required to make disclosure thereof exceeds 0.1% of the share capital.

Proposed appropriation of retained earnings

Proposal of the Board of Directors

The Board of Directors proposes to the Annual General Meeting of Shareholders to be held on 8 April 2015 that the retained earnings of CHF 5,502 million as of 31 December 2014 shall be appropriated as follows:

In CHF million	31.12.2014
Appropriation of retained earnings	
Balance carried forward from prior year	3,030
Net income for the year	2,472
Total retained earnings	**5,502**
Ordinary dividend of CHF 22.00 per share to 51,801,794 shares in total [1]	(1,140)
Balance to be carried forward	**4,362**

[1] Excluding treasury shares.

In the event that the proposal is approved, a dividend per share will be paid to shareholders on 15 April 2015 as follows:

Per registered share	CHF
Ordinary dividend, gross	22.00
Less 35% withholding tax	(7.70)
Net dividend paid	**14.30**

Report of the Statutory Auditor

Report of the Statutory Auditor on the Financial Statements to the General Meeting of Shareholders of Swisscom Ltd, Ittigen (Berne)

Report of the Statutory Auditor on the Financial Statements

As statutory auditor, we have audited the accompanying financial statements on pages 204 to 208 of Swisscom Ltd, which comprise the income statement, balance sheet and notes for the year ended 31 December 2014.

Board of Directors' Responsibility

The board of directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The board of directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2014 comply with Swiss law and the company's articles of incorporation.

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the board of directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

KPMG AG

Rolf Hauenstein Licensed Audit Expert Auditor in Charge	Daniel Haas Licensed Audit Expert

Gümligen-Berne, 4 February 2015

"I help customers in their homes, rectify disruptions to the Internet, set up new computers and smart-phones, and get rid of viruses."

Christian Gebs
My Service technician
Residential Customers

Further information

Focusing on our customers with a great deal of passion and reliability.

Over 1.4 million

homes and offices
are connected with
ultra-fast broadband.

Glossary

Technical terms

ADSL (Asymmetric Digital Subscriber Line): A broadband data transmission technology that uses the existing copper telephone cable for broadband access to the data network. Filters at the customer end and in the network prevent mutual interference, allowing traditional analogue telephony and data transmission to exist in parallel. Depending on the line length and other factors, the transmission speed varies between 150/50 kbps and a maximum of 6,000/600 kbps.

All-IP: All-IP is the technology behind the transition to a single unified network based on the Internet Protocol (IP). All-IP means that all services such as television, the Internet or telephony run over the same IT network based on the Internet Protocol. Phone calls are no longer transmitted using analogue signals but instead take the form of data packets, as is the case for existing Internet services. Thanks to the unified All-IP network infrastructure, devices and services can communicate with one another and exchange data. In the medium and long term, Swisscom intends to migrate all existing communications networks to IP to enable all telecommunications services (telephony, data traffic, TV, mobile communications, etc.) to be offered over IP.

Bandwidth: Bandwidth refers to the transmission capacity of a medium, also known as the data transmission rate. The higher the bandwidth, the more information units (bits) can be transmitted per unit of time (second). It is defined in bps, kbps or Mbps.

Cloud: Cloud computing is an approach in which IT infrastructure, such as computing capacity, data storage and even finished software and platforms can be modified according to need dynamically and accessed via the Internet. The data centres, along with the resources and databases, are distributed via the cloud. The cloud is also a synonym for hardware that does not have a precise location.

Connectivity: Connectivity is the generic term used to denote IP services or the connection to the Internet and the ability to exchange data with any partner on the network.

DSL (Digital Subscriber Line): DSL is the generic term for transmission technologies that use subscriber lines based entirely or partly on copper. Examples of DSL technologies: ADSL or VDSL.

EDGE (Enhanced Data Rates for GSM Evolution): EDGE is part of the second generation of mobile telephony and is a radio modulation technology used to enhance data transmission speeds in GSM mobile networks. EDGE enables data transfer rates of up to 256 kbps. EDGE is currently available to over 99% of the Swiss population.

FTTH (Fibre to the Home): FTTH refers to the end-to-end connection of homes and offices using fibre-optic cables instead of traditional copper cables.

FTTS (Fibre to the Street)/FTTB (Fibre to the Building)/FTTC (Fibre to the Curb): FTTS, FTTB and FTTC with vectoring refer to innovative, hybrid broadband connection technologies (optical fibre and copper). With these technologies fibre-optic cables are laid as close as possible to the building, or up to the basement in the case of FTTB, while the existing copper cabling is used for the remaining section. VDSL's subsequent evolution to G.fast will significantly increase bandwidths for FTTS and FTTB.

G.fast (pronounced "G dot fast"): G.fast, the latest technology for copper lines, is capable of providing far more bandwidth than VDSL2. The use of G.fast for FTTS and FTTB is part of Swisscom's access strategy.

GPRS (General Packet Radio Service): GPRS is part of the second generation of mobile telephony and increases the transfer rates of GSM mobile networks. GPRS enables speeds of 30 to 40 kbps.

GSM (Global System for Mobile communications) network: GSM is a global second-generation digital mobile telephony standard which, in addition to voice and data transmission, enables services such as SMS messages and phone calls to other countries (international roaming).

HSPA (High Speed Packet Access): HSPA is an enhancement of the third generation of the UMTS mobile communications standard. Compared to UMTS, HSPA enables large volumes of data to be transmitted at faster speeds. HSPA enables far more customers to use the same radio cell simultaneously and at a consistently high speed than would be possible with UMTS. At locations where mobile Internet use is particularly concentrated, HSPA is upgraded to HSPA+ (also referred to as HSPA Evolution). The maximum transmission speed currently delivered by this technology is 42 Mbps.

ICT (Information and Communication Technology): A term coined in the 1980s, combining the terms information and communication technology. It denotes the convergence of information technology (information and data processing and the related hardware) and communication technology (technically aided communications).

IP (Internet Protocol): IP enables different types of services to be integrated on a single network. Typical applications are virtual private networks (VPN), telephony (Voice over IP) and fax (Fax over IP).

IPTV (Internet Protocol Television): IPTV refers to the digital broadcasting of broadband applications (for example, television programmes and films) over an IP network.

ISP (Internet Service Provider): An ISP is a provider of Internet-based services, also commonly referred to as Internet Provider. Services include Internet connection (using DSL, for example), hosting (registration and operation of Internet addresses, websites and web servers) and content provision.

LAN (Local Area Network): A LAN is a local network for interconnecting computers, usually based on Ethernet.

4G/LTE (Long Term Evolution): 4G/LTE is the successor technology to HSPA and is the fourth generation of mobile technology. At present, LTE enables mobile broadband data speeds of up to 150 Mbps.

4G+LTE Advanced: 4G+/LTE Advanced enables a theoretical bandwidth of up to 300 Mbps using the mobile phone network. In doing so, it bundles 4G/LTE frequencies to achieve the necessary capacity. In the near future, theoretical bandwidths of up to 450 Mbps will be achieved through the further bundling of 4G/LTE frequencies.

MVNO (Mobile Virtual Network Operator): MVNO denotes a business model for mobile communications. In this case, the corresponding business (the MVNO) has little or no limited network infrastructure. It therefore accesses the infrastructure of other mobile communication providers.

Net Promoter Score (NPS): NPS is a key figure that quantifies customer satisfaction directly and willingness to recommend the service to other customers indirectly. The NPS is thus an analysis to determine customer satisfaction.

Optical fibre: Fibre-optic cables enable optical data transmission, unlike copper cables, which use electrical signals to transmit data.

OTT (Over the Top): OTT refers to content distributed by service providers over an existing network infrastructure without operating the infrastructure themselves. OTT companies offer proprietary services on the basis of the infrastructures of other companies in order to reach a broad range of users quickly and cost-efficiently.

PWLAN (Public Wireless Local Area Network): PWLAN denotes a wireless, local public network based on the IEEE 802.11 WiFi standard family. Swisscom customers can use PWLAN at more than 1,200 hotspots in Switzerland and over 65,000 worldwide. A PWLAN typically offers data transmission speeds of 5-10 Mbps.

Roaming: Roaming enables mobile network subscribers to use their mobile phones when travelling abroad. The mobile telephone of a subscriber outside Switzerland automatically selects the best-quality partner network. Information indicating the country and region where the mobile phone is located at any given time is sent to the exchange in Switzerland where the mobile phone is registered. On receipt of the calling signal, the exchange in Switzerland transmits it within a fraction of a second to the right region in the respective country, where the signal is forwarded to the base station in whose vicinity the mobile phone is located. The base station then forwards the signal to the mobile phone and the call can be taken. Roaming only works if all countries involved operate on the same frequency bands. In Europe all GSM networks use the same frequency bands. Other countries such as the USA or countries in South America use a different frequency range. Most mobile telephones today are triband or quadband and support 900 MHz and 1,800 MHz networks (which are most commonly used in Europe) as well as 850 MHz and 1,900 MHz networks.

Router: A router is a device for connecting or separating several computer networks. The router analyses incoming data packets according to their destination address, and either blocks them or forwards them accordingly (routing). Routers come in different forms, from large-scale network devices to small devices for the home.

TDM (Time Division Multiplexing): Multiplexing is a method which allows the simultaneous transmission of multiple signals over a single communications medium (line, cable or radio link), for example, by means of classic telephony (using an ISDN or analogue line). Multiplexing methods are often combined to achieve even higher utilisation. The signals are multiplexed once the user data have been modulated on a carrier signal. At the receiver end the information signal is first demultiplexed and then demodulated.

Ultra-fast broadband: Ultra-fast broadband is broadband speeds of more than 50 Mbps – on both fixed and mobile networks.

UMTS (Universal Mobile Telecommunications System): UMTS is an international third generation mobile communications standard that combines mobile multimedia and voice services. A further development of GSM, UMTS complements GSM and Public Wireless LAN in Switzerland. Today the UMTS network covers around 99% of the Swiss population.

Unified Communications: An attempt to integrate the wide variety of modern communication technologies. Different telecommunication services such as e-mail, unified messaging, telephony, mobile, PDAs, instant messaging and presence functions are coordinated to improve the reachability of communication partners working on distributed projects, thereby speeding up business processes.

VDSL (Very High Speed Digital Subscriber Line): VDSL is currently the fastest DSL technology, allowing data transmission speeds of up to 100 Mbps. The current form of VDSL is called VDSL2.

Vectoring: Vectoring is a technology that is used in conjunction with VDSL2. It eliminates interference (disruptions) between pairs of copper lines. This enables maximum a double increase in bandwidth.

Video on Demand: A service that allows subscribers to choose from a selection of films and to watch the selected film at any time. The film is delivered to the subscriber either over the broadband cable network, over the original telephone network (DSL transmission), or over the new fibre-optic network (optical transmission).

VoIP (Voice over Internet Protocol): VoIP is used to set up telephone connections via the Internet.

VoLTE (Voice over LTE): LTE is, in effect, a pure data network. VoLTE enables phone calls via the LTE data network.

VPN (Virtual Private Network): Colloquially, VPN is now used to refer to a virtual IP network (usually encrypted) that acts as a closed subnetwork within another IP network (often the public Internet).

WLAN: WLAN stands for wireless local area network. A WLAN connects several computers wirelessly to a central information system, printer or scanner.

WLAN interworking / WiFi calling: WLAN interworking or WiFi calling enables users to make calls via their mobile phone and the WLAN/WiFi network. This technology has improved mobile phone reception in houses significantly.

Networks

Leased lines: Swisscom operates various data networks. These data networks support leased lines based on a range of different technologies such as SDH (Synchronous Digital Hierarchy) and, of course, Ethernet. Business customers can take advantage of permanent, overload-free point-to-point connections using bandwidths of between 2 Mbps and 10 Gbps. Redundancies are tailored to customers' individual requirements in terms of availability and security.

Next-generation network: To enable more cost-effective use of new services such as VoIP and convergent solutions in the future, Swisscom is investing in a network infrastructure that is based exclusively on All-IP. This infrastructure allows Swisscom to offer services irrespective of the type of access technology selected (copper, wireless or fibre optic). Having migrated the data transport network to IP, commissioned an IP-based telephony and multimedia platform, and launched its first IP-based services such as Swisscom TV and VoIP, Swisscom has already gained experience in All-IP offerings. The first products based solely on IP were already rolled out in 2009 and supplemented since then by a wide range of new services and bundled offerings.

PSTN network: The PSTN network connects virtually all private households and a large proportion of business customers in Switzerland. Four-fold redundancy in the core network and two-fold redundancy in the switching layer ensure excellent voice quality and optimum security and availability.

Transport network: The transport network is a wide area network that connects the regional parts of the fixed network as well as the regional parts of the mobile network with each other as well as with the respective central network core. It also provides the link to computer centres and the global Internet. The transport network is used for all services (voice, video and data) and all customers (residential/business).

Wired access network: Swisscom's copper access network is comprised primarily of twisted copper wire pairs. It reaches practically every household in Switzerland. Swisscom began with the expansion of optical fibre to homes and offices (FTTH) in 2008. It started rolling out broadband technology in 2000, first based on ADSL (coverage at end-2014: 98%). ADSL was followed in 2006 by VDSL2 (coverage at end-2014: over 91%) and in 2008 by optical transfer via optical fibre technology (coverage at end-2013: more than 1.4 million of homes and offices). To fulfil its mandate for basic broadband provision, Swisscom also uses wireless technologies such as UMTS and satellite. At present, ADSL is mainly used to provide Internet access. Internet access using very high bandwidths and more broadband-intensive services such as IPTV and video telephony are transmitted only over VDSL2 or optical fibre. A million customers are already using Swisscom's IPTV, and more than 85% enjoy at least one channel in HD quality (high-definition TV). At the end of 2013 Swisscom launched a service on the fibre-optic network offering speeds of 1 Gbps.

Wireless access network: Swisscom operates a nationwide mobile network in Switzerland. The mobile services it provides are based on GSM, UMTS and LTE, the dominant digital standards across Europe and much of the world. Swisscom has implemented different technologies that enable transmission between handsets and base stations. In 2005, it enhanced all active GSM antennas with EDGE technology, a further development of GPRS. EDGE enables bandwidths of between 150 and 200 kbps and currently covers 99% of the Swiss population. Swisscom launched UMTS in 2004, and has continuously expanded its mobile network to include the UMTS extension HSPA/HSPA+ since 2006. This ensures download speeds of up to 42 Mbps. By the end of 2014, UMTS/HSPA was available to around 99% of the Swiss population. Swisscom took another major step in 2011 when it became the first mobile provider in Switzerland to launch a field trial with LTE. Swisscom launched its 4G/LTE offerings on the Swiss market in December 2012 and has since extended coverage to 97% of Swiss households. At present, LTE enables bandwidths of up to 150 Mbps. Thus, Swisscom currently has the most powerful mobile network in Switzerland and will continue to expand its technological lead – it has already tested bandwidths of up to 450 Mbps in the laboratory.

Other terms

Bit-stream access (BSA): Regulated bitstream access is a high-speed link that travels the last mile from the local exchange to the customer's home connection via a metallic pair cable. The BSA is set up by Swisscom and is provided to other telecoms service providers (TSP) as an upstream service at a price regulated by the government. TSPs can use this link, for example, to offer their customers broadband services or fast Internet access.

Collocation: Collocation is governed by the Ordinance on Telecommunications Services (Verordnung über Fernmeldedienste, FDV). The market-dominant provider offers alternative providers non-discriminatory access to the required locations so that they can use the location and install and operate their own telecommunications systems at that location.

ComCo (Competition Commission): ComCo enforces the Federal Cartel Act, the aim of which is to safeguard against the harmful economic or social impact of cartels and other constraints on competition in order to foster competition. ComCo combats harmful cartels and monitors market-dominant companies for signs of anti-competitive conduct. It is responsible for monitoring mergers. In addition, it provides comments on official decrees that affect competition.

ComCom (Federal Communications Commission): ComCom is the decision-making authority for telecommunications. Its primary responsibilities include issuing concessions for use of the radio frequency spectrum as well as basic service licences. It also provides access (unbundling, interconnection, leased lines, etc.), approves national numbering plans and regulates the conditions governing number portability and freedom of choice of service provider.

COSO/COSO ERM (Committee of Sponsoring Organizations of the Treadway Commission): COSO is a voluntary, private-sector US organisation. Its goal is to improve the quality of financial reporting by promoting ethical conduct, effective internal controls and good corporate management. The Enterprise Risk Management (ERM) Framework is an extension of COSO's Internal Control Framework.

ERM (Enterprise Risk Management): ERM is a Group-wide management system that ensures the assessment, handling and reporting of significant risks at Group level as well as Group-company level.

Ex-ante: In an ex-ante regulation approach, the particulars of the regulated offerings (commercial, technical and operating conditions) must be approved by a government authority (authorisation obligation). The conditions approved by the authority (for example, price) are known to the parties using the regulated services. There is legal provision for the affected providers to establish that the price has been correctly determined.

Ex-post: In an ex-post regulation approach, the parties must agree all possible aspects of the contractual content (primacy of negotiation). In the event of a dispute, the authorities decide only on the points on which the parties have been unable to agree (objection principle).

FTE (full-time equivalent): Throughout this report, FTE is used to denote the number of full-time equivalent positions.

Full access: Full access in connection with unbundling means providing alternative telecommunications service providers with access to subscriber lines for the purpose of using the entire frequency spectrum of metallic pair cables.

Hubbing: Hubbing relates to the trading of telephone traffic with other telecommunication operators.

Interconnection: Interconnection means linking up the systems and services of two TSPs so as to enable the logical interaction of the connected telecoms components and services and to provide access to third-party services. Interconnection allows the customer of one provider to communicate with the subscribers of another provider. Under the terms of the Federal Telecommunications Act, market-dominant TSPs are required to allow their competitors interconnection at cost-based prices (LRIC, see below).

ISO (9001, 14001–14064, 15504, 27001, 31000): ISO is the International Organization for Standardization. It draws up international standards in all fields, with the exception of electricity and electronics, for which the International Electrotechnical Commission (IEC) is responsible, and telecommunications, for which the International Telecommunication Union (ITU) is responsible. Together, these three organisations form the WSC (World Standards Cooperation). The relevant ISO standards are: ISO 9001 Quality Management System – Requirements; ISO 14001 to ISO 14064 Environmental Management System; ISO 15504 Software Process Improvement and Capability Determination (SPICE); ISO 27001 Information Technology – IT Security Techniques – Information Security Management Systems – Requirements; ISO 31000 Risk Management Principles and Guidelines. These standards govern the principles and general requirements for the risk management process.

Last mile: Also referred to as the local loop, the last mile denotes the subscriber access line between the subscriber access point and the local exchange. In Switzerland, as in most other countries, access to the last mile is regulated.

LRIC (Long-Run Incremental Costs): LRIC is the method defined by the Ordinance on Telecommunications Services (Verordnung über Fernmeldedienste, FDV) for calculating regulating prices. It is future-oriented and therefore creates economically efficient investment incentives.

OFCOM (Federal Office of Communications): OFCOM deals with issues related to telecommunications and broadcasting (radio and television), and performs official and regulatory tasks in these areas. It prepares the groundwork for decisions by the Federal Council, the Federal Department for Environment, Transport, Energy and Communications (DETEC) and the Federal Communications Commission (ComCom).

Termination charges: Termination charges are levied by a network operator for forwarding calls to another third-party network (e.g. calls from Orange to Swisscom or from Sunrise to Orange).

Unbundling: Unbundling of the last mile (Unbundling of the Local Loop, ULL) enables fixed-network competitors without their own access infrastructure to access customers directly at non-discriminatory conditions based on original cost. The prerequisite for ULL is the presence of a market-dominant provider. There are two forms of unbundling: unbundling at the exchange (unbundling of the local loop/ULL or LLU, referred to as TAL in Switzerland), currently available at around 600 unbundled locations, and unbundling at the neighbourhood distribution cabinet (sub-loop unbundling, referred to as T-TAL in Switzerland), in which Swisscom's competitors have so far shown no interest.

Index of keywords

Swisscom Group five-year review

In CHF million, except where indicated		2010	2011	2012 [1]	2013	2014
Net revenue and results						
Net revenue		11,988	11,467	11,384	11,434	11,703
Operating income before depreciation and amortisation (EBITDA)		4,599	4,584	4,477	4,302	4,413
EBITDA as % of net revenue	%	38.4	40.0	39.3	37.6	37.7
Operating income (EBIT) before impairment losses on goodwill		2,627	2,681	2,527	2,258	2,322
Operating income (EBIT)		2,627	1,126	2,527	2,258	2,322
Net income		1,788	694	1,815	1,695	1,706
Share of net income attributable to equity holders of Swisscom Ltd		1,813	683	1,808	1,685	1,694
Earnings per share	CHF	35.00	13.19	34.90	32.53	32.70
Balance sheet and cash flows						
Equity at end of year		5,350	4,296	4,717	6,002	5,457
Equity ratio at end of year	%	25.4	22.1	23.8	29.3	26.1
Cash flow provided by operating activities		4,024	3,951	4,245	4,131	3,770
Capital expenditure in property, plant and equipment and other intangible assets		1,903	2,095	2,529 [2]	2,396	2,436
Net debt at end of period		8,848	8,309	8,071	7,812	8,120
Employees						
Full-time equivalent employees at end of year	number	19,547	20,061	19,514	20,108	21,125
Average number of full-time equivalent employees	number	19,464	19,832	19,771	19,746	20,433
Operational data at end of period						
Fixed access lines in Switzerland	in thousand	3,233	3,120	3,013	2,879	2,778
Broadband access lines retail in Switzerland	in thousand	1,584	1,661	1,727	1,811	1,890
Mobile access lines in Switzerland	in thousand	5,828	6,049	6,217	6,407	6,540
Swisscom TV access lines in Switzerland	in thousand	421	608	791	1,000	1,165
Revenue generating units (RGU) Switzerland	in thousand	11,066	11,438	11,748	12,097	12,373
Unbundled fixed access lines in Switzerland	in thousand	255	306	300	256	180
Broadband access lines in Italy	in thousand	1,724	1,595 [3]	1,767	1,942	2,072
Swisscom share						
Par value per share at end of year	CHF	1.00	1.00	1.00	1.00	1.00
Number of issued shares at end of period	in million of shares	51.802	51.802	51.802	51.802	51.802
Market capitalisation at end of year		21,296	18,436	20,400	24,394	27,067
Closing price at end of period	CHF	411.10	355.90	393.80	470.90	522.50
Closing price highest	CHF	420.80	433.50	400.00	474.00	587.50
Closing price lowest	CHF	358.00	323.10	334.40	390.20	467.50
Ordinary dividend per share	CHF	21.00	22.00	22.00	22.00	22.00 [4]
Ratio payout/earnings per share	%	60.00	166.79	63.04	67.63	67.27
Informations Switzerland						
Net revenue		9,340	9,243	9,268	9,358	9,586
Operating income before depreciation and amortisation (EBITDA)		3,922	3,945	3,864	3,685	3,788
Capital expenditure in property, plant and equipment and other intangible assets		1,311	1,537	1,994 [2]	1,686	1,751
Full-time equivalent employees at end of year	number	16,064	16,628	16,269	17,362	18,272

[1] Amendments to IAS 19 revised, restated from 2012.
[2] Including expenses of CHF 360 million for mobile frequencies.
[3] As a result of the settlement of litigations Fastweb reduced the number of access lines by 197,000.
[4] In accordance with the proposal of the Board of Directors to the Annual General Meeting.

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- **5 February 2015**
  Annual Press Conference 2014, Zurich
- **8 April 2015**
  Annual General Meeting
  of Shareholders, Zurich
- **10 April 2015**
  Ex-dividend date
- **15 April 2015**
  Dividend payment
- **6 May 2015**
  First-Quarter results 2015
- **19 August 2015**
  Second-Quarter results 2015
- **5 November 2015**
  Third-Quarter results 2015
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