

2014

Interim Report
January–September



swisscom

Facts & figures

In CHF million, except where indicated

		1.1.–30.9.2014	1.1.–30.9.2013	Change
Net revenue and results				
Net revenue		8,629	8,463	2.0%
Operating income before depreciation and amortisation (EBITDA) ¹		3,372	3,248	3.8%
EBITDA as % of net revenue	%	39.1	38.4	
Operating income (EBIT) ²		1,839	1,747	5.3%
Net income		1,349	1,273	6.0%
Share of net income attributable to equity holders of Swisscom Ltd		1,339	1,265	5.8%
Earnings per share	CHF	25.85	24.42	5.8%

Balance sheet and cash flows

Equity at end of period		5,306	5,204	2.0%
Equity ratio at end of period ³	%	25.4	25.6	
Capital expenditure		1,727	1,600	7.9%
Operating free cash flow ⁴		1,470	1,388	5.9%
Net debt at end of period ⁵		8,398	8,263	1.6%

Operational data

Fixed access lines in Switzerland	in thousand	2,811	2,905	-3.2%
Broadband access lines retail in Switzerland	in thousand	1,872	1,781	5.1%
Swisscom TV access lines in Switzerland	in thousand	1,125	943	19.3%
Mobile access lines in Switzerland	in thousand	6,499	6,346	2.4%
Revenue generating units (RGU) in Switzerland ⁶	in thousand	12,307	11,975	2.8%
Broadband access lines wholesale in Switzerland	in thousand	241	208	15.9%
Broadband access lines in Italy	in thousand	2,016	1,911	5.5%

Swisscom share

Number of shares issued at end of period	in mio.	51.801	51.802	-0.0%
Closing price at end of period	CHF	542.50	434.60	24.8%
Market capitalisation at end of period ⁷		28,102	22,513	24.8%

Employees

Full-time equivalent employees at end of period	FTE	21,075	20,194	4.4%
Full-time equivalent employees in Switzerland at end of period	FTE	18,220	17,449	4.4%

¹ 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.

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

³ Equity as a percentage of total assets.

⁴ 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 other intangible assets and dividends paid to non-controlling interests.

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

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

⁷ 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	1.1.–30.9.2014	1.1.–30.9.2013	Change
Net revenue	8,629	8,463	2.0%
Operating income before depreciation and amortisation (EBITDA)	3,372	3,248	3.8%
EBITDA as % of net revenue	39.1	38.4	
Operating income (EBIT)	1,839	1,747	5.3%
Net income	1,349	1,273	6.0%
Earnings per share (in CHF)	25.85	24.42	5.8%
Capital expenditure	1,727	1,600	7.9%
Operating free cash flow	1,470	1,388	5.9%
Net debt at end of period	8,398	8,263	1.6%
Full-time equivalent employees at end of period	21,075	20,194	4.4%

In the first nine months of 2014, Swisscom posted an increase in net revenue of CHF 166 million or 2.0% to CHF 8,629 million. At constant exchange rates, excluding company acquisitions and Fastweb's wholesale revenue from interconnection services (hubbing), net revenue rose by 1.5% or CHF 127 million, of which Swiss business accounted for CHF 83 million. Price erosion of CHF 280 million in Swiss core business (CHF 125 million of which resulted from reduced roaming fees) was more than offset by customer and volume growth of CHF 363 million. Excluding hubbing, Fastweb's revenue was EUR 30 million or 2.5% higher at EUR 1,209 million. Swisscom's operating income before depreciation and amortisation (EBITDA) rose by CHF 124 million or 3.8% to CHF 3,372 million. Excluding one-off items, the increase amounted to CHF 60 million or 1.9%. Excluding non-recurring items, EBITDA in Swiss business increased by CHF 13 million or 0.5%, and at Fastweb by EUR 34 million or 10.1%. Swisscom's net income increased by CHF 76 million or 6.0% to CHF 1,349 million mainly due to the higher operating income.

Capital expenditure rose by CHF 127 million or 7.9% to CHF 1,727 million. In Switzerland, capital expenditure increased by CHF 117 million or 10.5% to CHF 1,232 million due to broadband network expansion and investments in the IT infrastructure. At Fastweb, capital expenditure increased by EUR 13 million or 3.3% to EUR 406 million due to higher levels of investment in the network and IT infrastructure and wholesale business.

Operating free cash flow rose by CHF 82 million or 5.9% to CHF 1,470 million. At CHF 8,398 million, net debt is CHF 135 million or 1.6% higher compared with the same period in 2013.

Overall headcount grew year-on-year by 881 full-time equivalent positions (FTEs) or 4.4% to 21,075 FTEs, largely as a result of the acquisition of PubliGroupe Ltd in September 2014. Excluding company acquisitions, headcount rose by 154 FTEs or 0.8% as a result of measures aimed at strengthening customer service operations and the insourcing of external staff.

Swisscom's outlook for 2014 remains unchanged, with an expected moderate increase in revenue to CHF 11.5 billion, EBITDA of at least CHF 4.4 billion and capital expenditure of around CHF 2.4 billion. Swisscom acquired PubliGroupe Ltd in September 2014. The additional revenue of around CHF 30 million generated by this acquisition has been factored into the expected figures for 2014; the impact on the other financial targets for the current year will be minimal. 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.

Public takeover of PubliGroupe Ltd

In June 2014, Swisscom launched a public takeover bid for PubliGroupe Ltd (PubliGroupe). Swisscom offered the shareholders of PubliGroupe Ltd a price of CHF 214 per share, which corresponds to a total price of CHF 474 million. Following expiry of the bid period on 25 August 2014, Swisscom's holding in PubliGroupe amounted to 98.37%. The acquisition was completed on 5 September 2014 following approval by the Competition Commission. Given that it now holds more than 98% of PubliGroupe shares, Swisscom will request the cancellation of the untendered shares and compensate the remaining minority shareholders with CHF 214 per share, the same as the offer price.

PubliGroupe mainly operates in the Swiss directory market and holds half of the Local Group (Swisscom Directories Ltd, LTV Yellow Pages Ltd and local.ch Ltd), with Swisscom holding the other 50%. On a consolidated basis, the Local Group and its approximately 770 employees recorded net revenue of CHF 151 million and operating income before depreciation and amortisation (EBITDA) of CHF 49 million in the first nine months of 2014. Of the total purchase price of CHF 474 million, CHF 270 million relates to the acquisition of the shares in the Local Group, and CHF 204 million to other shareholdings in media enterprises and media service providers as well as an investment property. Swisscom is planning to sell the participations in the media enterprises. In early November 2014, the 25% shareholding in FPH Holding AG was sold to the AG für die Neue Zürcher Zeitung (NZZ Media Group) for a price of CHF 53 million.

The main objective behind the takeover is to gain full control over the Local Group and to develop it further. As announced, Swisscom and Tamedia intend to merge their directories business once the takeover has been completed. The planned partnership between Swisscom and Tamedia is subject to the approval of the Competition Commission. Swisscom will hold 69% of the joint subsidiary and fully consolidate the company, while Tamedia will hold the remaining 31%.

In the segment reporting, the Local Group will feature as part of Swisscom Switzerland, while the other acquired PubliGroupe business areas will be reported under Other Operating Segments. In Swisscom's consolidated financial statements as of 30 September 2014, additional net revenue of CHF 12 million and operating income before depreciation and amortisation (EBITDA) of CHF 4 million resulted since the takeover of PubliGroupe on 5 September 2014. Additional revenue of CHF 30 million from the takeover of PubliGroupe is expected for the current year. The impact of the takeover on the other financial key figures for 2014 will be minimal.

Segment results

In CHF million	3 rd quarter 2014	3 rd quarter 2013	Change	1.1.– 30.9.2014	1.1.– 30.9.2013	Change
Net revenue						
Residential Customers	1,336	1,293	3.3%	3,907	3,813	2.5%
Small and Medium-Sized Enterprises	289	291	-0.7%	867	860	0.8%
Corporate Business	449	443	1.4%	1,325	1,325	–
Wholesale	239	246	-2.8%	696	727	-4.3%
Intersegment elimination	(146)	(151)	-3.3%	(425)	(453)	-6.2%
Swisscom Switzerland	2,167	2,122	2.1%	6,370	6,272	1.6%
Fastweb	513	494	3.8%	1,495	1,490	0.3%
Other operating segments	474	460	3.0%	1,400	1,326	5.6%
Group Headquarters	–	–	–	1	1	–
Intersegment elimination	(225)	(209)	7.7%	(637)	(626)	1.8%
Net revenue	2,929	2,867	2.2%	8,629	8,463	2.0%
Operating income before depreciation and amortisation (EBITDA)						
Residential Customers	762	759	0.4%	2,234	2,200	1.5%
Small and Medium-Sized Enterprises	215	222	-3.2%	650	651	-0.2%
Corporate Business	227	231	-1.7%	667	677	-1.5%
Wholesale	98	97	1.0%	285	289	-1.4%
Network & IT	(361)	(363)	-0.6%	(1,099)	(1,105)	-0.5%
Intersegment elimination	–	2	–	–	1	–
Swisscom Switzerland	941	948	-0.7%	2,737	2,713	0.9%
Fastweb	163	155	5.2%	450	413	9.0%
Other operating segments	126	78	61.5%	292	237	23.2%
Group Headquarters	(27)	(27)	–	(83)	(86)	-3.5%
Intersegment elimination	(9)	(4)	125.0%	(20)	(13)	53.8%
Reconciliation to pension cost ¹	(4)	(4)	–	(4)	(16)	–
Operating income before depreciation and amortisation (EBITDA)	1,190	1,146	3.8%	3,372	3,248	3.8%

¹ 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, Enterprise Customers, 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 charge any network costs to Group Headquarters, nor does Group Headquarters charge any financial management fees to other segments. Other intersegment services are charged 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, Enterprise Customers and Wholesale are reported as a contribution margin before network costs.

Segment expenses include goods and services purchased, personnel expense and other operating expenses less capitalised costs and other income. Segment expenses contain 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	3 rd quarter 2014	3 rd quarter 2013	Change	1.1.– 30.9.2014	1.1.– 30.9.2013	Change
Net revenue and results						
Mobile single subscriptions	711	720	-1.3%	2,079	2,089	-0.5%
Fixed-line single subscriptions	481	546	-11.9%	1,493	1,676	-10.9%
Bundles	496	404	22.8%	1,405	1,129	24.4%
Wholesale	144	148	-2.7%	428	443	-3.4%
Other	319	289	10.4%	921	889	3.6%
Revenue from external customers	2,151	2,107	2.1%	6,326	6,226	1.6%
Intersegment revenue	16	15	6.7%	44	46	-4.3%
Net revenue	2,167	2,122	2.1%	6,370	6,272	1.6%
Direct costs	(459)	(425)	8.0%	(1,316)	(1,294)	1.7%
Indirect costs	(767)	(749)	2.4%	(2,317)	(2,265)	2.3%
Segment expenses	(1,226)	(1,174)	4.4%	(3,633)	(3,559)	2.1%
Segment result before depreciation and amortisation	941	948	-0.7%	2,737	2,713	0.9%
Margin as % of net revenue	43.4	44.7		43.0	43.3	
Depreciation, amortisation and impairment losses	(295)	(280)	5.4%	(869)	(825)	5.3%
Segment result	646	668	-3.3%	1,868	1,888	-1.1%
Operational data at the balance sheet date in thousand						
Fixed access lines				2,811	2,905	-3.2%
Broadband access lines retail				1,872	1,781	5.1%
Swisscom TV access lines				1,125	943	19.3%
Mobile access lines				6,499	6,346	2.4%
Bundles				1,154	938	23.0%
Unbundled fixed access lines				204	268	-23.9%
Broadband access lines wholesale				241	208	15.9%
Revenue generating units (RGU)				12,307	11,975	2.8%
Capital expenditure and headcount						
Capital expenditure in property, plant and equipment and other intangible assets	422	361	16.9%	1,099	999	10.0%
Full-time equivalent employees at end of year				13,215	12,513	5.6%

At CHF 6,370 million, net revenue was CHF 98 million or 1.6% higher year-on-year (+2.1% in the third quarter). Price erosion of CHF 280 million (of which CHF 125 million resulted from reductions in roaming fees) was outweighed by customer and volume growth. Revenue also improved thanks to the acquisition of a majority stake in Cinetrade in April 2013. The effect of the takeover of Publi-Gruppe in September 2014 on revenue and operating income is minimal. The number of revenue generating units (RGU) increased year-on-year by 332,000 or 2.8% to 12.3 million (+71,000 in the third quarter).

The trend towards bundled offerings and new pricing models such as flat-rate tariffs continues unabated. Within the space of a year, the number of customers using bundled offerings grew by 216,000 or 23.0% to 1.2 million (+44,000 in the third quarter). Revenue from bundled contracts rose year-on-year by CHF 276 million or 24.4% to CHF 1,405 million (+22.8% in the third 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 September 2014, 2.0 million customers, or roughly 61% of the entire customer base (excluding corporate customers), were using the NATEL infinity offerings. The number of mobile lines increased year-on-year by 153,000 or 2.4% to 6.5 million (+39,000 in the third quarter). The trend from prepaid offerings to postpaid contracts has slowed slightly: the number of postpaid customers, including those using bundled offerings, grew by 161,000 (+39,000 in the third quarter), while the number of prepaid customers declined by 8,000 (no change in the third quarter). In the first nine months of 2014, Swisscom Switzerland sold a total of 1.05 million mobile handsets (–6.9%). Smartphone penetration continued to grow, with the share of postpaid subscribers using a smartphone up from 68% to 72% within the space of a year.

The number of Swisscom TV connections increased year-on-year by 182,000 or 19.3% to 1.13 million (+34,000 in the third quarter), with fixed-fee subscriptions accounting for 1.0 million. Swisscom TV 2.0, which offers additional functions, was launched at the beginning of April 2014 and by the end of September had already attracted 152,000 customers, most of whom had upgraded from a previous Swisscom offering to a higher quality bundled offering. Retail broadband access lines grew year-on-year by 91,000 or 5.1% to 1.87 million (+17,000 in the third quarter). The number of fixed lines declined by 94,000 or 3.2% year-on-year to 2.81 million (–19,000 in the third quarter), due primarily to customers migrating to cable network providers or switching from fixed to mobile. The number of wholesale broadband lines rose by 33,000 or 15.9% to 241,000 (+17,000 in the third quarter), while unbundled subscriber access lines dropped by 64,000 or 23.9% year-on-year to 204,000 (–24,000 in the third quarter).

Segment expenses rose by CHF 74 million or 2.1% to CHF 3,633 million. Direct costs increased by CHF 22 million or 1.7% to CHF 1,316 million (+8.0% in the third quarter). Higher subscriber acquisition and retention costs and additional costs related to the acquisition of Cinetrade were partly offset by lower volume-driven device procurement costs. Indirect costs increased by CHF 52 million or 2.3% to CHF 2,317 million (+2.4% in the third quarter). Excluding company acquisitions and restructuring costs, indirect costs rose by 0.9%, largely due to the increase in headcount and a corresponding increase in personnel expense. The segment result before depreciation and amortisation increased by CHF 24 million or 0.9% to CHF 2,737 million (–0.7% in the third quarter). Excluding non-recurring items, the increase amounted to CHF 18 million or 0.7%, with the profit margin narrowing by 0.3 percentage points to 43.0%.

Compared to the previous year, depreciation and amortisation rose by CHF 44 million or 5.3% to CHF 869 million (+5.4% in the third quarter) as a result of higher capital expenditure. The segment result declined by CHF 20 million or 1.1% to CHF 1,868 million (–3.3% in the third quarter). Capital expenditure rose year-on-year by CHF 100 million or 10.0% to CHF 1,099 million (+16.9% in the third quarter) due to increased investment in network infrastructure. Headcount increased by 702 FTEs or 5.6% year-on-year to 13,215 FTEs. Excluding company acquisitions, the increase amounted to 224 FTEs, mainly as a consequence of a move to strengthen customer service operations and the insourcing of external staff.

Fastweb

In EUR million, except where indicated	3 rd quarter 2014	3 rd quarter 2013	Change	1.1.– 30.9.2014	1.1.– 30.9.2013	Change
Residential Customers	187	186	0.5%	563	558	0.9%
Corporate Business	202	188	7.4%	567	559	1.4%
Wholesale hubbing	7	9	-22.2%	21	34	-38.2%
Wholesale other	28	19	47.4%	77	59	30.5%
Revenue from external customers	424	402	5.5%	1,228	1,210	1.5%
Intersegment revenue	–	1	–	2	3	-33.3%
Net revenue	424	403	5.2%	1,230	1,213	1.4%
Segment expenses	(290)	(277)	4.7%	(860)	(877)	-1.9%
Segment result before depreciation and amortisation	134	126	6.3%	370	336	10.1%
Margin as % of net revenue	31.6	31.3		30.1	27.7	
Capital expenditure in property, plant and equipment and other intangible assets	122	137	-10.9%	406	393	3.3%
Full-time equivalent employees at end of period				2,378	2,370	0.3%
Broadband access lines in thousand				2,016	1,911	5.5%

Fastweb's net revenue rose year-on-year by EUR 17 million or 1.4% to EUR 1,230 million (+5.2% in the third quarter). Wholesale revenue from low-margin interconnection services (hubbing) dropped as expected. Excluding hubbing, Fastweb's revenue was EUR 30 million or 2.5% higher at EUR 1,209 million (+5.8% in the third quarter). Despite a difficult market environment, Fastweb's broadband customer base grew year-on-year by 105,000 or 5.5% to 2.02 million (+22,000 in the third quarter). In the residential customer segment, fierce competition drove down 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 5 million or 0.9% to EUR 563 million (+0.5% in the third quarter). Revenue from business customers was up EUR 8 million or 1.4%, at EUR 567 million (+7.4% in the third quarter). Revenue from other wholesale business was EUR 18 million or 30.5% higher at EUR 77 million (+47.4% or EUR 9 million in the third quarter).

In the first nine months of 2014, Fastweb's segment result before depreciation and amortisation totalled EUR 370 million, up 10.1% or EUR 34 million year-on-year (+6.3% in the third quarter), with EUR 21 million being attributable to non-recurring regulatory items. Excluding this effect, the segment result before depreciation and amortisation increased by EUR 13 million or 3.9%. Headcount increased year-on-year by 8 FTEs or 0.3% to 2,378 FTEs. Higher spending on network and IT infrastructure and on wholesale business pushed up capital expenditure by EUR 13 million or 3.3% to EUR 406 million (-10.9% in the third quarter). The ratio of capital expenditure to net revenue was 33.0% (prior year: 32.4%).

Other Operating Segments

In CHF million, except where indicated	3 rd quarter 2014	3 rd quarter 2013	Change	1.1.– 30.9.2014	1.1.– 30.9.2013	Change
Revenue from external customers	265	266	–0.4%	810	750	8.0%
Intersegment revenue	209	194	7.7%	590	576	2.4%
Net revenue	474	460	3.0%	1,400	1,326	5.6%
Segment expenses	(348)	(382)	–8.9%	(1,108)	(1,089)	1.7%
Segment result before depreciation and amortisation	126	78	61.5%	292	237	23.2%
Margin as % of net revenue	26.6	17.0		20.9	17.9	
Capital expenditure in property, plant and equipment and other intangible assets	49	56	–12.5%	155	132	17.4%
Full-time equivalent employees at end of period				5,164	4,991	3.5%

Revenue from external customers grew year-on-year by CHF 60 million or 8.0% to CHF 810 million (–0.4% in the third quarter). At CHF 489 million, revenue from external customers at Swisscom IT Services was CHF 46 million or 10.4% higher, largely due to acquisitions. In the second quarter of 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. Revenue from other segments rose year-on-year by CHF 14 million or 2.4% to CHF 590 million (+7.7% in the third quarter), largely due to a higher volume of construction services rendered by Swisscom Participations for Swisscom Switzerland.

At CHF 1,108 million, segment expenses rose by CHF 19 million or 1.7% year-on-year (–8.9% in the third quarter). The higher segment expenses resulting from the increased revenue was partly offset by higher gains on the sale of real estate. Gains on the sale of real estate were CHF 50 million higher in the first nine months of 2014 compared to the prior-year period, with CHF 39 million attributable to the third quarter of 2014. The segment result before depreciation and amortisation rose accordingly in the first nine months of 2014 by CHF 55 million or 23.2% to CHF 292 million (+61.5% in the third quarter). At 5,164 FTEs, headcount was 173 FTEs or 3.5% higher year-on-year, mainly due to the acquisition of PubliGroupe. Capital expenditure rose by CHF 23 million or 17.4% to CHF 155 million as a result of increased investment by Swisscom IT Services, primarily in IT infrastructure.

Group Headquarters and reconciliation of pension cost

Operating income before depreciation and amortisation improved year-on-year by CHF 3 million or 3.5% to CHF –83 million, mainly due to cost savings. Headcount dropped by 2 FTEs or 0.6% year-on-year to 318 FTEs.

An expense of CHF 4 million (prior year: CHF 16 million) is disclosed as a pension cost reconciliation item for the first nine months of 2014.

Depreciation and amortisation, non-operating income

In CHF million, except where indicated

	3 rd quarter 2014	3 rd quarter 2013	Change	1.1.– 30.9.2014	1.1.– 30.9.2013	Change
Operating income before depreciation and amortisation (EBITDA)	1,190	1,146	3.8%	3,372	3,248	3.8%
Depreciation, amortisation and impairment losses	(511)	(509)	0.4%	(1,533)	(1,501)	2.1%
Operating income (EBIT)	679	637	6.6%	1,839	1,747	5.3%
Net interest expense	(51)	(62)	-17.7%	(165)	(187)	-11.8%
Other financial income and expense, net	25	(11)	–	(9)	(9)	–
Share of results of associates	8	6	33.3%	21	18	16.7%
Income before income taxes	661	570	16.0%	1,686	1,569	7.5%
Income tax expense	(118)	(116)	1.7%	(337)	(296)	13.9%
Net income	543	454	19.6%	1,349	1,273	6.0%
Share of net income attributable to equity holders of Swisscom Ltd	540	450	20.0%	1,339	1,265	5.8%
Share of net income attributable to non-controlling interests	3	4	-25.0%	10	8	25.0%
Earnings per share (in CHF)	10.42	8.69	20.0%	25.85	24.42	5.8%

Depreciation and amortisation increased year-on-year by CHF 32 million or 2.1% to CHF 1,533 million (+0.4% in the third quarter), largely due to higher depreciation and amortisation recognised by Swisscom Switzerland as a result of increased capital expenditure. Intangible assets resulting from company takeovers were capitalised for purchase price allocation purposes. Depreciation and amortisation for the first nine months of 2014 includes scheduled amortisation relating to company takeovers amounting to CHF 94 million (prior year: CHF 104 million).

Net interest expense fell by CHF 22 million to CHF 165 million in the first nine months of 2014. Other net financial expense for the first nine months of 2014 includes negative effects of CHF 28 million arising from the fair value adjustment of interest hedging (prior year: positive effects of CHF 23 million). In the third quarter of 2014, Swisscom repurchased an operating site, which had been previously accounted for as a finance lease, prior to expiry of the contract. The difference of CHF 33 million between the purchase price and the carrying amount of the financial liability was recognised under other financial expenses. In the third quarter of 2014, a non-cash gain according to IFRS of CHF 82 million from the revaluation of the previously held 49% stake in LTV Yellow Pages Ltd as part of the takeover of PubliGroupe was also recognised under other net financial result.

Income tax expense in the first nine months of 2014 amounted to CHF 337 million (prior year: CHF 296 million), corresponding to an effective income tax rate of 20.0% (prior year: 18.9%). 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.

Swisscom's net income increased by CHF 76 million or 6.0% to CHF 1,349 million in the first nine months of 2014 mainly due to higher operating income. 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 increased year-on-year by CHF 74 million to CHF 1,339 million. Earnings per share rose accordingly by 5.8% from CHF 24.42 to CHF 25.85.

Cash flows

In CHF million	1.1.–30.9.2014	1.1.–30.9.2013	Change
Operating income before depreciation and amortisation (EBITDA)	3,372	3,248	124
Capital expenditure ¹	(1,727)	(1,600)	(127)
Proceeds from sale of property, plant and equipment and other intangible assets	83	23	60
Change in defined benefit obligations	(17)	8	(25)
Change in net working capital and other cash flow from operating activities	(225)	(277)	52
Dividends paid to non-controlling interests	(16)	(14)	(2)
Operating free cash flow	1,470	1,388	82
Net interest paid	(192)	(192)	–
Income taxes paid	(302)	(165)	(137)
Free cash flow	976	1,031	(55)
Acquisition of subsidiaries and non-controlling interests	(462)	(59)	(403)
Other cash flows from investing activities, net	161	(45)	206
Issuance and repayment of financial liabilities, net	24	340	(316)
Dividends paid to equity holders of Swisscom Ltd	(1,140)	(1,140)	–
Other cash flows from financing activities	(2)	(16)	14
(Net decrease) net increase in cash and cash equivalents	(443)	111	(554)

¹ Excluding capital expenditure totalling CHF 22 million (prior year: 40 million) in a real-estate project for which a sales contract was signed.

Free cash flow dropped by CHF 55 million or 5.3% to CHF 976 million as a result of higher income tax payments, which increased by CHF 137 million year-on-year to CHF 302 million.

The increase in operating free cash flow by CHF 82 million or 5.9% to CHF 1,470 million stems primarily from higher proceeds from the sale of real estate. Increased operating income before depreciation and amortisation (EBITDA) of CHF 124 million was offset by higher capital expenditure. Capital expenditure was CHF 127 million or 7.9% higher at CHF 1,727 million, an increase that mainly resulted from the expansion of the network infrastructure in Switzerland. Net working capital rose by CHF 225 million versus the end of 2013 (prior year: CHF 277 million), chiefly as a result of higher trade receivables and higher inventories.

In September 2014, Swisscom acquired PubliGroupe Ltd for a purchase price of CHF 474 million. Net outflow from this transaction, less the acquired cash and cash equivalents and deferred payment of the purchase price for the outstanding shares, was CHF 440 million.

Balance sheet

In CHF million, except where indicated

	30.09.2014	31.12.2013	Change
Assets			
Cash and cash equivalents and current financial assets	316	883	-64.2%
Trade and other receivables	2,660	2,516	5.7%
Property, plant and equipment	9,476	9,156	3.5%
Goodwill	5,049	4,809	5.0%
Other intangible assets	1,883	2,053	-8.3%
Investments in associates and non-current financial assets	405	346	17.1%
Tax assets	395	301	31.2%
Other current and non-current assets	683	432	58.1%
Total assets	20,867	20,496	1.8%
Liabilities and equity			
Financial liabilities	8,852	8,823	0.3%
Trade and other payables	1,969	1,870	5.3%
Defined benefit obligations	2,205	1,293	70.5%
Provisions	878	799	9.9%
Tax liabilities	572	640	-10.6%
Other current and non-current liabilities	1,085	1,069	1.5%
Total liabilities	15,561	14,494	7.4%
Share of equity attributable to equity holders of Swisscom Ltd	5,300	5,973	-11.3%
Share of equity attributable to non-controlling interests	6	29	-79.3%
Total equity	5,306	6,002	-11.6%
Total liabilities and equity	20,867	20,496	1.8%
Equity ratio at end of period	25.4%	29.3%	
Net debt	8,398	7,812	7.5%

Total assets at 30 September 2014 amounted to CHF 20,867 million, up CHF 371 million or 1.8% versus the end of 2013. This increase is primarily attributable to the acquisition of PubliGroupe in September 2014 for a purchase price of CHF 474 million. Equity fell by CHF 696 million or 11.6% to CHF 5,306 million. Net income of CHF 1,349 million was more than offset by the CHF 1,140 million dividend payment and other comprehensive income recognised in equity. The increase in defined benefit obligations by CHF 912 million to CHF 2,205 million is mainly due to the reduction in the discount rate. In the first nine months of 2014, actuarial losses of CHF 901 million arising from defined benefit plans are recognised in equity under other comprehensive income. The CHF/EUR exchange rate fell from 1.228 at the end of 2013 to 1.206. On 30 September 2014, cumulative currency translation losses recognised in equity amounted to CHF 1.97 billion.

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. As at 30 September 2014, the ratio of net debt to EBITDA, based on the EBITDA for the last twelve months, was 1.9.

Outlook

Swisscom's outlook for 2014 remains unchanged, with an expected moderate increase in revenue to CHF 11.5 billion, EBITDA of at least CHF 4.4 billion and capital expenditure in the region of CHF 2.4 billion. Swisscom acquired PubliGroupe Ltd in September 2014. The additional revenue of around CHF 30 million generated by this acquisition has been factored into the expected figures for 2014 and will have a minimal impact on the other financial targets for the current year. 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	3 rd quarter 2014	3 rd quarter 2013	1.1.–30.9.2014	1.1.–30.9.2013
Net revenue	3	2,929	2,867	8,629	8,463
Goods and services purchased		(583)	(561)	(1,693)	(1,717)
Personnel expense		(655)	(638)	(2,031)	(2,000)
Other operating expense		(620)	(596)	(1,816)	(1,752)
Capitalised self-constructed assets and other income		119	74	283	254
Operating income before depreciation and amortisation (EBITDA)		1,190	1,146	3,372	3,248
Depreciation, amortisation and impairment losses		(511)	(509)	(1,533)	(1,501)
Operating income (EBIT)	3	679	637	1,839	1,747
Financial income and financial expense, net	4	(26)	(73)	(174)	(196)
Share of results of associates		8	6	21	18
Income before income taxes		661	570	1,686	1,569
Income tax expense		(118)	(116)	(337)	(296)
Net income		543	454	1,349	1,273
Share of net income attributable to equity holders of Swisscom Ltd		540	450	1,339	1,265
Share of net income attributable to non-controlling interests	3	3	4	10	8
Basic and diluted earnings per share (in CHF)		10.42	8.69	25.85	24.42

Consolidated statement of comprehensive income (unaudited)

In CHF million	3 rd quarter 2014	3 rd quarter 2013	1.1.–30.9.2014	1.1.–30.9.2013
Net income	543	454	1,349	1,273
Other comprehensive income				
Actuarial gains and losses from defined benefit pension plans	(465)	110	(901)	396
Income tax expense	97	(22)	187	(79)
Items that will not be reclassified to income statement, net of tax	(368)	88	(714)	317
Foreign currency translation adjustments of foreign subsidiaries	(17)	(12)	(40)	52
Change in fair value of available-for-sale financial assets	–	1	–	1
Change in fair value of cash flow hedges	5	(2)	6	8
Fair value losses of cash flow hedges transferred to income statement	–	1	4	4
Income tax expense	4	(10)	12	(12)
Items that are or may be reclassified subsequently to income statement, net of tax	(8)	(22)	(18)	53
Other comprehensive income	(376)	66	(732)	370
Comprehensive income	167	520	617	1,643
Share of comprehensive income attributable to equity holders of Swisscom Ltd	164	516	607	1,635
Share of comprehensive income attributable to non-controlling interests	3	4	10	8

Consolidated balance sheet (condensed and unaudited)

In CHF million	Note	30.09.2014	31.12.2013
Assets			
Cash and cash equivalents		282	723
Trade and other receivables		2,660	2,516
Other financial assets		34	160
Other assets		642	397
Total current assets		3,618	3,796
Property, plant and equipment		9,476	9,156
Goodwill and other intangible assets		6,932	6,862
Investments in associates		174	153
Other financial assets		231	193
Other assets		436	336
Total non-current assets		17,249	16,700
Total assets		20,867	20,496
Liabilities and equity			
Financial liabilities	5	1,760	1,656
Trade and other payables		1,969	1,870
Current income tax liabilities		203	184
Provisions	6	111	132
Other liabilities		738	759
Total current liabilities		4,781	4,601
Financial liabilities	5	7,092	7,167
Defined benefit obligations		2,205	1,293
Provisions	6	767	667
Deferred tax liabilities		369	456
Other liabilities		347	310
Total non-current liabilities		10,780	9,893
Total liabilities		15,561	14,494
Share of equity attributable to equity holders of Swisscom Ltd		5,300	5,973
Share of equity attributable to non-controlling interests		6	29
Total equity		5,306	6,002
Total liabilities and equity		20,867	20,496

Consolidated cash flow statement (condensed and unaudited)

In CHF million	Note	1.1.–30.9.2014	1.1.–30.9.2013
Net income		1,349	1,273
Adjustment for non-cash items		1,977	1,968
Change in operating assets and liabilities		(173)	(223)
Income taxes paid		(302)	(165)
Cash flow provided by operating activities		2,851	2,853
Capital expenditure		(1,749)	(1,640)
Acquisition of subsidiaries, net of cash and cash equivalents	2	(300)	(59)
Other cash flows from investing activities, net		254	(22)
Cash flow used in investing activities		(1,795)	(1,721)
Issuance and repayment of financial liabilities, net		24	340
Dividends paid to equity holders of Swisscom Ltd	8	(1,140)	(1,140)
Dividends paid to non-controlling interests		(16)	(14)
Acquisition of non-controlling interests		(162)	–
Other cash flows from financing activities, net		(205)	(207)
Cash flow used in financing activities		(1,499)	(1,021)
(Net decrease) net increase in cash and cash equivalents		(443)	111
Cash and cash equivalents at beginning of period		723	538
Foreign currency translation adjustments in respect of cash and cash equivalents		2	1
Cash and cash equivalents at end of period		282	650

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
Balance at 31 December 2012	52	136	6,135	–	(1,633)	4,690	27	4,717
Net income	–	–	1,265	–	–	1,265	8	1,273
Other comprehensive income	–	–	317	–	53	370	–	370
Comprehensive income	–	–	1,582	–	53	1,635	8	1,643
Dividends paid	–	–	(1,140)	–	–	(1,140)	(14)	(1,154)
Transactions with non-controlling interests	–	–	–	–	–	–	(2)	(2)
Acquisition of treasury shares for share-based payments	–	–	–	(7)	–	(7)	–	(7)
Allocation of treasury shares for share-based payments	–	–	–	7	–	7	–	7
Balance at 31 December 2013	52	136	6,577	–	(1,580)	5,185	19	5,204
Balance at 31 December 2013	52	136	7,356	–	(1,571)	5,973	29	6,002
Net income	–	–	1,339	–	–	1,339	10	1,349
Other comprehensive income	–	–	(714)	–	(18)	(732)	–	(732)
Comprehensive income	–	–	625	–	(18)	607	10	617
Dividends paid	–	–	(1,140)	–	–	(1,140)	(16)	(1,156)
Transactions with non-controlling interests	–	–	(140)	–	–	(140)	(17)	(157)
Acquisition of treasury shares for share-based payments	–	–	–	(5)	–	(5)	–	(5)
Allocation of treasury shares for share-based payments	–	–	–	5	–	5	–	5
Balance at 31 December 2014	52	136	6,701	–	(1,589)	5,300	6	5,306

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 nine months to 30 September 2014 were prepared in accordance with International Accounting Standard "IAS 34 Interim Financial Reporting" and should be read in conjunction with the consolidated 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 1.206 was used as the end-of-period rate (31 December 2013: CHF/EUR 1.228) and 1.216 as the average rate for the period (prior year: CHF/EUR 1.229).

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 Business combinations and acquisition of non-controlling interests

In June 2014, Swisscom launched a public takeover bid for PubliGroupe Ltd (PubliGroupe). Swisscom offered the shareholders of PubliGroupe Ltd a price of CHF 214 per share, which corresponds to a total price of CHF 474 million. Following expiry of the bid period on 25 August 2014, Swisscom's holding in PubliGroupe amounted to 98.37%. The takeover was completed on 5 September 2014. The purchase price for 98.63% amounted to CHF 466 million. Since the 98% threshold was exceeded during the public takeover bid, Swisscom is entitled to enforce the cancellation of the untendered shares in return for compensation to the amount of CHF 214 per share, the same as the offer price. The purchase price of CHF 8 million for the remaining share of 1.63% was recognised as a financial liability in the third quarter of 2014.

PubliGroupe mainly operates in the Swiss directory market and holds a 51% stake in LTV Yellow Pages Ltd and a 49% stake in Swisscom Directories Ltd. Before the takeover, Swisscom held a stake of 49% in LTV Yellow Pages Ltd and a 51% stake in Swisscom Directories Ltd. In Swisscom's consolidated financial statements, Swisscom Directories Ltd was to date reflected as a fully consolidated subsidiary and LTV Yellow Pages Ltd as an associated company. CHF 162 million of the purchase price is attributable to the acquisition of outstanding non-controlling interests in Swisscom Directories Ltd. Since Swisscom already controlled Swisscom Directories Ltd prior to the takeover, the transaction is recognised in equity. The carrying amount of the 49% stake in LTV Yellow Pages Ltd recognised in Swisscom's consolidated financial statements as at the date of the takeover was CHF 26 million. The difference of CHF 82 million between the carrying amount and the fair value of the 49% stake is recognised in other financial income in the third quarter of 2014. PubliGroupe continues to hold shareholdings in media enterprises and media service providers and also owns investment property. Swisscom is planning to sell the participations in media enterprises and evaluate all options for the other participations. In early November 2014, the 25% shareholding in FPH Holding AG was sold to the AG für die Neue Zürcher Zeitung (NZZ Media Group) for a price of CHF 53 million.

In accordance with IFRS, the acquisition costs for the acquisition of PubliGroupe amounted to CHF 420 million. The business combination has been provisionally included in the consolidated financial statements as at 30 September 2014, as the purchase price allocation had not been completed when the consolidated financial statements were prepared. Goodwill of around CHF 250 million was recognised from the provisional purchase price allocation. Swisscom's consolidated financial statements as at 30 September 2014 contain additional net revenue of CHF 12 million and net income of CHF 1 million since the takeover of PubliGroupe on 5 September 2014. Had PubliGroupe been included in the consolidated financial statements from 1 January 2014, this would have resulted in consolidated pro-forma net revenue of CHF 8,678 million and consolidated pro-forma net income of CHF 1,345 million.

3 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", "Enterprise Customers", "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 charges no management fees to other segments for its financial management services, nor does the Network & IT segment charge any network costs to other segments. Other intersegment services are recharged at market rates. The results of the Residential Customers, Small & Medium-Sized Enterprises, Enterprise Customers and Wholesale segments report their contribution margins before network costs. The segment results of Network & IT consist of operating expenses and depreciation and amortisation less capitalised self-constructed assets and other income. The sum of the segment results of Swisscom Switzerland corresponds in aggregate to the operating results (EBIT) of Swisscom Switzerland. The segment results of the segments -Fastweb and Other Operating Segments correspond to the operating result (EBIT) of these units. The latter reflects net revenue from external customers and other segments less segment expenses and depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets. Segment expenses include the costs of materials and services, personnel costs and other operating costs less capitalised self-constructed assets and other income.

The segment expenses include ordinary employer contributions as retirement benefit expense. The difference between the ordinary employer contributions and the retirement benefit expense as provided for under IAS 19 is reported in the column "Elimination". For the first nine months of 2014, costs of CHF 4 million are included in the column "Elimination" as a reconciling item to retirement-benefit expense in accordance with IAS 19 (first nine months of 2013: CHF 16 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 nine months of 2013 and 2014 are as follows:

1.1.–30.9.2014, in CHF million	Swisscom Switzerland	Fastweb	Other operating segments	Group Head- quarters	Elimi- nation	Total
Net revenue from external customers	6,326	1,492	810	1	–	8,629
Net revenue with other segments	44	3	590	–	(637)	–
Net revenue	6,370	1,495	1,400	1	(637)	8,629
Segment result	1,868	(97)	173	(85)	(20)	1,839
Financial income and financial expense, net						(174)
Share of results of associates						21
Income before income taxes						1,686
Income tax expense						(337)
Net income						1,349

1.1.–30.9.2014, in CHF million	Residential Customers	Small and Medium- Sized Enterprises	Corporate Business	Wholesale	Network & IT	Elimi- nation	Swisscom Switzerland
Net revenue from external customers	3,791	852	1,255	428	–	–	6,326
Net revenue with other segments	116	15	70	268	–	(425)	44
Net revenue	3,907	867	1,325	696	–	(425)	6,370
Segment result	2,145	646	615	285	(1,823)	–	1,868

1.1.–30.9.2013, in CHF million	Swisscom Switzerland	Fastweb	Other operating segments	Group Head- quarters	Elimi- nation	Total
Net revenue from external customers	6,226	1,487	750	–	–	8,463
Net revenue with other segments	46	3	576	1	(626)	–
Net revenue	6,272	1,490	1,326	1	(626)	8,463
Segment result	1,888	(135)	111	(92)	(25)	1,747
Financial income and financial expense, net						(196)
Share of results of associates						18
Income before income taxes						1,569
Income tax expense						(296)
Net income						1,273

1.1.–30.9.2013, in CHF million	Residential Customers	Small and Medium- Sized Enterprises	Corporate Business	Wholesale	Network & IT	Elimi- nation	Swisscom Switzerland
Net revenue from external customers	3,691	842	1,250	443	–	–	6,226
Net revenue with other segments	122	18	75	284	–	(453)	46
Net revenue	3,813	860	1,325	727	–	(453)	6,272
Segment result	2,120	648	621	289	(1,790)	–	1,888

4 Financial income and financial expense

In CHF million	1.1.–30.9.2014	1.1.–30.9.2013
Interest income	7	7
Interest expense	(172)	(194)
Net interest expense on financial assets and financial liabilities	(165)	(187)
Foreign exchange gains	1	5
Change in fair value of interest hedging instruments	(28)	23
Cost of early repayment of financial liabilities. See note 5.	(33)	–
Gain on business combinations achieved in stages. See note 2.	82	–
Other financial income and expense, net	(31)	(37)
Financial income and financial expense, net	(174)	(196)

5 Financial liabilities

In CHF million	30.09.2014	31.12.2013
Bank loans	878	8
Debenture bonds	535	1,324
Private placements	204	206
Finance lease liabilities	14	13
Other financial liabilities	129	105
Total current financial liabilities	1,760	1,656
Bank loans	919	1,345
Debenture bonds	4,635	4,184
Private placements	925	920
Finance lease liabilities	545	642
Other financial liabilities	68	76
Total non-current financial liabilities	7,092	7,167
Total financial liabilities	8,852	8,823

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 of 1.875% and a term of 7.5 years. The EUR 500 million financing was designated for hedge accounting of net investments in foreign operations. Payment of the CHF 1,140 million dividend distribution in April 2014 was financed in part by short-term bank loans.

In the third quarter of 2014, Swisscom took up two debenture bonds, one for CHF 200 million with a coupon of 1.5% and a term to maturity of 12 years, and one for CHF 160 million with a coupon of 1.5% and a term to maturity of 15 years. The funds raised were used to refinance existing financial debts.

In the third quarter of 2014, Swisscom repurchased an operating site, which had been previously accounted for as a finance lease, prior to expiry of the contract. The difference of CHF 33 million between the purchase price of CHF 98 million and the carrying amount of the finance lease liability of CHF 65 million was recognised as financial expense.

6 Provisions

In CHF million	Dismantlement and restoration costs	Regulatory proceedings	Other	Total
Balance at 31 December 2013	481	118	200	799
Additions of provisions	96	2	28	126
Present-value adjustment	10	2	1	13
Release of unused provisions	(5)	–	(28)	(33)
Use of provisions	(1)	(9)	(27)	(37)
Change in scope of consolidation	–	–	10	10
Balance at 31 December 2014	581	113	184	878
Thereof current provisions	–	14	97	111
Thereof non-current provisions	581	99	87	767

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 2.1%. Application of different interest rates resulted in an effect of CHF 87 million, recognised 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 include provisions for workforce reductions, environmental and contractual risks, and provisions for insurance claims. The other provisions recognised in the 2013 consolidated financial statements have not changed materially during the current financial year.

7 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 the ruling 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 September 2014. In the event of a legally binding decision maintaining abuse of a market-dominant position, claims could be asserted against Swisscom under civil law. Swisscom still considers it unlikely that such civil claims could 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 September 2014.

8 Dividends

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.

9 Financial instruments

Carrying amounts and fair values of financial instruments

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

In CHF million	Carrying amount	Fair value
30 September 2014		
Cash and cash equivalents	282	282
Trade and other receivables	2,660	2,660
Other financial assets		
Term deposits with maturities over 90 days	11	11
Other loans and receivables	203	207
Derivative financial instruments	4	4
Available-for-sale financial assets	47	47
Total financial assets	3,207	3,211
Bank loans	1,797	1,832
Debenture bonds	5,170	5,600
Private placements	1,129	1,137
Finance lease liabilities	559	1,320
Other interest-bearing financial liabilities	10	10
Other non-interest-bearing financial liabilities	33	33
Derivative financial instruments	154	154
Trade and other payables	1,969	1,969
Total financial liabilities	10,821	12,055

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
30 September 2014				
Financial assets				
Available-for-sale financial assets	–	–	18	18
Derivative financial assets	–	4	–	4
Financial liabilities				
Derivative financial liabilities	–	154	–	154

In addition, available-for-sale financial assets as of 30 September 2014 with a carrying amount of CHF 29 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 nine months of 2014, there were no reclassifications between the various levels.

10 Related parties

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

11 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 5 November 2014.

Further information

Share information

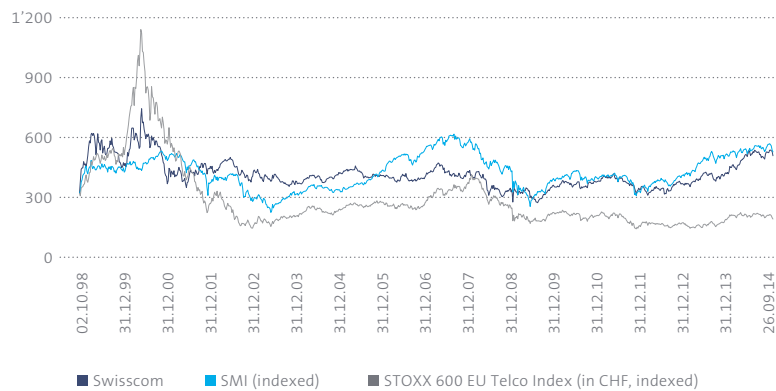
Swisscom share performance indicators

31.12.2013–30.9.2014	SIX Swiss Exchange
Closing price at 31 December 2013 in CHF ¹	470.90
Closing price at 30 September 2014 in CHF ¹	542.50
Change in %	15.2
Year high in CHF ¹	548.50
Year low in CHF ¹	467.50
Total volume of traded shares	15,749,346
Total turnover in CHF million	8,152
Daily average of traded shares	84,221
Daily average in CHF million	43.6

Source: Bloomberg
¹ paid prices

Share performance since IPO

Share performance 1998–2014 in CHF



Share information

On 30 September 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). The par value per registered share is CHF 1.

At the end of September 2014, Swisscom had some 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

- | | |
|-------------------|----------------------------------|
| > 5 February 2015 | 2014 Annual Results |
| > 8 April 2015 | Annual General Meeting in Zurich |
| > 6 May 2015 | 2015 First-Quarter Results |
| > 19 August 2015 | 2015 Half-Year Results |
| > 5 November 2015 | 2015 Third-Quarter Results |

Stock exchanges

Swisscom shares are listed on SIX Swiss Exchange and traded on SIX Swiss Exchange under the ticker symbol "SCMN" (Securities No. 874251), and in the USA in the form of American Depositary Receipts (ADR) at a ratio of 1:10 (Over-the-Counter Level 1 programme) under the ticker symbol "SCMWY" (Pink Sheet No. 69769).

Quarterly review 2013 and 2014

In CHF million, except where indicated	1. quarter	2. quarter	3. quarter	4. quarter	2013	1. quarter	2. quarter	3. quarter	4. quarter	2014
Income statement										
Net revenue	2,734	2,862	2,867	2,971	11,434	2,821	2,879	2,929		8,629
Goods and services purchased	(552)	(604)	(561)	(621)	(2,338)	(552)	(558)	(583)		(1,693)
Personnel expense	(671)	(691)	(638)	(706)	(2,706)	(692)	(684)	(655)		(2,031)
Other operating expense	(557)	(599)	(596)	(724)	(2,476)	(597)	(599)	(620)		(1,816)
Capitalised self-constructed assets and other income	77	103	74	134	388	81	83	119		283
Operating income (EBITDA)	1,031	1,071	1,146	1,054	4,302	1,061	1,121	1,190		3,372
Depreciation and amortisation	(491)	(501)	(509)	(543)	(2,044)	(510)	(512)	(511)		(1,533)
Operating income (EBIT)	540	570	637	511	2,258	551	609	679		1,839
Net interest expense	(63)	(62)	(62)	(64)	(251)	(61)	(53)	(51)		(165)
Other financial result	(2)	4	(11)	1	(8)	(23)	(11)	25		(9)
Result of associates	6	6	6	12	30	3	10	8		21
Income before income taxes	481	518	570	460	2,029	470	555	661		1,686
Income tax expense	(91)	(89)	(116)	(38)	(334)	(97)	(122)	(118)		(337)
Net income	390	429	454	422	1,695	373	433	543		1,349
Attributable to equity holders of Swisscom Ltd	388	427	450	420	1,685	369	430	540		1,339
Attributable to non-controlling interests	2	2	4	2	10	4	3	3		10
Earnings per share (in CHF)	7.49	8.24	8.69	8.11	32.53	7.12	8.30	10.42		25.85
Net revenue										
Swisscom Switzerland	2,041	2,109	2,122	2,177	8,449	2,089	2,114	2,167		6,370
Fastweb	487	509	494	528	2,018	483	499	513		1,495
Other operating segments	412	454	460	493	1,819	450	476	474		1,400
Group Headquarters	–	1	–	–	1	–	1	–		1
Intersegment elimination	(206)	(211)	(209)	(227)	(853)	(201)	(211)	(225)		(637)
Total net revenue	2,734	2,862	2,867	2,971	11,434	2,821	2,879	2,929		8,629
Segment result before depreciation and amortisation										
Swisscom Switzerland	877	888	948	834	3,547	894	902	941		2,737
Fastweb	119	139	155	207	620	132	155	163		450
Other operating segments	73	86	78	66	303	68	98	126		292
Group Headquarters	(29)	(30)	(27)	(41)	(127)	(25)	(31)	(27)		(83)
Intersegment elimination	(4)	(5)	(4)	(11)	(24)	(6)	(5)	(9)		(20)
Reconciliation to pension cost	(5)	(7)	(4)	(1)	(17)	(2)	2	(4)		(4)
Total segment result (EBITDA)	1,031	1,071	1,146	1,054	4,302	1,061	1,121	1,190		3,372
Capital expenditure in property, plant and equipment and other intangible assets										
Swisscom Switzerland	284	354	361	517	1,516	299	378	422		1,099
Fastweb	155	160	168	212	695	173	173	148		494
Other operating segments	38	38	56	63	195	52	54	49		155
Intersegment elimination	(3)	(5)	(6)	4	(10)	(5)	(7)	(9)		(21)
Total capital expenditure	474	547	579	796	2,396	519	598	610		1,727
Full-time equivalent employees at end of period										
Swisscom Switzerland	12,018	12,344	12,513	12,463	12,463	12,522	12,622	13,215		13,215
Fastweb	2,389	2,379	2,370	2,363	2,363	2,362	2,373	2,378		2,378
Other operating segments	4,505	4,802	4,991	4,964	4,964	4,883	4,917	5,164		5,164
Group Headquarters	335	334	320	318	318	314	316	318		318
Total full-time equivalent employees	19,247	19,859	20,194	20,108	20,108	20,081	20,228	21,075		21,075
Operating free cash flow	245	615	528	590	1,978	334	496	640		1,470
Net debt	7,931	8,622	8,263	7,812	7,812	7,676	8,502	8,398		8,398

In CHF million, except where indicated	1. quarter	2. quarter	3. quarter	4. quarter	2013	1. quarter	2. quarter	3. quarter	4. quarter	2014
Swisscom Switzerland										
Revenue and results										
Residential Customers	428	442	469	444	1,783	435	448	465		1,348
Small and Medium-Sized Enterprises	104	109	109	107	429	103	107	104		314
Corporate Business	141	145	142	142	570	135	140	142		417
Revenue mobile single subscription	673	696	720	693	2,782	673	695	711		2,079
Residential Customers	304	289	284	280	1,157	257	245	233		735
Small and Medium-Sized Enterprises	124	121	119	117	481	115	111	109		335
Corporate Business	146	146	143	142	577	143	141	139		423
Revenue fixed-line single subscription	574	556	546	539	2,215	515	497	481		1,493
Residential Customers	309	330	352	369	1,360	381	408	430		1,219
Small and Medium-Sized Enterprises	40	46	52	55	193	58	62	66		186
Revenue bundles	349	376	404	424	1,553	439	470	496		1,405
Total revenue single subscription and bundles	1,596	1,628	1,670	1,656	6,550	1,627	1,662	1,688		4,977
Solution business	84	87	90	99	360	85	92	89		266
Hardware sold	128	143	143	181	595	153	153	172		478
Wholesale	149	146	148	145	588	145	139	144		428
Revenue other	68	90	56	82	296	65	54	58		177
Revenue from external customers	2,025	2,094	2,107	2,163	8,389	2,075	2,100	2,151		6,326
Residential Customers	1,190	1,247	1,254	1,294	4,985	1,234	1,258	1,299		3,791
Small and Medium-Sized Enterprises	274	282	286	286	1,128	282	286	284		852
Corporate Business	412	419	419	438	1,688	414	417	424		1,255
Wholesale	149	146	148	145	588	145	139	144		428
Revenue from external customers	2,025	2,094	2,107	2,163	8,389	2,075	2,100	2,151		6,326
Segment result before depreciation and amortisation										
Residential Customers	710	731	759	698	2,898	730	742	762		2,234
Small and Medium-Sized Enterprises	213	216	222	213	864	215	220	215		650
Corporate Business	220	226	231	230	907	217	223	227		667
Wholesale	96	96	97	95	384	95	92	98		285
Network & IT	(362)	(380)	(363)	(401)	(1,506)	(364)	(374)	(361)		(1,099)
Intersegment elimination	–	(1)	2	(1)	–	1	(1)	–		–
Segment result (EBITDA)	877	888	948	834	3,547	894	902	941		2,737
Margin as % of net revenue	43.0	42.1	44.7	38.3	42.0	42.8	42.7	43.4		43.0
Fastweb, in EUR million										
Residential Customers	186	186	186	186	744	188	188	187		563
Corporate Business	178	193	188	212	771	177	188	202		567
Wholesale hubbing	14	11	9	11	45	7	7	7		21
Wholesale other	19	21	19	19	78	23	26	28		77
Revenue from external customers	397	411	402	428	1,638	395	409	424		1,228
Segment result (EBITDA)	97	113	126	169	505	108	128	134		370
Margin as % of net revenue	24.4	27.4	31.3	39.4	30.8	27.3	31.3	31.6		30.1
Capital expenditure	126	130	137	172	565	142	142	122		406
Broadband access lines in thousand	1,861	1,887	1,911	1,942	1,942	1,984	1,994	2,016		2,016

In thousand, except where indicated	1. quarter	2. quarter	3. quarter	4. quarter	2013	1. quarter	2. quarter	3. quarter	4. quarter	2014
Swisscom Switzerland										
Operational data										
Access lines										
Single subscriptions	2,272	2,207	2,142	2,073	2,073	2,007	1,948	1,902		1,902
Bundles	698	729	763	806	806	849	882	909		909
Fixed access lines	2,970	2,936	2,905	2,879	2,879	2,856	2,830	2,811		2,811
Single subscriptions	909	878	843	810	810	773	745	718		718
Bundles	842	889	938	1,001	1,001	1,060	1,110	1,154		1,154
Broadband access lines retail	1,751	1,767	1,781	1,811	1,811	1,833	1,855	1,872		1,872
Single subscriptions	291	289	281	276	276	271	259	246		246
Bundles	569	613	662	724	724	781	832	879		879
Swisscom TV access lines	860	902	943	1,000	1,000	1,052	1,091	1,125		1,125
Prepaid single subscriptions	2,196	2,180	2,173	2,176	2,176	2,173	2,165	2,165		2,165
Postpaid single subscriptions	3,741	3,763	3,783	3,812	3,812	3,812	3,828	3,850		3,850
Mobile access lines single subscriptions	5,937	5,943	5,956	5,988	5,988	5,985	5,993	6,015		6,015
Bundles	333	364	390	419	419	444	467	484		484
Mobile access lines	6,270	6,307	6,346	6,407	6,407	6,429	6,460	6,499		6,499
Revenue generating units (RGU)	11,851	11,912	11,975	12,097	12,097	12,170	12,236	12,307		12,307
Broadband access lines wholesale	196	201	208	215	215	221	224	241		241
Unbundled fixed access lines	290	280	268	256	256	241	228	204		204
Bundles										
2Play bundles	257	264	270	279	279	287	294	302		302
3Play bundles	428	451	479	517	517	555	584	609		609
4Play bundles	157	174	189	205	205	218	231	242		242
nPlay bundles	–	–	–	–	–	–	1	1		1
Total bundles	842	889	938	1,001	1,001	1,060	1,110	1,154		1,154
Swisscom Group										
Information by geographical regions										
Net revenue in Switzerland	2,235	2,337	2,358	2,428	9,358	2,323	2,361	2,401		7,085
Net revenue in other countries	499	525	509	543	2,076	498	518	528		1,544
Total net revenue	2,734	2,862	2,867	2,971	11,434	2,821	2,879	2,929		8,629
EBITDA in Switzerland	910	933	993	849	3,685	924	966	1,028		2,918
EBITDA in other countries	121	138	153	205	617	137	155	162		454
Total EBITDA	1,031	1,071	1,146	1,054	4,302	1,061	1,121	1,190		3,372
Capital expenditure in Switzerland	319	387	409	571	1,686	345	424	463		1,232
Capital expenditure in other countries	155	160	170	225	710	174	174	147		495
Total capital expenditure	474	547	579	796	2,396	519	598	610		1,727
Full-time equivalent employees in Switzerland	16,483	17,099	17,449	17,362	17,362	17,395	17,545	18,220		18,220
Full-time equivalent employees in other countries	2,764	2,760	2,745	2,746	2,746	2,686	2,683	2,855		2,855
Total full-time equivalent employees	19,247	19,859	20,194	20,108	20,108	20,081	20,228	21,075		21,075

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.

