

# 2014

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**Interim Report**  
January–June

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**swisscom**

# Facts & figures

In CHF million, except where indicated

|   |     | 1 <sup>st</sup> half-year 2014 | 1 <sup>st</sup> half-year 2013 | Change |
|---|-----|--------------------------------|--------------------------------|--------|
| <b>Net revenue and results</b>  |     |                                |                                |        |
| Net revenue   |     | 5,700                          | 5,596                          | 1.9%   |
| Operating income before depreciation and amortisation (EBITDA) <sup>1</sup> |     | 2,182                          | 2,102                          | 3.8%   |
| EBITDA as % of net revenue  | %   | 38.3                           | 37.6                           |        |
| Operating income (EBIT) <sup>2</sup>  |     | 1,160                          | 1,110                          | 4.5%   |
| Net income  |     | 806                            | 819                            | -1.6%  |
| Share of net income attributable to equity holders of Swisscom Ltd          |     | 799                            | 815                            | -2.0%  |
| Earnings per share  | CHF | 15.42                          | 15.73                          | -2.0%  |

## Balance sheet and cash flows

|  |   |       |       |       |
|--|---|-------|-------|-------|
| Equity at end of period                    |   | 5,296 | 4,685 | 13.0% |
| Equity ratio at end of period <sup>3</sup> | % | 26.1  | 23.7  |       |
| Capital expenditure                        |   | 1,117 | 1,021 | 9.4%  |
| Operating free cash flow <sup>4</sup>      |   | 830   | 860   | -3.5% |
| Net debt at end of period <sup>5</sup>     |   | 8,502 | 8,622 | -1.4% |

## Operational data

|  |             |        |        |       |
|--|-------------|--------|--------|-------|
| Fixed access lines in Switzerland                          | in thousand | 2,830  | 2,936  | -3.6% |
| Broadband access lines retail in Switzerland               | in thousand | 1,855  | 1,767  | 5.0%  |
| Swisscom TV access lines in Switzerland                    | in thousand | 1,091  | 902    | 21.0% |
| Mobile access lines in Switzerland                         | in thousand | 6,460  | 6,307  | 2.4%  |
| Revenue generating units (RGU) in Switzerland <sup>6</sup> | in thousand | 12,236 | 11,912 | 2.7%  |
| Broadband access lines wholesale in Switzerland            | in thousand | 224    | 201    | 11.4% |
| Broadband access lines in Italy                            | in thousand | 1,994  | 1,887  | 5.7%  |

## Swisscom share

|   |         |        |        |       |
|---|---------|--------|--------|-------|
| Number of shares issued at end of period            | in mio. | 51.802 | 51.802 | –     |
| Closing price at end of period                      | CHF     | 515.50 | 413.60 | 24.6% |
| Market capitalisation at end of period <sup>7</sup> |         | 26,704 | 21,425 | 24.6% |

## Employees

|  |     |        |        |      |
|--|-----|--------|--------|------|
| Full-time equivalent employees at end of period                | FTE | 20,228 | 19,859 | 1.9% |
| Full-time equivalent employees in Switzerland at end of period | FTE | 17,545 | 17,099 | 2.6% |

<sup>1</sup> Definition operating income before depreciation and amortisation (EBITDA): operating income before depreciation and amortisation and impairment losses on tangible and intangible assets, gain on sale of subsidiaries, net financial result, share of results of associates and income tax expense.

<sup>2</sup> Definition operating income (EBIT): operating income before gain on sale of subsidiaries, net financial result, share of results of associates and income tax expense.

<sup>3</sup> Equity as a percentage of total assets.

<sup>4</sup> Definition operating free cash flow: operating income before depreciation and amortisation (EBITDA), change in operating assets and liabilities (excluding cash and cash equivalents) less net capital expenditure in tangible and intangible assets and dividends paid to non-controlling interests.

<sup>5</sup> Definition net debt: financial liabilities less cash and cash equivalents, current financial assets and non-current fixed-interest-bearing deposits.

<sup>6</sup> Definition revenue generating units (RGU) in Switzerland: fixed access lines, broadband access lines retail, Swisscom TV access lines and mobile access lines.

<sup>7</sup> Closing price at end of period, multiplied by number of shares outstanding at end of period.

# Group Financial Review

## Summary

| In CHF million, except where indicated                         | 1 <sup>st</sup> half-year 2014 | 1 <sup>st</sup> half-year 2013 | Change |
|--|--------------------------------|--------------------------------|--------|
| Net revenue  | 5,700                          | 5,596                          | 1.9%   |
| Operating income before depreciation and amortisation (EBITDA) | 2,182                          | 2,102                          | 3.8%   |
| EBITDA as % of net revenue                                     | 38.3                           | 37.6                           |        |
| Operating income (EBIT)  | 1,160                          | 1,110                          | 4.5%   |
| Net income   | 806                            | 819                            | -1.6%  |
| Earnings per share (in CHF)                                    | 15.42                          | 15.73                          | -2.0%  |
| Capital expenditure  | 1,117                          | 1,021                          | 9.4%   |
| Operating free cash flow                                       | 830                            | 860                            | -3.5%  |
| Net debt at end of period                                      | 8,502                          | 8,622                          | -1.4%  |
| Full-time equivalent employees at end of period                | 20,228                         | 19,859                         | 1.9%   |

In the first half of 2014, Swisscom's net revenue increased by CHF 104 million or 1.9% to CHF 5,700 million. At constant exchange rates, excluding company acquisitions and Fastweb's wholesale revenue from interconnection services (hubbing), net revenue rose by 1.2% or CHF 65 million, of which Swiss business accounted for CHF 52 million. Price erosion of CHF 160 million in Swiss core business (CHF 60 million of which resulted from reduced roaming fees) was more than offset by customer and volume growth of CHF 212 million. Excluding hubbing, Fastweb's revenue was EUR 7 million or 0.9% higher at EUR 792 million. Swisscom's operating income before depreciation and amortisation (EBITDA) rose by CHF 80 million or 3.8% to CHF 2,182 million. Excluding one-off items, the increase amounted to CHF 53 million or 2.5%. Excluding non-recurring items, EBITDA in Swiss business increased by CHF 18 million or 1.0%, and at Fastweb by EUR 26 million or 12.4%. Despite higher depreciation and amortisation and an increase in financial and tax expense, net income remained stable at CHF 806 million.

Capital expenditure rose by CHF 96 million or 9.4% to CHF 1,117 million. In Switzerland, capital expenditure increased by CHF 63 million or 8.9% to CHF 769 million due to broadband network expansion. At Fastweb the increase in capital expenditure by EUR 28 million or 10.9% to EUR 284 million was attributable to the expansion of the fibre-optic network in Italy.

Operating free cash flow declined by CHF 30 million or 3.5% to CHF 830 million, largely due to the increase in capital expenditure. At CHF 8,502 million, net debt is CHF 120 million or 1.4% lower compared with the same period in 2013.

Headcount increased year-on-year by 369 FTEs or 1.9% to 20,228 FTEs. Excluding company acquisitions, headcount rose by 204 FTEs or 1.0% as a result of measures aimed at strengthening customer service operations and the insourcing of external staff. In Switzerland, the number of employees increased by 446 FTEs or 2.6% to 17,545 FTEs.

Swisscom's expectations of achieving moderate growth in revenue remain unchanged, but have been adjusted upwards for operating income (EBITDA): it aims to close the year with revenue of CHF 11.5 billion and EBITDA of CHF 4.4 billion (previously CHF 4.35 billion). Capital expenditure is expected to remain unchanged at around CHF 2.4 billion. If all targets are met, Swisscom will again propose to the Annual General Meeting of Shareholders a dividend of CHF 22 per share for the 2014 financial year.

## Segment results

| In CHF million  | 2. quarter<br>2014 | 2. quarter<br>2013 | Change      | 1 <sup>st</sup> half-year<br>2014 | 1 <sup>st</sup> half-year<br>2013 | Change      |
|---|--------------------|--------------------|-------------|-----------------------------------|-----------------------------------|-------------|
| <b>Net revenue</b>  |                    |                    |             |                                   |                                   |             |
| Residential Customers   | 1,297              | 1,289              | 0.6%        | 2,571                             | 2,520                             | 2.0%        |
| Small and Medium-Sized Enterprises  | 291                | 289                | 0.7%        | 578                               | 569                               | 1.6%        |
| Corporate Business  | 440                | 443                | -0.7%       | 876                               | 882                               | -0.7%       |
| Wholesale   | 228                | 244                | -6.6%       | 457                               | 481                               | -5.0%       |
| Intersegment elimination  | (142)              | (156)              | -9.0%       | (279)                             | (302)                             | -7.6%       |
| <b>Swisscom Switzerland</b>   | <b>2,114</b>       | <b>2,109</b>       | <b>0.2%</b> | <b>4,203</b>                      | <b>4,150</b>                      | <b>1.3%</b> |
| Fastweb   | 499                | 509                | -2.0%       | 982                               | 996                               | -1.4%       |
| Other Operating Segments  | 476                | 454                | 4.8%        | 926                               | 866                               | 6.9%        |
| Group Headquarters  | 1                  | 1                  | -           | 1                                 | 1                                 | -           |
| Intersegment elimination  | (211)              | (211)              | -           | (412)                             | (417)                             | -1.2%       |
| <b>Net revenue</b>  | <b>2,879</b>       | <b>2,862</b>       | <b>0.6%</b> | <b>5,700</b>                      | <b>5,596</b>                      | <b>1.9%</b> |
| <b>Operating income before depreciation<br/>and amortisation (EBITDA)</b> |                    |                    |             |                                   |                                   |             |
| Residential Customers   | 742                | 731                | 1.5%        | 1,472                             | 1,441                             | 2.2%        |
| Small and Medium-Sized Enterprises  | 220                | 216                | 1.9%        | 435                               | 429                               | 1.4%        |
| Corporate Business  | 223                | 226                | -1.3%       | 440                               | 446                               | -1.3%       |
| Wholesale   | 92                 | 96                 | -4.2%       | 187                               | 192                               | -2.6%       |
| Network & IT  | (374)              | (380)              | -1.6%       | (738)                             | (742)                             | -0.5%       |
| Intersegment elimination  | (1)                | (1)                | -           | -                                 | (1)                               | -           |
| <b>Swisscom Switzerland</b>   | <b>902</b>         | <b>888</b>         | <b>1.6%</b> | <b>1,796</b>                      | <b>1,765</b>                      | <b>1.8%</b> |
| Fastweb   | 155                | 139                | 11.5%       | 287                               | 258                               | 11.2%       |
| Other Operating Segments  | 98                 | 86                 | 14.0%       | 166                               | 159                               | 4.4%        |
| Group Headquarters  | (31)               | (30)               | 3.3%        | (56)                              | (59)                              | -5.1%       |
| Intersegment elimination  | (5)                | (5)                | -           | (11)                              | (9)                               | 22.2%       |
| Reconciliation to pension cost <sup>1</sup>                               | 2                  | (7)                | -           | -                                 | (12)                              | -           |
| <b>Operating income before depreciation<br/>and amortisation (EBITDA)</b> | <b>1,121</b>       | <b>1,071</b>       | <b>4.7%</b> | <b>2,182</b>                      | <b>2,102</b>                      | <b>3.8%</b> |

<sup>1</sup> The operating income of segments consist of pension cost especially employer contributions. The difference to the pension cost by IAS 19 will therefore be recognised as a reconciliation item.

Reporting is broken down into the segments Swisscom Switzerland, Fastweb and Other Operating Segments. Swisscom Switzerland includes the segments Residential Customers, Small & Medium-Sized Enterprises, Corporate Business, Wholesale and Network & IT. Group Headquarters is disclosed separately.

Swisscom Switzerland is the Swiss market leader in the field of telecommunications. Fastweb is one of the largest broadband telecoms companies in Italy. Other Operating Segments mainly comprises Group Related Businesses and Swisscom IT Services, a leading provider of IT services in Switzerland. Group Headquarters largely comprises the Group divisions and the employment company Worklink AG.

The Network & IT segment does not recharge any network costs to other segments, nor does Group Headquarters recharge any management fees to other segments. Other intersegment services are recharged at market rates. Network costs in Switzerland are budgeted, monitored and controlled by the Network & IT division, which is managed as a cost centre. For this reason, no revenue is credited to the Network & IT segment within segment reporting. The results of the segments Residential Customers, Small & Medium-Sized Enterprises, Corporate Business and Wholesale correspond to a contribution margin before network costs.

Segment expense includes goods and services purchased, personnel expense and other operating expenses less capitalised costs and other income. Segment expense includes the ordinary employer contributions as a pension cost. Under IAS 19, the difference between the ordinary employer contributions and the pension cost is reported as a reconciliation item between the operating incomes of the segments and Group operating income.

## Swisscom Switzerland

| In CHF million, except where indicated                        | 2. quarter<br>2014 | 2. quarter<br>2013 | Change       | 1 <sup>st</sup> half-year<br>2014 | 1 <sup>st</sup> half-year<br>2013 | Change      |
|---|--------------------|--------------------|--------------|-----------------------------------|-----------------------------------|-------------|
| <b>Net revenue and results</b>                                |                    |                    |              |                                   |                                   |             |
| Mobile single subscriptions                                   | 695                | 696                | -0.1%        | 1,368                             | 1,369                             | -0.1%       |
| Fixed-line single subscriptions                               | 497                | 556                | -10.6%       | 1,012                             | 1,130                             | -10.4%      |
| Bundles   | 470                | 376                | 25.0%        | 909                               | 725                               | 25.4%       |
| Wholesale   | 139                | 146                | -4.8%        | 284                               | 295                               | -3.7%       |
| Other   | 299                | 320                | -6.6%        | 602                               | 600                               | 0.3%        |
| <b>Revenue from external customers</b>                        | <b>2,100</b>       | <b>2,094</b>       | <b>0.3%</b>  | <b>4,175</b>                      | <b>4,119</b>                      | <b>1.4%</b> |
| Intersegment revenue  | 14                 | 15                 | -6.7%        | 28                                | 31                                | -9.7%       |
| <b>Net revenue</b>  | <b>2,114</b>       | <b>2,109</b>       | <b>0.2%</b>  | <b>4,203</b>                      | <b>4,150</b>                      | <b>1.3%</b> |
| Direct costs  | (431)              | (449)              | -4.0%        | (857)                             | (869)                             | -1.4%       |
| Indirect costs  | (781)              | (772)              | 1.2%         | (1,550)                           | (1,516)                           | 2.2%        |
| <b>Segment expenses</b>                                       | <b>(1,212)</b>     | <b>(1,221)</b>     | <b>-0.7%</b> | <b>(2,407)</b>                    | <b>(2,385)</b>                    | <b>0.9%</b> |
| <b>Segment result before depreciation and amortisation</b>    | <b>902</b>         | <b>888</b>         | <b>1.6%</b>  | <b>1,796</b>                      | <b>1,765</b>                      | <b>1.8%</b> |
| Margin as % of net revenue                                    | 42.7               | 42.1               |              | 42.7                              | 42.5                              |             |
| Depreciation, amortisation and impairment losses              | (291)              | (277)              | 5.1%         | (574)                             | (545)                             | 5.3%        |
| <b>Segment result</b>   | <b>611</b>         | <b>611</b>         | <b>-</b>     | <b>1,222</b>                      | <b>1,220</b>                      | <b>0.2%</b> |
| <b>Operational data at the balance sheet date in thousand</b> |                    |                    |              |                                   |                                   |             |
| Fixed access lines  |                    |                    |              | 2,830                             | 2,936                             | -3.6%       |
| Broadband access lines retail                                 |                    |                    |              | 1,855                             | 1,767                             | 5.0%        |
| Swisscom TV access lines                                      |                    |                    |              | 1,091                             | 902                               | 21.0%       |
| Mobile access lines   |                    |                    |              | 6,460                             | 6,307                             | 2.4%        |
| Bundles   |                    |                    |              | 1,110                             | 889                               | 24.9%       |
| Unbundled fixed access lines                                  |                    |                    |              | 228                               | 280                               | -18.6%      |
| Broadband access lines wholesale                              |                    |                    |              | 224                               | 201                               | 11.4%       |
| Revenue generating units (RGU)                                |                    |                    |              | 12,236                            | 11,912                            | 2.7%        |
| <b>Capital expenditure and headcount</b>                      |                    |                    |              |                                   |                                   |             |
| Capital expenditure   | 378                | 354                | 6.8%         | 677                               | 638                               | 6.1%        |
| Full-time equivalent employees at end of year                 |                    |                    |              | 12,622                            | 12,344                            | 2.3%        |

At CHF 4,203 million, net revenue of Swisscom Switzerland was CHF 53 million or 1.3% higher (+0.2% in the second quarter) year-on-year. Price erosion of CHF 160 million (of which CHF 60 million resulted from reductions in roaming fees) was more than offset by customer and volume growth. Revenue also improved thanks to the acquisition in April 2013 of a majority stake in Cine-trade, Switzerland's leading film rights and content trading company for the purchase and commercialisation of programme and sports broadcasting rights. The number of revenue generating units (RGU) increased year-on-year by 324,000 or 2.7% to 12.2 million (+66,000 in the second quarter). The trend towards bundled offerings and new pricing models such as flat-rate tariffs continues unabated. The number of customers using bundled offerings grew year-on-year by 221,000 or 24.9% to 1.1 million (+50,000 in the second quarter), increasing revenue from bundled contracts by CHF 184 million or 25.4% to CHF 909 million (+25.0% in the second quarter). The main drivers of bundled business are television and mobile services.

The NATEL infinity mobile subscriptions, which offer customers unlimited phone calls and SMS messages to all Swiss networks as well as unlimited web browsing, remain highly popular. At the end of June 2014, 1.9 million customers, or roughly 58% of the customer base (excluding corporate customers), were using the infinity offerings. The number of mobile lines increased year-on-year by 153,000 or 2.4% to 6.5 million (+31,000 in the second quarter). The trend from prepaid offerings to postpaid contracts has slowed slightly: the number of postpaid customers including those using bundled offerings grew by 168,000 (+39,000 in the second quarter), while the number of prepaid customers declined by 15,000 (–8,000 in the second quarter). In the first six months of 2014, Swisscom Switzerland sold a total of 678,000 mobile handsets (–12.3%). Smartphone penetration continued to grow year-on-year, with the share of postpaid subscribers using a smartphone up from 66% to 71%.

The number of Swisscom TV connections increased year-on-year by 189,000 or 21.0% to 1.09 million (+39,000 in the second quarter), with fixed-fee subscriptions accounting for 1.0 million. Swisscom TV 2.0, which offers additional TV functions, was launched at the beginning of April 2014 and by the end of June had already attracted some 77,000 customers, most of whom had upgraded from a previous Swisscom offering. Retail broadband access lines grew year-on-year by 88,000 or 5.0% to 1.86 million (+22,000 in the second quarter). The number of fixed lines declined by 106,000 or 3.6% year-on-year to 2.83 million (–26,000 in the second quarter), due primarily to customers migrating to cable network providers or switching from fixed to mobile. The number of wholesale broadband lines grew by 23,000 or 11.4% to 224,000 (+3,000 in the second quarter), while unbundled subscriber access lines dropped by 52,000 or 18.6% year-on-year to 228,000 (–13,000 in the second quarter).

Segment expense rose by CHF 22 million or 0.9% to CHF 2,407 million. Direct costs fell by CHF 12 million or 1.4% to CHF 857 million (–4.0% in the second quarter). Higher subscriber acquisition costs and additional costs related to the acquisition of Cinetrade were more than offset by lower volume-driven device costs. Indirect costs increased by CHF 34 million or 2.2% to CHF 1,550 million (+1.2% in the second quarter). Adjusted for company acquisitions and restructuring costs, indirect costs rose by CHF 10 million or 0.7%, largely due to the increase in headcount (+278 FTEs) and a corresponding increase in personnel expense. The segment result before depreciation and amortisation increased by CHF 31 million or 1.8% to CHF 1,796 million (+1.6% in the second quarter), with the profit margin widening by 0.2 percentage points to 42.5%. Excluding one-off items, the increase amounted to CHF 27 million or 1.5%.

Compared to the previous year, depreciation and amortisation rose by CHF 29 million or 5.3% to CHF 574 million (+5.1% in the second quarter) as a result of higher capital expenditure. The segment result increased by CHF 2 million or 0.2% to CHF 1,222 million (unchanged in the second quarter). Capital expenditure rose year-on-year by CHF 39 million or 6.1% to CHF 677 million (+6.8% in the second quarter) due to increased investment in network infrastructure. Headcount grew by 278 FTEs or 2.3% year-on-year to 12,622 FTEs as a consequence of a move to strengthen customer service operations and the insourcing of external staff.

## Fastweb

| In EUR million, except where indicated                     | 2. quarter<br>2014 | 2. quarter<br>2013 | Change       | 1 <sup>st</sup> half-year<br>2014 | 1 <sup>st</sup> half-year<br>2013 | Change       |
|--|--------------------|--------------------|--------------|-----------------------------------|-----------------------------------|--------------|
| Residential Customers                                      | 188                | 186                | 1.1%         | 376                               | 372                               | 1.1%         |
| Corporate Business   | 188                | 193                | -2.6%        | 365                               | 371                               | -1.6%        |
| Wholesale hubbing  | 7                  | 11                 | -36.4%       | 14                                | 25                                | -44.0%       |
| Wholesale other  | 26                 | 21                 | 23.8%        | 49                                | 40                                | 22.5%        |
| <b>Revenue from external customers</b>                     | <b>409</b>         | <b>411</b>         | <b>-0.5%</b> | <b>804</b>                        | <b>808</b>                        | <b>-0.5%</b> |
| Intersegment revenue                                       | 1                  | 1                  | -            | 2                                 | 2                                 | -            |
| <b>Net revenue</b>   | <b>410</b>         | <b>412</b>         | <b>-0.5%</b> | <b>806</b>                        | <b>810</b>                        | <b>-0.5%</b> |
| Segment expenses   | (282)              | (299)              | -5.7%        | (570)                             | (600)                             | -5.0%        |
| <b>Segment result before depreciation and amortisation</b> | <b>128</b>         | <b>113</b>         | <b>13.3%</b> | <b>236</b>                        | <b>210</b>                        | <b>12.4%</b> |
| Margin as % of net revenue                                 | 31.2               | 27.4               |              | 29.3                              | 25.9                              |              |
| Capital expenditure  | 142                | 130                | 9.2%         | 284                               | 256                               | 10.9%        |
| Full-time equivalent employees at end of period            |                    |                    |              | 2,373                             | 2,379                             | -0.3%        |
| Broadband access lines in thousand                         |                    |                    |              | 1,994                             | 1,887                             | 5.7%         |

Fastweb's net revenue fell year-on-year by EUR 4 million or 0.5% to EUR 806 million (-0.5% in the second quarter) as a result of the planned reduction in wholesale revenue from low-margin inter-connection services (hubbing). Excluding hubbing, Fastweb's revenue was EUR 7 million or 0.9% higher at EUR 792 million (+0.5% in the second quarter). Despite a difficult market environment, Fastweb's broadband customer base grew year-on-year by 107,000 or 5.7% to 1.99 million (+10,000 in the second quarter). In the residential customer segment, fierce competition decreased average revenue per broadband customer by around 6% over the previous year. This decline was offset by customer growth. Revenue from residential customers rose accordingly by EUR 4 million or 1.1% to EUR 376 million (+1.1% in the second quarter), while revenue from corporate business contracted by EUR 6 million or 1.6% to EUR 365 million (-2.6% in the second quarter). Revenue from other wholesale business was EUR 9 million or 22.5% higher at EUR 49 million (+23.8% in the second quarter). The first-half segment result before depreciation and amortisation increased by EUR 26 million or 12.4% to EUR 236 million year-on-year (+13.3% in the second quarter), due to non-recurring regulatory items and lower operating costs. Excluding the regulatory items, the segment result before depreciation and amortisation increased by EUR 11 million or 5.0%. Headcount decreased year-on-year by 6 FTEs or 0.3% to 2,373 FTEs. Spending on fibre-optic network expansion in Italy resulted in a rise in capital expenditure of EUR 28 million or 10.9% to EUR 284 million (+9.2% in the second quarter). The ratio of capital expenditure to net revenue was 35.2% (prior year: 31.6%).

## Other Operating Segments

| In CHF million, except where indicated                     | 2. quarter<br>2014 | 2. quarter<br>2013 | Change       | 1 <sup>st</sup> half-year<br>2014 | 1 <sup>st</sup> half-year<br>2013 | Change      |
|--|--------------------|--------------------|--------------|-----------------------------------|-----------------------------------|-------------|
| Revenue from external customers                            | 281                | 261                | 7.7%         | 545                               | 484                               | 12.6%       |
| Intersegment revenue                                       | 195                | 193                | 1.0%         | 381                               | 382                               | -0.3%       |
| <b>Net revenue</b>   | <b>476</b>         | <b>454</b>         | <b>4.8%</b>  | <b>926</b>                        | <b>866</b>                        | <b>6.9%</b> |
| Segment expenses   | (378)              | (368)              | 2.7%         | (760)                             | (707)                             | 7.5%        |
| <b>Segment result before depreciation and amortisation</b> | <b>98</b>          | <b>86</b>          | <b>14.0%</b> | <b>166</b>                        | <b>159</b>                        | <b>4.4%</b> |
| Margin as % of net revenue                                 | 20.6               | 18.9               |              | 17.9                              | 18.4                              |             |
| Capital expenditure  | 54                 | 38                 | 42.1%        | 106                               | 76                                | 39.5%       |
| Full-time equivalent employees at end of period            |                    |                    |              | 4,917                             | 4,802                             | 2.4%        |

Revenue from external customers grew year-on-year by CHF 61 million or 12.6% to CHF 545 million (+7.7% in the second quarter). Revenue from external customers at Swisscom IT Services was CHF 46 million or 16.0% higher at CHF 333 million (+7.0 in the second quarter), largely due to company acquisitions. In 2013, Swisscom IT Services acquired the business platform of Entris Banking and Entris Operations, which is used primarily for processing payment transactions and securities trading for banks. Intersegment revenue remained virtually unchanged year-on-year at CHF 381 million.

Segment expense rose by CHF 53 million or 7.5% year-on-year to CHF 760 million (+2.7% in the second quarter), largely due to additional costs related to company acquisitions made by Swisscom IT Services. The segment result before depreciation and amortisation increased by CHF 7 million or 4.4% in the first half of 2014 to CHF 166 million. The increase in the second quarter of 2014 by CHF 12 million or 14.0% to CHF 98 million stems primarily from gains on the sale of real estate. At 4,917 FTEs, headcount was 115 FTEs or 2.4% higher year-on-year. Capital expenditure rose by CHF 30 million or 39.5% to CHF 106 million as a result of increased investment by Swisscom IT Services, primarily in IT infrastructure and in ongoing construction projects at Swisscom Real Estate.

### Group Headquarters and reconciliation of pension cost

Operating income before depreciation and amortisation improved year-on-year by CHF 3 million or 5.1% to CHF -56 million, mainly due to cost savings. Headcount dropped by 18 FTEs or 5.4% year-on-year to 316 FTEs.

No expenses are disclosed as pension cost reconciliation items for the first half of 2014 (prior year: CHF 12 million).



## Depreciation and amortisation, non-operating income

In CHF million, except where indicated

|   | 2. quarter<br>2014 | 2. quarter<br>2013 | Change      | 1 <sup>st</sup> half-year<br>2014 | 1 <sup>st</sup> half-year<br>2013 | Change       |
|---|--------------------|--------------------|-------------|-----------------------------------|-----------------------------------|--------------|
| <b>Operating income before depreciation and amortisation (EBITDA)</b> | <b>1,121</b>       | <b>1,071</b>       | <b>4.7%</b> | <b>2,182</b>                      | <b>2,102</b>                      | <b>3.8%</b>  |
| Depreciation, amortisation and impairment losses                      | (512)              | (501)              | 2.2%        | (1,022)                           | (992)                             | 3.0%         |
| <b>Operating income (EBIT)</b>  | <b>609</b>         | <b>570</b>         | <b>6.8%</b> | <b>1,160</b>                      | <b>1,110</b>                      | <b>4.5%</b>  |
| Net interest expense  | (53)               | (63)               | -15.9%      | (114)                             | (126)                             | -9.5%        |
| Other financial income and expense, net                               | (11)               | 5                  | -           | (34)                              | 3                                 | -            |
| Share of results of associates  | 10                 | 6                  | 66.7%       | 13                                | 12                                | 8.3%         |
| <b>Income before income taxes</b>                                     | <b>555</b>         | <b>518</b>         | <b>7.1%</b> | <b>1,025</b>                      | <b>999</b>                        | <b>2.6%</b>  |
| Income tax expense  | (122)              | (89)               | 37.1%       | (219)                             | (180)                             | 21.7%        |
| <b>Net income</b>   | <b>433</b>         | <b>429</b>         | <b>0.9%</b> | <b>806</b>                        | <b>819</b>                        | <b>-1.6%</b> |
| Share of net income attributable to equity holders of Swisscom Ltd    | 430                | 427                | 0.7%        | 799                               | 815                               | -2.0%        |
| Share of net income attributable to non-controlling interests         | 3                  | 2                  | 50.0%       | 7                                 | 4                                 | 75.0%        |
| Earnings per share (in CHF)   | 8.30               | 8.24               | 0.7%        | 15.42                             | 15.73                             | -2.0%        |

Depreciation and amortisation increased year-on-year by CHF 30 million or 3.0% to CHF 1,022 million (+2.2% in the second quarter), largely due to higher depreciation and amortisation recognised by Swisscom Switzerland as a result of increased capital expenditure. Intangible assets resulting from company acquisitions were capitalised for purchase price allocation purposes. Depreciation and amortisation for the first half of 2014 includes scheduled amortisation of CHF 66 million (prior year: CHF 68 million) related to company acquisitions.

Net interest expense in the first half of 2014 was CHF 12 million lower at CHF 114 million as a result of lower debt. At CHF 34 million, other net financial expense fell by CHF 37 million compared to the previous year. The net financial expense for the first half of 2014 includes negative effects of CHF 19 million arising from the fair value adjustment of interest hedging (prior year: positive effects of CHF 22 million).

Income tax expense in the first half of 2014 amounted to CHF 219 million (prior year: CHF 180 million), corresponding to an effective income tax rate of 21.4% (prior year: 18.0%). The increase in income tax expense is largely attributable to the offsetting of unrecognised tax-loss carry-forwards from the previous year. Excluding non-recurring items, an income tax rate of around 21% is expected over the long term.

As a result of increased depreciation and amortisation, higher financial expense and higher income tax expense, Group net income for the first half of 2014 is CHF 13 million or 1.6% lower at CHF 806 million. Earnings per share is calculated based on the share of net income attributable to equity holders of Swisscom Ltd and the average number of shares outstanding. The share of net income attributable to equity holders of Swisscom Ltd decreased year-on-year to CHF 799 million. Earnings per share declined accordingly by 2.0% from CHF 15.73 to CHF 15.42.

## Cash flows

| In CHF million  | 1 <sup>st</sup> half-year 2014 | 1 <sup>st</sup> half-year 2013 | Change       |
|---|--------------------------------|--------------------------------|--------------|
| Operating income before depreciation and amortisation (EBITDA)                  | 2,182                          | 2,102                          | 80           |
| Capital expenditure   | (1,117)                        | (1,021)                        | (96)         |
| Proceeds from sale of property, plant and equipment and other intangible assets | 32                             | 20                             | 12           |
| Change in defined benefit obligations   | (22)                           | 1                              | (23)         |
| Change in net working capital and other cash flow from operating activities     | (229)                          | (228)                          | (1)          |
| Dividends paid to non-controlling interests                                     | (16)                           | (14)                           | (2)          |
| <b>Operating free cash flow</b>   | <b>830</b>                     | <b>860</b>                     | <b>(30)</b>  |
| Net interest paid   | (72)                           | (72)                           | –            |
| Income taxes paid   | (281)                          | (99)                           | (182)        |
| <b>Free cash flow</b>   | <b>477</b>                     | <b>689</b>                     | <b>(212)</b> |
| Acquisition of subsidiaries, net of cash and cash equivalents acquired          | (8)                            | (71)                           | 63           |
| Other cash flows from investing activities, net                                 | 68                             | 71                             | (3)          |
| Issuance and repayment of financial liabilities, net                            | 110                            | 120                            | (10)         |
| Dividends paid to equity holders of Swisscom Ltd                                | (1,140)                        | (1,140)                        | –            |
| Other cash flows from financing activities                                      | (5)                            | (34)                           | 29           |
| <b>Net decrease in cash and cash equivalents</b>                                | <b>(498)</b>                   | <b>(365)</b>                   | <b>(133)</b> |

Free cash flow dropped by CHF 212 million or 30.8% to CHF 477 million as a result of higher income tax payments, which increased by CHF 182 million year-on-year to CHF 281 million. Income tax payments in the 2013 financial year amounted to CHF 278 million, of which CHF 99 million were made in the first half-year. Income tax payments are expected to increase in 2014 compared to 2013.

The main reason for the drop in operating free cash flow by CHF 30 million or 3.5% to CHF 830 million was the increase in capital expenditure compared with the previous year, which is partially offset by the higher operating income before depreciation and amortisation (EBITDA). Capital expenditure increased year-on-year by CHF 96 million or 9.4% to CHF 1,117 million due to broadband network expansion in Switzerland and Italy. Net working capital rose by CHF 229 million versus the end of 2013 (prior year: CHF 228 million), chiefly as a result of lower trade payables and higher trade receivables.

## Balance sheet

In CHF million, except where indicated

|  | 30.06.2014    | 31.12.2013    | Change        |
|--|---------------|---------------|---------------|
| <b>Assets</b>  |               |               |               |
| Cash and cash equivalents and current financial assets         | 338           | 883           | -61.7%        |
| Trade and other receivables                                    | 2,593         | 2,516         | 3.1%          |
| Property, plant and equipment                                  | 9,434         | 9,156         | 3.0%          |
| Goodwill   | 4,802         | 4,809         | -0.1%         |
| Other intangible assets  | 1,922         | 2,053         | -6.4%         |
| Investments in associates and non-current financial assets     | 334           | 346           | -3.5%         |
| Income tax assets  | 349           | 301           | 15.9%         |
| Other current and non-current assets                           | 520           | 432           | 20.4%         |
| <b>Total assets</b>  | <b>20,292</b> | <b>20,496</b> | <b>-1.0%</b>  |
| <b>Liabilities and equity</b>                                  |               |               |               |
| Financial liabilities  | 8,969         | 8,823         | 1.7%          |
| Trade and other payables                                       | 1,819         | 1,870         | -2.7%         |
| Defined benefit obligations                                    | 1,719         | 1,293         | 32.9%         |
| Provisions   | 827           | 799           | 3.5%          |
| Income tax liabilities   | 531           | 640           | -17.0%        |
| Other current and non-current liabilities                      | 1,131         | 1,069         | 5.8%          |
| <b>Total liabilities</b>                                       | <b>14,996</b> | <b>14,494</b> | <b>3.5%</b>   |
| Share of equity attributable to equity holders of Swisscom Ltd | 5,276         | 5,973         | -11.7%        |
| Share of equity attributable to non-controlling interests      | 20            | 29            | -31.0%        |
| <b>Total equity</b>  | <b>5,296</b>  | <b>6,002</b>  | <b>-11.8%</b> |
| <b>Total liabilities and equity</b>                            | <b>20,292</b> | <b>20,496</b> | <b>-1.0%</b>  |
| Equity ratio at end of period                                  | 26.1%         | 29.3%         |               |
| <b>Net debt</b>  | <b>8,502</b>  | <b>7,812</b>  | <b>8.8%</b>   |

Total assets at 30 June 2014 stood at CHF 20,292 million, down CHF 204 million or 1.0% versus the end of 2013. Equity fell by CHF 706 million or 11.8% to CHF 5,296 million, mainly due to the dividend payout of CHF 1,140 million in April 2014. Compared to the end of 2013, the CHF/EUR exchange rate fell from 1.228 to 1.216. At 30 June 2014, cumulative currency translation losses recognised in equity amounted to CHF 1.95 billion. The increase in defined benefit obligations by CHF 426 million to CHF 1,719 million is mainly due to interest rate changes. In the first half of 2014, actuarial losses of CHF 438 million arising from defined benefit plans are recognised in equity under other comprehensive income.

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 (on an annual basis) of around 2x. This value may be exceeded temporarily. Financial leeway exists if the target is not reached.

## Outlook

Swisscom's expectations of achieving moderate growth in revenue remain unchanged, but have been adjusted upwards for operating income before amortisation and depreciation (EBITDA): the Group aims to close the year with revenue of CHF 11.5 billion and EBITDA of CHF 4.4 billion (previously CHF 4.35 billion). Network infrastructure expansion in Switzerland and Italy will continue to call for high investment: total capital expenditure is expected to remain unchanged at CHF 2.4 billion, of which CHF 1.75 billion in Switzerland. If all targets are met, Swisscom will again propose to the Annual General Meeting of Shareholders a dividend of CHF 22 per share for the 2014 financial year.

# Consolidated interim financial statements (condensed and unaudited)

## Consolidated income statement (condensed and unaudited)

In CHF million, except where indicated

|   | Note | 2. quarter 2014 | 2. quarter 2013 | 1 <sup>st</sup> half-year 2014 | 1 <sup>st</sup> half-year 2013 |
|---|------|-----------------|-----------------|--------------------------------|--------------------------------|
| <b>Net revenue</b>  | 2    | <b>2,879</b>    | <b>2,862</b>    | <b>5,700</b>                   | <b>5,596</b>                   |
| Goods and services purchased  |      | (558)           | (604)           | (1,110)                        | (1,156)                        |
| Personnel expense   |      | (684)           | (691)           | (1,376)                        | (1,362)                        |
| Other operating expense   |      | (599)           | (599)           | (1,196)                        | (1,156)                        |
| Capitalised self-constructed assets and other income                  |      | 83              | 103             | 164                            | 180                            |
| <b>Operating income before depreciation and amortisation (EBITDA)</b> |      | <b>1,121</b>    | <b>1,071</b>    | <b>2,182</b>                   | <b>2,102</b>                   |
| Depreciation, amortisation and impairment losses                      |      | (512)           | (501)           | (1,022)                        | (992)                          |
| <b>Operating income (EBIT)</b>  | 2    | <b>609</b>      | <b>570</b>      | <b>1,160</b>                   | <b>1,110</b>                   |
| Financial income and financial expense, net                           | 3    | (64)            | (58)            | (148)                          | (123)                          |
| Share of results of associates  |      | 10              | 6               | 13                             | 12                             |
| <b>Income before income taxes</b>                                     |      | <b>555</b>      | <b>518</b>      | <b>1,025</b>                   | <b>999</b>                     |
| Income tax expense  |      | (122)           | (89)            | (219)                          | (180)                          |
| <b>Net income</b>   |      | <b>433</b>      | <b>429</b>      | <b>806</b>                     | <b>819</b>                     |
| Share of net income attributable to equity holders of Swisscom Ltd    |      | 430             | 427             | 799                            | 815                            |
| Share of net income attributable to non-controlling interests         | 3    | 3               | 2               | 7                              | 4                              |
| Basic and diluted earnings per share (in CHF)                         |      | 8.30            | 8.24            | 15.42                          | 15.73                          |

## Consolidated statement of comprehensive income (unaudited)

| In CHF million  | 2. quarter 2014 | 2. quarter 2013 | 1 <sup>st</sup> half-year 2014 | 1 <sup>st</sup> half-year 2013 |
|---|-----------------|-----------------|--------------------------------|--------------------------------|
| <b>Net income</b>   | <b>433</b>      | <b>429</b>      | <b>806</b>                     | <b>819</b>                     |
| <b>Other comprehensive income</b>   |                 |                 |                                |                                |
| Actuarial gains and losses from defined benefit pension plans                             | (133)           | 222             | (436)                          | 286                            |
| Income tax expense  | 30              | (45)            | 90                             | (57)                           |
| <b>Items that will not be reclassified to income statement, net of tax</b>                | <b>(103)</b>    | <b>177</b>      | <b>(346)</b>                   | <b>229</b>                     |
| Foreign currency translation adjustments of foreign subsidiaries                          | (5)             | 24              | (23)                           | 64                             |
| Change in fair value of cash flow hedges  | 2               | 2               | 1                              | 10                             |
| Fair value losses of cash flow hedges transferred to income statement                     | 3               | 2               | 4                              | 3                              |
| Income tax expense  | 2               | 8               | 8                              | (2)                            |
| <b>Items that are or may be reclassified subsequently to income statement, net of tax</b> | <b>2</b>        | <b>36</b>       | <b>(10)</b>                    | <b>75</b>                      |
| <b>Other comprehensive income</b>   | <b>(101)</b>    | <b>213</b>      | <b>(356)</b>                   | <b>304</b>                     |
| <b>Comprehensive income</b>   | <b>332</b>      | <b>642</b>      | <b>450</b>                     | <b>1,123</b>                   |
| Share of comprehensive income attributable to equity holders of Swisscom Ltd              | 329             | 640             | 443                            | 1,119                          |
| Share of comprehensive income attributable to non-controlling interests                   | 3               | 2               | 7                              | 4                              |

## Consolidated balance sheet (condensed and unaudited)

| In CHF million   | Note | 30.06.2014    | 31.12.2013    |
|--|------|---------------|---------------|
| <b>Assets</b>  |      |               |               |
| Cash and cash equivalents                                      |      | 226           | 723           |
| Trade and other receivables                                    |      | 2,593         | 2,516         |
| Other financial assets   |      | 112           | 160           |
| Other assets   |      | 480           | 397           |
| <b>Total current assets</b>                                    |      | <b>3,411</b>  | <b>3,796</b>  |
| Property, plant and equipment                                  |      | 9,434         | 9,156         |
| Goodwill and other intangible assets                           |      | 6,724         | 6,862         |
| Investments in associates                                      |      | 138           | 153           |
| Other financial assets   |      | 196           | 193           |
| Other assets   |      | 389           | 336           |
| <b>Total non-current assets</b>                                |      | <b>16,881</b> | <b>16,700</b> |
| <b>Total assets</b>  |      | <b>20,292</b> | <b>20,496</b> |
| <b>Liabilities and equity</b>                                  |      |               |               |
| Financial liabilities  | 4    | 1,396         | 1,656         |
| Trade and other payables                                       |      | 1,819         | 1,870         |
| Current income tax liabilities                                 |      | 108           | 184           |
| Provisions   | 5    | 113           | 132           |
| Other liabilities  |      | 831           | 759           |
| <b>Total current liabilities</b>                               |      | <b>4,267</b>  | <b>4,601</b>  |
| Financial liabilities  | 4    | 7,573         | 7,167         |
| Defined benefit obligations                                    |      | 1,719         | 1,293         |
| Provisions   | 5    | 714           | 667           |
| Deferred tax liabilities                                       |      | 423           | 456           |
| Other liabilities  |      | 300           | 310           |
| <b>Total non-current liabilities</b>                           |      | <b>10,729</b> | <b>9,893</b>  |
| <b>Total liabilities</b>                                       |      | <b>14,996</b> | <b>14,494</b> |
| Share of equity attributable to equity holders of Swisscom Ltd |      | 5,276         | 5,973         |
| Share of equity attributable to non-controlling interests      |      | 20            | 29            |
| <b>Total equity</b>  |      | <b>5,296</b>  | <b>6,002</b>  |
| <b>Total liabilities and equity</b>                            |      | <b>20,292</b> | <b>20,496</b> |

## Consolidated cash flow statement (condensed and unaudited)

| In CHF million   | Note | 1 <sup>st</sup> half-year 2014 | 1 <sup>st</sup> half-year 2013 |
|--|------|--------------------------------|--------------------------------|
| Net income   |      | 806                            | 819                            |
| Adjustment for non-cash items  |      | 1,363                          | 1,277                          |
| Change in operating assets and liabilities                                       |      | (219)                          | (194)                          |
| Income taxes paid  |      | (281)                          | (99)                           |
| <b>Cash flow provided by operating activities</b>                                |      | <b>1,669</b>                   | <b>1,803</b>                   |
| Capital expenditure  |      | (1,135)                        | (1,049)                        |
| Acquisition of subsidiaries, net of cash and cash equivalents acquired           |      | (8)                            | (71)                           |
| Other cash flows from investing activities, net                                  |      | 108                            | 70                             |
| <b>Cash flow used in investing activities</b>                                    |      | <b>(1,035)</b>                 | <b>(1,050)</b>                 |
| Issuance and repayment of financial liabilities, net                             |      | 110                            | 120                            |
| Dividends paid to equity holders of Swisscom Ltd                                 | 7    | (1,140)                        | (1,140)                        |
| Dividends paid to non-controlling interests                                      |      | (16)                           | (14)                           |
| Other cash flows from financing activities, net                                  |      | (86)                           | (84)                           |
| <b>Cash flow used in financing activities</b>                                    |      | <b>(1,132)</b>                 | <b>(1,118)</b>                 |
| <b>Net decrease in cash and cash equivalents</b>                                 |      | <b>(498)</b>                   | <b>(365)</b>                   |
| Cash and cash equivalents at beginning of period                                 |      | 723                            | 538                            |
| Foreign currency translation adjustments in respect of cash and cash equivalents |      | 1                              | –                              |
| <b>Cash and cash equivalents at end of period</b>                                |      | <b>226</b>                     | <b>173</b>                     |



## Consolidated statement of changes in equity (unaudited)

| In CHF million  | Share capital | Capital reserves | Retained earnings | Treasury shares | Other reserves | Attributable to equity holders of Swisscom | Attributable to non-controlling interests | Total equity |
|---|---------------|------------------|-------------------|-----------------|----------------|--|---|--------------|
| <b>Balance at 31 December 2012</b>                      | <b>52</b>     | <b>136</b>       | <b>6,135</b>      | –               | <b>(1,633)</b> | <b>4,690</b>                               | <b>27</b>                                 | <b>4,717</b> |
| Net income  | –             | –                | 815               | –               | –              | 815  | 4   | 819          |
| Other comprehensive income                              | –             | –                | 229               | –               | 75             | 304  | –   | 304          |
| <b>Comprehensive income</b>                             | <b>–</b>      | <b>–</b>         | <b>1,044</b>      | <b>–</b>        | <b>75</b>      | <b>1,119</b>                               | <b>4</b>                                  | <b>1,123</b> |
| Dividends paid  | –             | –                | (1,140)           | –               | –              | (1,140)                                    | (14)                                      | (1,154)      |
| Transactions with non-controlling interests             | –             | –                | –                 | –               | –              | –  | (1)                                       | (1)          |
| Acquisition of treasury shares for share-based payments | –             | –                | –                 | (7)             | –              | (7)  | –   | (7)          |
| Allocation of treasury shares for share-based payments  | –             | –                | –                 | 7               | –              | 7  | –   | 7            |
| <b>Balance at 30 June 2013</b>                          | <b>52</b>     | <b>136</b>       | <b>6,039</b>      | –               | <b>(1,558)</b> | <b>4,669</b>                               | <b>16</b>                                 | <b>4,685</b> |
| <b>Balance at 31 December 2013</b>                      | <b>52</b>     | <b>136</b>       | <b>7,356</b>      | –               | <b>(1,571)</b> | <b>5,973</b>                               | <b>29</b>                                 | <b>6,002</b> |
| Net income  | –             | –                | 799               | –               | –              | 799  | 7   | 806          |
| Other comprehensive income                              | –             | –                | (346)             | –               | (10)           | (356)                                      | –   | (356)        |
| <b>Comprehensive income</b>                             | <b>–</b>      | <b>–</b>         | <b>453</b>        | <b>–</b>        | <b>(10)</b>    | <b>443</b>                                 | <b>7</b>                                  | <b>450</b>   |
| Dividends paid  | –             | –                | (1,140)           | –               | –              | (1,140)                                    | (16)                                      | (1,156)      |
| Acquisition of treasury shares for share-based payments | –             | –                | –                 | (5)             | –              | (5)  | –   | (5)          |
| Allocation of treasury shares for share-based payments  | –             | –                | –                 | 5               | –              | 5  | –   | 5            |
| <b>Balance at 30 June 2014</b>                          | <b>52</b>     | <b>136</b>       | <b>6,669</b>      | –               | <b>(1,581)</b> | <b>5,276</b>                               | <b>20</b>                                 | <b>5,296</b> |

# *Notes to the interim financial statements (condensed and unaudited)*

## 1 Accounting policies

### **Basis of preparation**

These unaudited consolidated interim financial statements include Swisscom Ltd and all subsidiaries directly or indirectly controlled by it via a voting majority or in any other way (hereinafter referred to as Swisscom). The consolidated interim financial statements for the six months to 30 June 2014 were prepared in accordance with International Accounting Standard “IAS 34 Interim Financial Reporting” and should be read in conjunction with the consolidated annual financial statements for the financial year ended 31 December 2013. The consolidated interim financial statements were prepared in accordance with the accounting policies described in the 2013 consolidated annual financial statements and the revised accounting principles adopted on 1 January 2014.

In preparing the consolidated interim financial statements, management is required to make accounting estimates and assumptions. Adjustments are made for changes in accounting estimates and assumptions during the reporting period in which the original estimates and assumptions changed.

Swisscom operates in business areas where the provision of services is not subject to any major seasonal or cyclical fluctuations during the financial year. Income taxes are calculated on the basis of an estimate of the expected income tax rate for the full year. For the consolidated interim financial statements a CHF/EUR exchange rate of 1.216 was used as the end-of-period rate (31 December 2013: CHF/EUR 1.228) and 1.219 as the average rate for the period (prior year: CHF/EUR 1.225).

### **Changes in accounting principles**

As of 1 January 2014, Swisscom adopted various amendments to existing International Financial Reporting Standards (IFRS) and Interpretations, none of which have a material impact on the consolidated financial statements of Swisscom.

## 2 Segment information

Reportable operating segments are determined on the basis of a management approach. Accordingly, external segment reporting reflects the Group's internal organisational and management structure as well as internal financial reporting to the Chief Operating Decision Maker. Reporting is divided into the segments "Residential Customers", "Small & Medium-Sized Enterprises", "Corporate Business", "Wholesale", and "Network & IT", which are grouped under Swisscom Switzerland, as well as "Fastweb" and "Other Operating Segments". "Group Headquarters", which includes non-allocated costs, is reported separately.

Group Headquarters does not recharge any management fees for its financial management services, nor does the Network & IT segment recharge any network costs to other segments. Other intersegment services are recharged at market rates. The results of the Residential Customers, Small & Medium-Sized Enterprises, Corporate Business and Wholesale segments correspond to a contribution margin before network costs. The results of the Network & IT segment 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. The segment results of the segments Fastweb and Other Operating Segments correspond to the operating income (EBIT) of these units. The latter reflects net revenue from external customers and other segments less segment expense and depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets. Segment expense includes goods and services purchased, personnel expense and other operating expenses less capitalised costs and other income.

Segment expense contains the ordinary employer contributions as a pension cost. The difference between the ordinary employer contributions and the pension cost under IAS 19 is disclosed in the column "Elimination". For the first half of 2014, no expense is disclosed as a pension cost reconciliation item under "Elimination" in accordance with IAS 19 (first half of 2013: CHF 12 million).

Unrealised gains and losses may arise as a result of recharging services and sales of assets between the segments. These are eliminated and reported in the segment information in the column "Elimination".

Net revenue and the results of the individual segments for the first halves of 2013 and 2014 are as follows:

| 1 <sup>st</sup> half-year 2014, in CHF million | Swisscom Switzerland | Fastweb     | Other Operating Segments | Group Head-quarters | Elimination  | Total        |
|--|----------------------|-------------|--------------------------|---------------------|--------------|--------------|
| Net revenue from external customers            | 4,175                | 980         | 545                      | –                   | –            | 5,700        |
| Net revenue with other segments                | 28                   | 2           | 381                      | 1                   | (412)        | –            |
| <b>Net revenue</b>                             | <b>4,203</b>         | <b>982</b>  | <b>926</b>               | <b>1</b>            | <b>(412)</b> | <b>5,700</b> |
| <b>Segment result</b>                          | <b>1,222</b>         | <b>(84)</b> | <b>87</b>                | <b>(57)</b>         | <b>(8)</b>   | <b>1,160</b> |
| Financial income and financial expense, net    |                      |             |                          |                     |              | (148)        |
| Share of results of associates                 |                      |             |                          |                     |              | 13           |
| <b>Income before income taxes</b>              |                      |             |                          |                     |              | <b>1,025</b> |
| Income tax expense                             |                      |             |                          |                     |              | (219)        |
| <b>Net income</b>                              |                      |             |                          |                     |              | <b>806</b>   |

| 1 <sup>st</sup> half-year 2014, in CHF million | Residential Customers | Small and Medium-Sized Enterprises | Corporate Business | Wholesale  | Network & IT   | Elimination  | Swisscom Switzerland |
|--|-----------------------|------------------------------------|--------------------|------------|----------------|--------------|----------------------|
| Net revenue from external customers            | 2,492                 | 568                                | 831                | 284        | –              | –            | 4,175                |
| Net revenue with other segments                | 79                    | 10                                 | 45                 | 173        | –              | (279)        | 28                   |
| <b>Net revenue</b>                             | <b>2,571</b>          | <b>578</b>                         | <b>876</b>         | <b>457</b> | <b>–</b>       | <b>(279)</b> | <b>4,203</b>         |
| <b>Segment result</b>                          | <b>1,414</b>          | <b>432</b>                         | <b>405</b>         | <b>187</b> | <b>(1,216)</b> | <b>–</b>     | <b>1,222</b>         |

| 1 <sup>st</sup> half-year 2013, in CHF million | Swisscom Switzerland | Fastweb      | Other Operating Segments | Group Head-quarters | Elimination  | Total        |
|--|----------------------|--------------|--------------------------|---------------------|--------------|--------------|
| Net revenue from external customers            | 4,119                | 993          | 484                      | –                   | –            | 5,596        |
| Net revenue with other segments                | 31                   | 3            | 382                      | 1                   | (417)        | –            |
| <b>Net revenue</b>                             | <b>4,150</b>         | <b>996</b>   | <b>866</b>               | <b>1</b>            | <b>(417)</b> | <b>5,596</b> |
| <b>Segment result</b>                          | <b>1,220</b>         | <b>(103)</b> | <b>76</b>                | <b>(63)</b>         | <b>(20)</b>  | <b>1,110</b> |
| Financial income and financial expense, net    |                      |              |                          |                     |              | (123)        |
| Share of results of associates                 |                      |              |                          |                     |              | 12           |
| <b>Income before income taxes</b>              |                      |              |                          |                     |              | <b>999</b>   |
| Income tax expense                             |                      |              |                          |                     |              | (180)        |
| <b>Net income</b>                              |                      |              |                          |                     |              | <b>819</b>   |

| 1 <sup>st</sup> half-year 2013, in CHF million | Residential Customers | Small and Medium-Sized Enterprises | Corporate Business | Wholesale  | Network & IT   | Elimination  | Swisscom Switzerland |
|--|-----------------------|------------------------------------|--------------------|------------|----------------|--------------|----------------------|
| Net revenue from external customers            | 2,437                 | 556                                | 831                | 295        | –              | –            | 4,119                |
| Net revenue with other segments                | 83                    | 13                                 | 51                 | 186        | –              | (302)        | 31                   |
| <b>Net revenue</b>                             | <b>2,520</b>          | <b>569</b>                         | <b>882</b>         | <b>481</b> | <b>–</b>       | <b>(302)</b> | <b>4,150</b>         |
| <b>Segment result</b>                          | <b>1,389</b>          | <b>426</b>                         | <b>409</b>         | <b>192</b> | <b>(1,197)</b> | <b>1</b>     | <b>1,220</b>         |

### 3 Financial income and financial expense

| In CHF million  | 1 <sup>st</sup> half-year 2014 | 1 <sup>st</sup> half-year 2013 |
|---|--------------------------------|--------------------------------|
| Interest income   | 4                              | 5                              |
| Interest expense  | (118)                          | (131)                          |
| <b>Net interest expense of financial assets and financial liabilities</b> | <b>(114)</b>                   | <b>(126)</b>                   |
| Foreign exchange gains  | 2                              | 2                              |
| Change in fair value of interest hedging instruments                      | (19)                           | 22                             |
| Other financial income and expense, net                                   | (17)                           | (21)                           |
| <b>Financial income and financial expense, net</b>                        | <b>(148)</b>                   | <b>(123)</b>                   |

### 4 Financial liabilities

| In CHF million                                 | 30.06.2014   | 31.12.2013   |
|--|--------------|--------------|
| Bank loans                                     | 962          | 8            |
| Debenture bonds                                | 108          | 1,324        |
| Private placements                             | 205          | 206          |
| Finance lease liabilities                      | 16           | 13           |
| Other financial liabilities                    | 105          | 105          |
| <b>Total current financial liabilities</b>     | <b>1,396</b> | <b>1,656</b> |
| Bank loans                                     | 1,156        | 1,345        |
| Debenture bonds                                | 4,781        | 4,184        |
| Private placements                             | 924          | 920          |
| Finance lease liabilities                      | 635          | 642          |
| Other financial liabilities                    | 77           | 76           |
| <b>Total non-current financial liabilities</b> | <b>7,573</b> | <b>7,167</b> |
| <b>Total financial liabilities</b>             | <b>8,969</b> | <b>8,823</b> |

In April 2014, Swisscom repaid a debenture bond with a nominal amount of CHF 1,250 million on the due date. The repayment was effected using cash and cash equivalents and by issuing a debenture bond in euros of EUR 500 million (CHF 610 million) with a coupon rate of 1.875% and a term of 7.5 years. The funding of EUR 500 million was designed for hedge accounting in respect of net investments in foreign interests. Payment of the CHF 1,140 million dividend in April 2014 was financed in part by short-term bank loans.

## 5 Provisions

| In CHF million                     | Dismant-<br>lement<br>and<br>restora-<br>tion costs | Regulatory<br>proceedings | Other      | Total      |
|------------------------------------|---|---------------------------|------------|------------|
| <b>Balance at 31 December 2013</b> | <b>481</b>  | <b>118</b>                | <b>200</b> | <b>799</b> |
| Additions of provisions            | 55  | 1                         | 16         | 72         |
| Present-value adjustments          | 5   | 1                         | –          | 6          |
| Release of unused provisions       | (1)   | –                         | (18)       | (19)       |
| Use of provisions                  | –   | (9)                       | (20)       | (29)       |
| Change in scope of consolidation   | –   | –                         | (2)        | (2)        |
| <b>Balance at 30 June 2014</b>     | <b>540</b>  | <b>111</b>                | <b>176</b> | <b>827</b> |
| Thereof current provisions         | –   | 14                        | 99         | 113        |
| Thereof non-current provisions     | 540   | 97                        | 77         | 714        |

### Provisions for dismantling and restoration costs

The provisions for dismantling and restoration costs relate to the dismantling of mobile base stations and transmitter stations of Swisscom Broadcast and the restoration to its original state of the land owned by third parties on which the stations are located. The provisions are computed by reference to estimates of future dismantling costs and are discounted using an average interest rate of 2.35%. Application of different interest rates resulted in an effect of CHF 55 million, recorded under property, plant and equipment. 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. On the basis of legal assessments, Swisscom recognised provisions in the past. The provisions recognised in the 2013 consolidated financial statements have not changed materially during the current financial year.

### Other provisions

Other provisions mainly cover provisions for workforce reductions, environmental and contractual risks, and provisions for claims. The other provisions recognised in the 2013 consolidated financial statements have not changed materially during the current financial year.

## 6 Contingent liabilities

### Competition Commission proceedings

In its decision of 5 November 2009, the Competition Commission sanctioned Swisscom for abusing its market-dominant position in the area of ADSL services, and levied a fine of CHF 220 million. Swisscom appealed against the decision to the Federal Administrative Court on 7 December 2009. Based on a legal assessment, Swisscom is of the opinion that, as things stand at present, it is unlikely that a court of final appeal will levy sanctions and, as before, has therefore not recognised any provision for this in the consolidated financial statements as at 30 June 2014. In the event of a legally binding decision on abuse of a market-dominant position, claims could be asserted against Swisscom under civil law. Swisscom still considers it unlikely that such civil claims can be enforced.

### Regulatory proceedings

With regard to the other contingent liabilities which were reported in the 2013 consolidated financial statements in connection with regulatory proceedings, Swisscom is of the opinion that an outflow of funds is unlikely and, as before, has therefore not recognised any provision for this in the consolidated financial statements as at 30 June 2014.

## 7 Dividend

On 7 April 2014 the Annual General Meeting of Swisscom Ltd approved a gross dividend of CHF 22 per share. A total dividend amount of CHF 1,140 million was paid out on 14 April 2014.

## 8 Financial instruments

### Carrying amounts and fair values of financial instruments

As at 30 June 2014, the carrying amounts and fair values of financial assets and financial liabilities are as follows:

| In CHF million                                   | Carrying amount | Fair value    |
|--|-----------------|---------------|
| <b>30 June 2014</b>                              |                 |               |
| Cash and cash equivalents                        | 226             | 226           |
| Trade and other receivables                      | 2,593           | 2,593         |
| <b>Other financial assets</b>                    |                 |               |
| Term deposits with maturities over 90 days       | 11              | 11            |
| Other loans and receivables                      | 258             | 265           |
| Available-for-sale financial assets              | 39              | 39            |
| <b>Total financial assets</b>                    | <b>3,127</b>    | <b>3,134</b>  |
| Bank loans                                       | 2,118           | 2,154         |
| Debenture bonds                                  | 4,889           | 5,189         |
| Private placements                               | 1,129           | 1,160         |
| Finance lease liabilities                        | 651             | 1,298         |
| Other interest-bearing financial liabilities     | 28              | 28            |
| Other non-interest-bearing financial liabilities | 11              | 11            |
| Derivative financial instruments                 | 143             | 143           |
| Trade and other payables                         | 1,819           | 1,819         |
| <b>Total financial liabilities</b>               | <b>10,788</b>   | <b>11,802</b> |

### 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.

| In CHF million                      | Level 1 | Level 2 | Level 3 | Total |
|-------------------------------------|---------|---------|---------|-------|
| <b>30 June 2014</b>                 |         |         |         |       |
| <b>Financial assets</b>             |         |         |         |       |
| Available-for-sale financial assets | –       | –       | 18      | 18    |
| <b>Financial liabilities</b>        |         |         |         |       |
| Derivative financial liabilities    | –       | 143     | –       | 143   |

In addition, available-for-sale financial assets as of 30 June 2014 with a carrying amount of CHF 21 million were measured at acquisition cost. Level-3 assets consist of investments in various investment funds. The fair value was calculated using a valuation model. In the first half of 2014, there were no reclassifications between the various levels.



## 9 Related parties

Transactions between Swisscom and various related parties in the first half of 2014 are similar to those explained in the consolidated financial statements for 2013.

## 10 Events after the balance sheet date

### **Approval of interim report**

The Board of Directors of Swisscom Ltd approved the release of this interim report on 19 August 2014.

### **Debenture bonds**

In July 2014, Swisscom issued a debenture bond for CHF 200 million with a coupon rate of 1.5% and a term to maturity of 12 years. The funds raised have been used to refinance existing financial debts.

### **Public takeover bid for PubliGroupe**

In June 2014, Swisscom launched a public takeover bid for PubliGroupe Ltd. Swisscom offered the shareholders of PubliGroupe Ltd a price of CHF 214 per share, which corresponds to a total price (excluding PubliGroupe's treasury shares) of around CHF 475 million. Following expiry of the bid period on 5 August 2014, Swisscom's holding in PubliGroupe amounted to 90.59% of the issued shares. Certain conditions required to complete the takeover had yet to be met by the time the bid period expired, such as the approval by the Swiss Competition Commission. The extension period granted for retroactive acceptance of the bid began on 12 August 2014 and runs until 25 August 2014.

# Further information

## Share information

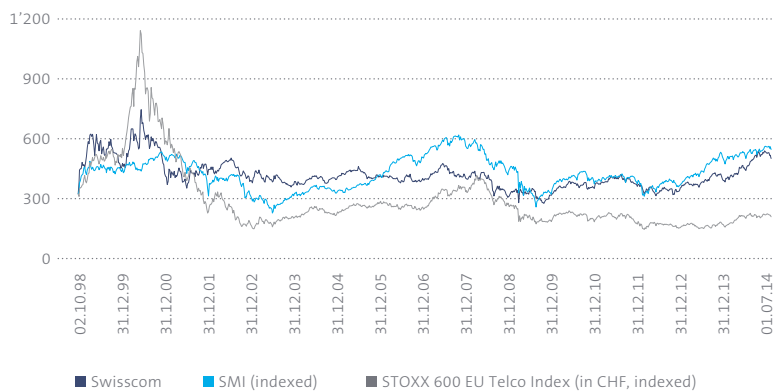
### Swisscom share performance indicators

| 31.12.2013–30.6.2014                                  | SIX Swiss Exchange |
|---|--------------------|
| Closing price at 31 December 2013 in CHF <sup>1</sup> | 470.90             |
| Closing price at 30 June 2014 in CHF <sup>1</sup>     | 515.50             |
| Change in %   | 9.5                |
| Year high in CHF <sup>1</sup>                         | 548.50             |
| Year low in CHF <sup>1</sup>                          | 467.50             |
| Total volume of traded shares                         | 10,437,811         |
| Total turnover in CHF million                         | 5,377              |
| Daily average of traded shares                        | 85,556             |
| Daily average in CHF million                          | 44.1               |

Source: Bloomberg  
<sup>1</sup> paid prices

### Share performance since IPO

#### Share performance 1998–2014 in CHF



## Share information

On 30 June 2014, the share capital consisted of a total of 51,801,943 registered shares, the majority of which are held by the Swiss Confederation in accordance with the Telecommunications Enterprise Act (TEA). Par value per registered share is CHF 1.

At the end of June 2014, Swisscom had 64,500 registered shareholders and around 21% unregistered shares (dispo shares).

At the Annual General Meeting on 7 April 2014, shareholders approved a gross dividend of CHF 22 per share. A total dividend amount of CHF 1,140 million was paid out on 14 April 2014.

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.

## Financial calendar

- > 6 November 2014      2014 Third-Quarter Results
- > 5 February 2015      2014 Annual Results
- > 8 April 2015          Annual General Meeting in Zurich

## Stock exchanges

Swisscom shares are listed and traded 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).

## Quarterly review 2013 and 2014

| In CHF million, except where indicated  | 1.<br>quarter | 2.<br>quarter | 3.<br>quarter | 4.<br>quarter | 2013          | 1.<br>quarter | 2.<br>quarter | 3.<br>quarter | 4.<br>quarter | 2014          |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Income statement</b>   |               |               |               |               |               |               |               |               |               |               |
| <b>Net revenue</b>  | <b>2,734</b>  | <b>2,862</b>  | <b>2,867</b>  | <b>2,971</b>  | <b>11,434</b> | <b>2,821</b>  | <b>2,879</b>  |               |               | <b>5,700</b>  |
| Goods and services purchased  | (552)         | (604)         | (561)         | (621)         | (2,338)       | (552)         | (558)         |               |               | (1,110)       |
| Personnel expense   | (671)         | (691)         | (638)         | (706)         | (2,706)       | (692)         | (684)         |               |               | (1,376)       |
| Other operating expense   | (557)         | (599)         | (596)         | (724)         | (2,476)       | (597)         | (599)         |               |               | (1,196)       |
| Capitalised self-constructed assets and other income                                    | 77            | 103           | 74            | 134           | 388           | 81            | 83            |               |               | 164           |
| <b>Operating income (EBITDA)</b>  | <b>1,031</b>  | <b>1,071</b>  | <b>1,146</b>  | <b>1,054</b>  | <b>4,302</b>  | <b>1,061</b>  | <b>1,121</b>  |               |               | <b>2,182</b>  |
| Depreciation and amortisation   | (491)         | (501)         | (509)         | (543)         | (2,044)       | (510)         | (512)         |               |               | (1,022)       |
| <b>Operating income (EBIT)</b>  | <b>540</b>    | <b>570</b>    | <b>637</b>    | <b>511</b>    | <b>2,258</b>  | <b>551</b>    | <b>609</b>    |               |               | <b>1,160</b>  |
| Net interest expense  | (63)          | (63)          | (59)          | (66)          | (251)         | (61)          | (53)          |               |               | (114)         |
| Other financial result  | (2)           | 5             | (14)          | 3             | (8)           | (23)          | (11)          |               |               | (34)          |
| Result of associates  | 6             | 6             | 6             | 12            | 30            | 3             | 10            |               |               | 13            |
| <b>Income before income taxes</b>   | <b>481</b>    | <b>518</b>    | <b>570</b>    | <b>460</b>    | <b>2,029</b>  | <b>470</b>    | <b>555</b>    |               |               | <b>1,025</b>  |
| Income tax expense  | (91)          | (89)          | (116)         | (38)          | (334)         | (97)          | (122)         |               |               | (219)         |
| <b>Net income</b>   | <b>390</b>    | <b>429</b>    | <b>454</b>    | <b>422</b>    | <b>1,695</b>  | <b>373</b>    | <b>433</b>    |               |               | <b>806</b>    |
| Attributable to equity holders of Swisscom Ltd  | 388           | 427           | 450           | 420           | 1,685         | 369           | 430           |               |               | 799           |
| Attributable to non-controlling interests   | 2             | 2             | 4             | 2             | 10            | 4             | 3             |               |               | 7             |
| Earnings per share (in CHF)   | 7.49          | 8.24          | 8.69          | 8.11          | 32.53         | 7.12          | 8.30          |               |               | 15.42         |
| <b>Net revenue</b>  |               |               |               |               |               |               |               |               |               |               |
| Swisscom Switzerland  | 2,041         | 2,109         | 2,122         | 2,177         | 8,449         | 2,089         | 2,114         |               |               | 4,203         |
| Fastweb   | 487           | 509           | 494           | 528           | 2,018         | 483           | 499           |               |               | 982           |
| Other Operating Segments  | 412           | 454           | 460           | 493           | 1,819         | 450           | 476           |               |               | 926           |
| Group Headquarters  | –             | 1             | –             | –             | 1             | –             | 1             |               |               | 1             |
| Intersegment elimination  | (206)         | (211)         | (209)         | (227)         | (853)         | (201)         | (211)         |               |               | (412)         |
| <b>Total net revenue</b>  | <b>2,734</b>  | <b>2,862</b>  | <b>2,867</b>  | <b>2,971</b>  | <b>11,434</b> | <b>2,821</b>  | <b>2,879</b>  |               |               | <b>5,700</b>  |
| <b>Segment result before depreciation and amortisation</b>                              |               |               |               |               |               |               |               |               |               |               |
| Swisscom Switzerland  | 877           | 888           | 948           | 834           | 3,547         | 894           | 902           |               |               | 1,796         |
| Fastweb   | 119           | 139           | 155           | 207           | 620           | 132           | 155           |               |               | 287           |
| Other Operating Segments  | 73            | 86            | 78            | 66            | 303           | 68            | 98            |               |               | 166           |
| Group Headquarters  | (29)          | (30)          | (27)          | (41)          | (127)         | (25)          | (31)          |               |               | (56)          |
| Intersegment elimination  | (4)           | (5)           | (4)           | (11)          | (24)          | (6)           | (5)           |               |               | (11)          |
| Reconciliation to pension cost  | (5)           | (7)           | (4)           | (1)           | (17)          | (2)           | 2             |               |               | –             |
| <b>Total segment result (EBITDA)</b>  | <b>1,031</b>  | <b>1,071</b>  | <b>1,146</b>  | <b>1,054</b>  | <b>4,302</b>  | <b>1,061</b>  | <b>1,121</b>  |               |               | <b>2,182</b>  |
| <b>Capital expenditure in property, plant and equipment and other intangible assets</b> |               |               |               |               |               |               |               |               |               |               |
| Swisscom Switzerland  | 284           | 354           | 361           | 517           | 1,516         | 299           | 378           |               |               | 677           |
| Fastweb   | 155           | 160           | 168           | 212           | 695           | 173           | 173           |               |               | 346           |
| Other Operating Segments  | 38            | 38            | 56            | 63            | 195           | 52            | 54            |               |               | 106           |
| Intersegment elimination  | (3)           | (5)           | (6)           | 4             | (10)          | (5)           | (7)           |               |               | (12)          |
| <b>Total capital expenditure</b>  | <b>474</b>    | <b>547</b>    | <b>579</b>    | <b>796</b>    | <b>2,396</b>  | <b>519</b>    | <b>598</b>    |               |               | <b>1,117</b>  |
| <b>Full-time equivalent employees at end of period</b>                                  |               |               |               |               |               |               |               |               |               |               |
| Swisscom Switzerland  | 12,018        | 12,344        | 12,513        | 12,463        | 12,463        | 12,522        | 12,622        |               |               | 12,622        |
| Fastweb   | 2,389         | 2,379         | 2,370         | 2,363         | 2,363         | 2,362         | 2,373         |               |               | 2,373         |
| Other Operating Segments  | 4,505         | 4,802         | 4,991         | 4,964         | 4,964         | 4,883         | 4,917         |               |               | 4,917         |
| Group Headquarters  | 335           | 334           | 320           | 318           | 318           | 314           | 316           |               |               | 316           |
| <b>Total full-time equivalent employees</b>   | <b>19,247</b> | <b>19,859</b> | <b>20,194</b> | <b>20,108</b> | <b>20,108</b> | <b>20,081</b> | <b>20,228</b> |               |               | <b>20,228</b> |
| Operating free cash flow  | 245           | 615           | 528           | 590           | 1,978         | 334           | 496           |               |               | 830           |
| Net debt  | 7,931         | 8,622         | 8,263         | 7,812         | 7,812         | 7,676         | 8,502         |               |               | 8,502         |

| In CHF million, except where indicated                     | 1.<br>quarter | 2.<br>quarter | 3.<br>quarter | 4.<br>quarter | 2013         | 1.<br>quarter | 2.<br>quarter | 3.<br>quarter | 4.<br>quarter | 2014         |
|--|---------------|---------------|---------------|---------------|--------------|---------------|---------------|---------------|---------------|--------------|
| <b>Swisscom Switzerland</b>                                |               |               |               |               |              |               |               |               |               |              |
| <b>Revenue and results</b>                                 |               |               |               |               |              |               |               |               |               |              |
| Residential Customers                                      | 428           | 442           | 469           | 444           | 1,783        | 435           | 448           |               |               | 883          |
| Small and Medium-Sized Enterprises                         | 104           | 109           | 109           | 107           | 429          | 103           | 107           |               |               | 210          |
| Corporate Business   | 141           | 145           | 142           | 142           | 570          | 135           | 140           |               |               | 275          |
| <b>Revenue mobile single subscription</b>                  | <b>673</b>    | <b>696</b>    | <b>720</b>    | <b>693</b>    | <b>2,782</b> | <b>673</b>    | <b>695</b>    |               |               | <b>1,368</b> |
| Residential Customers                                      | 304           | 289           | 284           | 280           | 1,157        | 257           | 245           |               |               | 502          |
| Small and Medium-Sized Enterprises                         | 124           | 121           | 119           | 117           | 481          | 115           | 111           |               |               | 226          |
| Corporate Business   | 146           | 146           | 143           | 142           | 577          | 143           | 141           |               |               | 284          |
| <b>Revenue fixed-line single subscription</b>              | <b>574</b>    | <b>556</b>    | <b>546</b>    | <b>539</b>    | <b>2,215</b> | <b>515</b>    | <b>497</b>    |               |               | <b>1,012</b> |
| Residential Customers                                      | 309           | 330           | 352           | 369           | 1,360        | 381           | 408           |               |               | 789          |
| Small and Medium-Sized Enterprises                         | 40            | 46            | 52            | 55            | 193          | 58            | 62            |               |               | 120          |
| <b>Revenue bundles</b>                                     | <b>349</b>    | <b>376</b>    | <b>404</b>    | <b>424</b>    | <b>1,553</b> | <b>439</b>    | <b>470</b>    |               |               | <b>909</b>   |
| <b>Total revenue single subscription and bundles</b>       | <b>1,596</b>  | <b>1,628</b>  | <b>1,670</b>  | <b>1,656</b>  | <b>6,550</b> | <b>1,627</b>  | <b>1,662</b>  |               |               | <b>3,289</b> |
| Solution business  | 84            | 87            | 90            | 99            | 360          | 85            | 92            |               |               | 177          |
| Hardware sold  | 128           | 143           | 143           | 181           | 595          | 153           | 153           |               |               | 306          |
| Wholesale  | 149           | 146           | 148           | 145           | 588          | 145           | 139           |               |               | 284          |
| Revenue other  | 68            | 90            | 56            | 82            | 296          | 65            | 54            |               |               | 119          |
| <b>Revenue from external customers</b>                     | <b>2,025</b>  | <b>2,094</b>  | <b>2,107</b>  | <b>2,163</b>  | <b>8,389</b> | <b>2,075</b>  | <b>2,100</b>  |               |               | <b>4,175</b> |
| Residential Customers                                      | 1,190         | 1,247         | 1,254         | 1,294         | 4,985        | 1,234         | 1,258         |               |               | 2,492        |
| Small and Medium-Sized Enterprises                         | 274           | 282           | 286           | 286           | 1,128        | 282           | 286           |               |               | 568          |
| Corporate Business   | 412           | 419           | 419           | 438           | 1,688        | 414           | 417           |               |               | 831          |
| Wholesale  | 149           | 146           | 148           | 145           | 588          | 145           | 139           |               |               | 284          |
| <b>Revenue from external customers</b>                     | <b>2,025</b>  | <b>2,094</b>  | <b>2,107</b>  | <b>2,163</b>  | <b>8,389</b> | <b>2,075</b>  | <b>2,100</b>  |               |               | <b>4,175</b> |
| <b>Segment result before depreciation and amortisation</b> |               |               |               |               |              |               |               |               |               |              |
| Residential Customers                                      | 710           | 731           | 759           | 698           | 2,898        | 730           | 742           |               |               | 1,472        |
| Small and Medium-Sized Enterprises                         | 213           | 216           | 222           | 213           | 864          | 215           | 220           |               |               | 435          |
| Corporate Business   | 220           | 226           | 231           | 230           | 907          | 217           | 223           |               |               | 440          |
| Wholesale  | 96            | 96            | 97            | 95            | 384          | 95            | 92            |               |               | 187          |
| Network & IT   | (362)         | (380)         | (363)         | (401)         | (1,506)      | (364)         | (374)         |               |               | (738)        |
| Intersegment elimination                                   | –             | (1)           | 2             | (1)           | –            | 1             | (1)           |               |               | –            |
| <b>Segment result (EBITDA)</b>                             | <b>877</b>    | <b>888</b>    | <b>948</b>    | <b>834</b>    | <b>3,547</b> | <b>894</b>    | <b>902</b>    |               |               | <b>1,796</b> |
| Margin as % of net revenue                                 | 43.0          | 42.1          | 44.7          | 38.3          | 42.0         | 42.8          | 42.7          |               |               | 42.7         |
| <b>Fastweb, in EUR million</b>                             |               |               |               |               |              |               |               |               |               |              |
| Residential Customers                                      | 186           | 186           | 186           | 186           | 744          | 188           | 188           |               |               | 376          |
| Corporate Business   | 178           | 193           | 188           | 212           | 771          | 177           | 188           |               |               | 365          |
| Wholesale hubbing  | 14            | 11            | 9             | 11            | 45           | 7             | 7             |               |               | 14           |
| Wholesale other  | 19            | 21            | 19            | 19            | 78           | 23            | 26            |               |               | 49           |
| <b>Revenue from external customers</b>                     | <b>397</b>    | <b>411</b>    | <b>402</b>    | <b>428</b>    | <b>1,638</b> | <b>395</b>    | <b>409</b>    |               |               | <b>804</b>   |
| Segment result (EBITDA)                                    | 97            | 113           | 126           | 169           | 505          | 108           | 128           |               |               | 236          |
| Margin as % of net revenue                                 | 24.4          | 27.4          | 31.3          | 39.4          | 30.8         | 27.3          | 31.3          |               |               | 25.9         |
| Capital expenditure  | 126           | 130           | 137           | 172           | 565          | 142           | 142           |               |               | 284          |
| Broadband access lines in thousand                         | 1,861         | 1,887         | 1,911         | 1,942         | 1,942        | 1,984         | 1,994         |               |               | 1,994        |

| In thousand, except where indicated                  | 1.<br>quarter | 2.<br>quarter | 3.<br>quarter | 4.<br>quarter | 2013          | 1.<br>quarter | 2.<br>quarter | 3.<br>quarter | 4.<br>quarter | 2014          |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Swisscom Switzerland</b>                          |               |               |               |               |               |               |               |               |               |               |
| <b>Operational data</b>                              |               |               |               |               |               |               |               |               |               |               |
| <b>Access lines</b>                                  |               |               |               |               |               |               |               |               |               |               |
| Single subscriptions                                 | 2,272         | 2,207         | 2,142         | 2,073         | 2,073         | 2,007         | 1,948         |               |               | 1,948         |
| Bundles  | 698           | 729           | 763           | 806           | 806           | 849           | 882           |               |               | 882           |
| <b>Fixed access lines</b>                            | <b>2,970</b>  | <b>2,936</b>  | <b>2,905</b>  | <b>2,879</b>  | <b>2,879</b>  | <b>2,856</b>  | <b>2,830</b>  |               |               | <b>2,830</b>  |
| Single subscriptions                                 | 909           | 878           | 843           | 810           | 810           | 773           | 745           |               |               | 745           |
| Bundles  | 842           | 889           | 938           | 1,001         | 1,001         | 1,060         | 1,110         |               |               | 1,110         |
| <b>Broadband access lines retail</b>                 | <b>1,751</b>  | <b>1,767</b>  | <b>1,781</b>  | <b>1,811</b>  | <b>1,811</b>  | <b>1,833</b>  | <b>1,855</b>  |               |               | <b>1,855</b>  |
| Single subscriptions                                 | 291           | 289           | 281           | 276           | 276           | 271           | 259           |               |               | 259           |
| Bundles  | 569           | 613           | 662           | 724           | 724           | 781           | 832           |               |               | 832           |
| <b>Swisscom TV access lines</b>                      | <b>860</b>    | <b>902</b>    | <b>943</b>    | <b>1,000</b>  | <b>1,000</b>  | <b>1,052</b>  | <b>1,091</b>  |               |               | <b>1,091</b>  |
| Prepaid single subscriptions                         | 2,196         | 2,180         | 2,173         | 2,176         | 2,176         | 2,173         | 2,165         |               |               | 2,165         |
| Postpaid single subscriptions                        | 3,741         | 3,763         | 3,783         | 3,812         | 3,812         | 3,812         | 3,828         |               |               | 3,828         |
| <b>Mobile access lines single subscriptions</b>      | <b>5,937</b>  | <b>5,943</b>  | <b>5,956</b>  | <b>5,988</b>  | <b>5,988</b>  | <b>5,985</b>  | <b>5,993</b>  |               |               | <b>5,993</b>  |
| Bundles  | 333           | 364           | 390           | 419           | 419           | 444           | 467           |               |               | 467           |
| <b>Mobile access lines</b>                           | <b>6,270</b>  | <b>6,307</b>  | <b>6,346</b>  | <b>6,407</b>  | <b>6,407</b>  | <b>6,429</b>  | <b>6,460</b>  |               |               | <b>6,460</b>  |
| <b>Revenue generating units (RGU)</b>                | <b>11,851</b> | <b>11,912</b> | <b>11,975</b> | <b>12,097</b> | <b>12,097</b> | <b>12,170</b> | <b>12,236</b> |               |               | <b>12,236</b> |
| Broadband access lines wholesale                     | 196           | 201           | 208           | 215           | 215           | 221           | 224           |               |               | 224           |
| Unbundled fixed access lines                         | 290           | 280           | 268           | 256           | 256           | 241           | 228           |               |               | 228           |
| <b>Bundles</b>                                       |               |               |               |               |               |               |               |               |               |               |
| 2Play bundles  | 257           | 264           | 270           | 279           | 279           | 287           | 294           |               |               | 294           |
| 3Play bundles  | 428           | 451           | 479           | 517           | 517           | 555           | 584           |               |               | 584           |
| 4Play bundles  | 157           | 174           | 189           | 205           | 205           | 218           | 231           |               |               | 231           |
| nPlay bundles  | –             | –             | –             | –             | –             | –             | 1             |               |               | 1             |
| <b>Total bundles</b>                                 | <b>842</b>    | <b>889</b>    | <b>938</b>    | <b>1,001</b>  | <b>1,001</b>  | <b>1,060</b>  | <b>1,110</b>  |               |               | <b>1,110</b>  |
| <b>Swisscom Group</b>                                |               |               |               |               |               |               |               |               |               |               |
| <b>Information by geographical regions</b>           |               |               |               |               |               |               |               |               |               |               |
| Net revenue in Switzerland                           | 2,235         | 2,337         | 2,358         | 2,428         | 9,358         | 2,323         | 2,361         |               |               | 4,684         |
| Net revenue in other countries                       | 499           | 525           | 509           | 543           | 2,076         | 498           | 518           |               |               | 1,016         |
| <b>Total net revenue</b>                             | <b>2,734</b>  | <b>2,862</b>  | <b>2,867</b>  | <b>2,971</b>  | <b>11,434</b> | <b>2,821</b>  | <b>2,879</b>  |               |               | <b>5,700</b>  |
| EBITDA in Switzerland                                | 910           | 933           | 993           | 849           | 3,685         | 924           | 966           |               |               | 1,890         |
| EBITDA in other countries                            | 121           | 138           | 153           | 205           | 617           | 137           | 155           |               |               | 292           |
| <b>Total EBITDA</b>                                  | <b>1,031</b>  | <b>1,071</b>  | <b>1,146</b>  | <b>1,054</b>  | <b>4,302</b>  | <b>1,061</b>  | <b>1,121</b>  |               |               | <b>2,182</b>  |
| Capital expenditure in Switzerland                   | 319           | 387           | 409           | 571           | 1,686         | 345           | 424           |               |               | 769           |
| Capital expenditure in other countries               | 155           | 160           | 170           | 225           | 710           | 174           | 174           |               |               | 348           |
| <b>Total capital expenditure</b>                     | <b>474</b>    | <b>547</b>    | <b>579</b>    | <b>796</b>    | <b>2,396</b>  | <b>519</b>    | <b>598</b>    |               |               | <b>1,117</b>  |
| Full-time equivalent employees<br>in Switzerland     | 16,483        | 17,099        | 17,449        | 17,362        | 17,362        | 17,395        | 17,545        |               |               | 17,545        |
| Full-time equivalent employees<br>in other countries | 2,764         | 2,760         | 2,745         | 2,746         | 2,746         | 2,686         | 2,683         |               |               | 2,683         |
| <b>Total full-time equivalent employees</b>          | <b>19,247</b> | <b>19,859</b> | <b>20,194</b> | <b>20,108</b> | <b>20,108</b> | <b>20,081</b> | <b>20,228</b> |               |               | <b>20,228</b> |

## Forward-looking statements

This interim report is published in German and English. The German version is binding. This communication contains statements that constitute “forward-looking statements”. In this communication, such forward-looking statements include, without limitation, statements relating to our financial condition, results of operations and business and certain of our strategic plans and objectives. Because these forward-looking statements are subject to risks and uncertainties, actual future results may differ materially from those expressed in or implied by the statements. Many of these risks and uncertainties relate to factors which are beyond Swisscom’s ability to control or estimate precisely, such as future market conditions, currency fluctuations, the behaviour of other market participants, the actions of governmental regulators and other risk factors detailed in Swisscom’s and Fastweb’s past and future filings and reports, including those filed with the U.S. Securities and Exchange Commission and in past and future filings, press releases, reports and other information posted on Swisscom Group Companies’ websites. Readers are cautioned not to put undue reliance on forward-looking statements, which speak only of the date of this communication. Swisscom disclaims any intention or obligation to update and revise any forward-looking statements, whether as a result of new information, future events or otherwise.

