2015

Interim Report
January–June

swisscom

Key Financial Figures

In CHF million, except where indicated		1st half-year 2015	1st half-year 2014	Change
Net revenue and results				
Net revenue		5,758	5,700	1.0%
Operating income before depreciation and amortisation (EBITDA) [1]		2,133	2,182	–2.2%
EBITDA as % of net revenue	%	37.0	38.3	
Operating income (EBIT) [2]		1,105	1,160	–4.7%
Net income		784	806	–2.7%
Share of net income attributable to equity holders of Swisscom Ltd		784	799	–1.9%
Earnings per share	CHF	15.13	15.42	–1.9%
Balance sheet and cash flows				
Equity at end of period		4,917	5,296	–7.2%
Equity ratio at end of period [3]	%	23.8	26.1	
Capital expenditure		1,142	1,117	2.2%
Operating free cash flow [4]		745	830	–10.2%
Net debt at end of period [5]		8,760	8,502	3.0%
Operational data at end of period				
Fixed access lines in Switzerland	in thousand	2,697	2,830	–4.7%
Broadband access lines retail in Switzerland	in thousand	1,922	1,855	3.6%
Swisscom TV access lines in Switzerland	in thousand	1,238	1,091	13.5%
Mobile access lines in Switzerland	in thousand	6,571	6,460	1.7%
Revenue generating units (RGU) in Switzerland [6]	in thousand	12,428	12,236	1.6%
Broadband access lines wholesale in Switzerland	in thousand	291	224	29.9%
Broadband access lines in Italy	in thousand	2,157	1,994	8.2%
Swisscom share at end of period				
Number of issued shares	in mio.	51.802	51.802	–
Closing price	CHF	524.00	515.50	1.6%
Market capitalisation [7]		27,144	26,704	1.6%
Employees at end of period				
Full-time equivalent employees	FTE	21,486	20,228	6.2%
Full-time equivalent employees in Switzerland	FTE	18,828	17,545	7.3%

[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 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	1st half-year 2015	1st half-year 2014	Change
Net revenue	5,758	5,700	1.0%
Operating income before depreciation and amortisation (EBITDA)	2,133	2,182	–2.2%
EBITDA as % of net revenue	37.0	38.3	
Operating income (EBIT)	1,105	1,160	–4.7%
Net income	784	806	–2.7%
Earnings per share (in CHF)	15.13	15.42	–1.9%
Capital expenditure	1,142	1,117	2.2%
Operating free cash flow	745	830	–10.2%
Net debt at end of period	8,760	8,502	3.0%
Full-time equivalent employees at end of period	21,486	20,228	6.2%

In the first half of 2015, Swisscom's net revenue rose by CHF 58 million or 1.0% to CHF 5,578 million. At constant exchange rates and excluding company acquisitions, net revenue increased by CHF 105 million or 1.8%, of which Swiss business accounted for CHF 41 million, mainly due to a higher number of subscribers and increasing sales of high-quality smartphones. The number of revenue generating units (RGUs) in the Swiss core business increased year-on-year by 192,000 or 1.6% to 12.4 million. As a result of customer growth, Italian subsidiary Fastweb's revenue was EUR 56 million or 6.9% higher at EUR 862 million. The number of subscribers to Fastweb's broadband business grew year-on-year by 163,000 or 8.2% to 2.16 million.

Swisscom's operating income before depreciation and amortisation (EBITDA) fell by CHF 49 million or 2.2% to CHF 2,133 million. Adjusted for non-recurring items (company acquisitions and disposals, gains from the sale of real estate, and pension costs not affecting cash flow in accordance with IAS 19) and on the basis of constant exchange rates, EBITDA increased by CHF 40 million or 1.9%. On a like-for-like basis, EBITDA in the Swiss core business increased by CHF 24 million or 1.3%, and at Fastweb it rose by EUR 24 million or 10.2%. Net income fell by CHF 22 million or 2.7% to CHF 784 million; the reduced interest expense somewhat offset the lower operating income.

Swisscom's capital expenditure rose by CHF 25 million or 2.2% to CHF 1,142 million. In Switzerland, capital expenditure rose by CHF 73 million or 9.5% to CHF 842 million due to broadband network expansion. At the end of June 2015, Swisscom in Switzerland had connected more than 2.5 million households and businesses with ultra-fast broadband with speeds of over 50 Mbps. Of this, some 1.6 million access lines had been fitted with the latest fibre-optic technology. At Fastweb, the capital expenditure for the expansion of the network fell by EUR 5 million or 1.8% to EUR 279 million. Operating free cash flow decreased by CHF 85 million or 10.2% to CHF 745 million. At CHF 8,760 million, net debt is CHF 258 million or 3.0% higher compared with the same period the year before.

Headcount increased year-on-year by 1,258 FTEs or 6.2% to 21,486 FTEs, mainly due to the acquisition of PubliGroupe in September 2014 and of Veltigroup in January 2015. Swisscom sold its subsidiary Alphapay in May 2015 and Swisscom Hospitality Services in June 2015. Excluding company acquisitions and disposals, headcount increased by 348 FTEs or 1.7% on account of an expansion in customer services and of broadband and access networks.

The financial outlook for fiscal year 2015 is now based on an average EUR exchange rate of CHF 1.05 (previously, the EUR/CHF exchange rate was at parity). As a result, the expectations for net revenue, EBITDA and capital expenditure are somewhat higher. Swisscom now expects net revenue of more than CHF 11.5 billion, EBITDA in excess of CHF 4.2 billion and capital expenditure of more than CHF 2.3 billion. If the targets are met, Swisscom will propose to the Annual General Meeting of Shareholders payment of an unchanged dividend of CHF 22 per share for the 2015 financial year.

Segment results

In CHF million	2. quarter 2015	2. quarter 2014	Change	1st half-year 2015	1st half-year 2014	Change
Net revenue						
Residential Customers	1,283	1,263	1.6%	2,574	2,504	2.8%
Small and Medium-Sized Enterprises	340	329	3.3%	667	650	2.6%
Enterprise Customers	650	641	1.4%	1,307	1,269	3.0%
Wholesale	234	228	2.6%	464	457	1.5%
IT, Network & Innovation	31	32	–3.1%	65	63	3.2%
Intersegment elimination	(196)	(196)	–	(380)	(382)	–0.5%
Swisscom Switzerland	**2,342**	**2,297**	**2.0%**	**4,697**	**4,561**	**3.0%**
Fastweb	453	499	–9.2%	921	982	–6.2%
Other Operating Segments	156	168	–7.1%	300	312	–3.8%
Group Headquarters	1	1	–	1	1	–
Intersegment elimination	(87)	(86)	1.2%	(161)	(156)	3.2%
Net revenue	**2,865**	**2,879**	**–0.5%**	**5,758**	**5,700**	**1.0%**
Operating income before depreciation and amortisation (EBITDA)						
Residential Customers	742	716	3.6%	1,472	1,426	3.2%
Small and Medium-Sized Enterprises	232	233	–0.4%	449	459	–2.2%
Enterprise Customers	226	233	–3.0%	445	456	–2.4%
Wholesale	92	92	–	193	187	3.2%
IT, Network & Innovation	(323)	(306)	5.6%	(635)	(620)	2.4%
Swisscom Switzerland	**969**	**968**	**0.1%**	**1,924**	**1,908**	**0.8%**
Fastweb	148	155	–4.5%	278	287	–3.1%
Other Operating Segments	19	33	–42.4%	35	55	–36.4%
Group Headquarters	(29)	(31)	–6.5%	(58)	(56)	3.6%
Intersegment elimination	(6)	(6)	–	(10)	(12)	–16.7%
Reconciliation to pension cost [1]	(19)	2	–	(36)	–	–
Operating income before depreciation and amortisation (EBITDA)	**1,082**	**1,121**	**–3.5%**	**2,133**	**2,182**	**–2.2%**

[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.

Starting in 2015, financial reporting will be adapted to the management structure introduced last year. Reporting will be divided into three operating divisions: Swisscom Switzerland, Fastweb and Other Operating Segments as well as Group Headquarters. Swisscom Switzerland is the Swiss market leader in the field of telecommunications. Fastweb is one of the largest broadband telecom companies in Italy. Other Operating Segments mainly comprises Participations, Health and Connected Living. Group Headquarters largely comprises the Group divisions. Swisscom Switzerland consists of the customer segments Residential Customers, Small & Medium-Sized Enterprises, Enterprise Customers and Wholesale as well as IT, Network & Innovation. Further information about the adjustment of segment reporting can be found in Note 3 in the Notes to the interim financial statements.

The IT, Network & Innovation segment does not charge any network costs to other segments, nor does Group Headquarters charge any management fees to other segments. Other intersegment services are charged at market rates. Network costs in Switzerland are budgeted, monitored and controlled by the IT, Network & Innovation division, which is managed as a cost centre. For this reason, no revenue is credited to the IT, Network & Innovation segment within the segment reporting, with the exception of the rental and administration of buildings. 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 expense includes the costs of goods and services purchased, personnel expense and other operating costs less capitalised self-constructed assets and other income. Segment expense contains 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 2015	2. quarter 2014	Change	1st half-year 2015	1st half-year 2014	Change
Net revenue and results						
Mobile single subscriptions	691	696	–0.7%	1,362	1,369	–0.5%
Fixed-line single subscriptions	435	497	–12.5%	887	1,012	–12.4%
Bundles	547	470	16.4%	1,077	909	18.5%
Wholesale	140	139	0.7%	288	284	1.4%
Other	512	475	7.8%	1,047	949	10.3%
Revenue from external customers	**2,325**	**2,277**	**2.1%**	**4,661**	**4,523**	**3.1%**
Intersegment revenue	17	20	–15.0%	36	38	–5.3%
Net revenue	**2,342**	**2,297**	**2.0%**	**4,697**	**4,561**	**3.0%**
Direct costs	(461)	(467)	–1.3%	(944)	(934)	1.1%
Indirect costs	(912)	(862)	5.8%	(1,829)	(1,719)	6.4%
Segment expenses	**(1,373)**	**(1,329)**	**3.3%**	**(2,773)**	**(2,653)**	**4.5%**
Segment result before depreciation and amortisation	**969**	**968**	**0.1%**	**1,924**	**1,908**	**0.8%**
Margin as % of net revenue	41.4	42.1		41.0	41.8	
Depreciation, amortisation and impairment losses	(343)	(315)	8.9%	(674)	(623)	8.2%
Segment result	**626**	**653**	**–4.1%**	**1,250**	**1,285**	**–2.7%**
Operational data at end of period in thousand						
Fixed access lines				2,697	2,830	–4.7%
Broadband access lines retail				1,922	1,855	3.6%
Swisscom TV access lines				1,238	1,091	13.5%
Mobile access lines				6,571	6,460	1.7%
Revenue generating units (RGU)				12,428	12,236	1.6%
Bundles				1,307	1,110	17.7%
Unbundled fixed access lines				150	228	–34.2%
Broadband access lines wholesale				291	224	29.9%
Capital expenditure and headcount						
Capital expenditure	453	423	7.1%	841	769	9.4%
Full-time equivalent employees at end of period				17,062	15,761	8.3%

Net revenue for Swisscom Switzerland rose by CHF 136 million or 3.0% year-on-year to CHF 4,697 million. Adjusted for company acquisitions, revenue rose by 1.2%, mainly due to customer growth and increasing sales of high-quality smartphones. The number of revenue generating units (RGUs) increased year-on-year by 192,000 or 1.6% to 12.4 million (+55,000 in the first half of the year). The Enterprise Customers division increased revenue from external customers by CHF 41 million or 3.5% year-on-year to CHF 1,205 million (+2.0% in the second quarter). Adjusted for company acquisitions, revenue fell by 1.5% as a result of strong price pressure. Incoming orders in the area of Enterprise Customers rose by 20% on a like-for-like basis.

Bundled offerings for a flat-rate fee continue to be popular. Year-on-year, the number of customers using bundled offerings grew by 197,000 or 17.7% to 1.31 million (+98,000 in the first half of the year). Revenue from bundled contracts increased year-on-year by CHF 168 million or 18.5% to CHF 1,077 million.

The Natel infinity mobile offering that provides unlimited calls, texts and data is still very popular. At the end of June 2015, 2.2 million customers, or 67% of the number of subscribers (excluding corporate customers), were using the infinity offerings (including infinity plus). In April 2015, Swisscom launched Natel infinity plus, which allows for carefree use within the EU, with unlimited calls and texts as well as 1 GB of mobile data for 30 days per year included in all new infinity plus subscriptions. By the end of June 2015, Natel infinity plus had already subscribed 369,000 customers. As of the end of July 2015, this figure had risen to 500,000. Overall, the number of mobile lines increased year-on-year by 111,000 or 1.7% to 6.6 million (+31,000 in the first half of the year). The number of postpaid lines, including bundled offerings, rose by 145,000 year-on-year (+63,000 in the first half of the year), while the number of prepaid lines declined by 34,000 (–32,000 in the first half of the year). In the first six months of 2015, Swisscom Switzerland sold a total of 620,000 mobile handsets (–8.6%), of which it sold 283,000 in the second quarter. The number of postpaid smartphone users increased from 71% to 74% within the space of a year.

The number of Swisscom TV access lines increased year-on-year by 147,000 or 13.5% to 1.24 million (+73,000 in the first half of the year), of which fixed-fee subscriptions accounted for 1.09 million. Swisscom TV 2.0, which offers additional functions, was launched in April 2014 and by the end of June 2015 had already attracted 564,000 customers (+258,000 in the first six months of the year), most of whom had upgraded from a previous Swisscom offering. Retail broadband access lines grew year-on-year by 67,000 or 3.6% to 1.92 million (+32,000 in the first half of the year). The growth of TV and broadband connections more than offset the decline in the number of fixed network connections. The number of fixed lines fell by 133,000 or 4.7% year-on-year to 2.70 million (–81,000 in the first six months). The number of wholesale broadband access lines increased by 67,000 or 29.9% to 291,000 (+29,000 in the first half of the year), while unbundled subscriber access lines dropped by 78,000 or 34.2% year-on-year to 150,000 (–30,000 in the first six months).

Segment expense rose by CHF 120 million or 4.5% to CHF 2,773 million, with both direct and indirect costs increasing versus the prior year. Direct costs increased by 1.1% to CHF 944 million, mainly due to higher goods purchased, which was the result of increasing sales of high-quality smartphones. Indirect costs climbed by CHF 110 million or 6.4% to CHF 1,829 million (+5.8% in the second quarter). Excluding corporate acquisitions, the increase is 1.3% (+0.1% in the second quarter). Headcount increased year-on-year by 1,301 or 8.3% to 17,062 FTEs. Adjusted for company acquisitions this increase is 2.3% due to increased customer service and an expansion of the broadband and access network. The segment result before depreciation and amortisation increased by CHF 16 million or 0.8% to CHF 1,924 million. The profit margin fell by 0.8 percentage points to 41.0%; adjusted, it rose by 0.3 percentage points to 41.3%. Company acquisitions had a minimal impact on the segment result before depreciation and amortisation.

Compared to the previous year, depreciation and amortisation rose by CHF 51 million or 8.2% to CHF 674 million (+8.9% in the second quarter) as a result of higher capital expenditure. The segment result declined accordingly by CHF 35 million or 2.7% to CHF 1,250 million (–4.1% in the second quarter). At CHF 841 million, capital expenditure was CHF 72 million or 9.4% higher (+7.1% in the second quarter), mainly on account of increased investments in broadband and access networks.

Fastweb

In EUR million, except where indicated	2. quarter 2015	2. quarter 2014	Change	1st half-year 2015	1st half-year 2014	Change
Residential Customers	196	188	4.3%	389	376	3.5%
Corporate Business	200	188	6.4%	391	365	7.1%
Wholesale hubbing	7	7	–	14	14	–
Wholesale other	29	26	11.5%	66	49	34.7%
Revenue from external customers	**432**	**409**	**5.6%**	**860**	**804**	**7.0%**
Intersegment revenue	1	1	–	2	2	–
Net revenue	**433**	**410**	**5.6%**	**862**	**806**	**6.9%**
Segment expenses	(293)	(282)	3.9%	(602)	(570)	5.6%
Segment result before depreciation and amortisation	**140**	**128**	**9.4%**	**260**	**236**	**10.2%**
Margin as % of net revenue	32.3	31.2		30.2	29.3	
Capital expenditure	132	142	–7.0%	279	284	–1.8%
Full-time equivalent employees at end of period				2,377	2,373	0.2%
Broadband access lines at end of period in thousand				2,157	1,994	8.2%

Fastweb's net revenue rose year-on-year by EUR 56 million or 6.9% to EUR 862 million (+5.6% in the second quarter). Despite a difficult market environment, Fastweb's broadband customer base grew year-on-year by 163,000 or 8.2% to 2.16 million (+85,000 in the first six months of the year). Fierce competition reduced average revenue per residential broadband customer by around 4% versus the prior-year period. This decline was offset by customer growth, Revenue from residential customers rose accordingly by EUR 13 million or 3.5% to EUR 389 million (+4.3% in the second quarter), Revenue from business customers was up EUR 26 million or 7.1%, at EUR 391 million (+6.4% in the second quarter). Revenue from the wholesale business increased by EUR 17 million to EUR 66 million (+11.5% in the second quarter).

The segment result before depreciation and amortisation totalled EUR 260 million, equivalent to a year-on-year increase of EUR 24 million or 10.2% (+9.4% in the second quarter), This increase related mainly to higher revenue. The profit margin rose 0.9 percentage points to 30.2%. Fastweb's headcount was practically unchanged year-on-year at 2,377 FTEs. Capital expenditure decreased by EUR 5 million, or 1.8%, to EUR 279 million due to lower levels of investment in the latest fibre-optic technology (FTTS). The ratio of capital expenditure to net revenue was 32.4% (prior year: 35.3%).

Other Operating Segments

In CHF million, except where indicated	2. quarter 2015	2. quarter 2014	Change	1st half-year 2015	1st half-year 2014	Change
Revenue from external customers	87	104	–16.3%	177	197	–10.2%
Intersegment revenue	69	64	7.8%	123	115	7.0%
Net revenue	**156**	**168**	**–7.1%**	**300**	**312**	**–3.8%**
Segment expenses	(137)	(135)	1.5%	(265)	(257)	3.1%
Segment result before depreciation and amortisation	**19**	**33**	**–42.4%**	**35**	**55**	**–36.4%**
Margin as % of net revenue	12.2	19.6		11.7	17.6	
Capital expenditure	6	9	–33.3%	12	14	–14.3%
Full-time equivalent employees at end of period				1,722	1,768	–2.6%

The net revenue of the Other Operating Segments fell year-on-year by CHF 12 million or 3.8% to CHF 300 million (–7.1% in the second quarter), primarily as a result of lower revenues for construction services. The additional revenue as a result of company acquisitions was nearly offset by lower revenue due to the disposal of companies. Swisscom completed the acquisition of PubliGroupe Ltd in September 2014. In the course of this, LTV Yellow Pages Ltd was allocated to the Swisscom Switzerland segment and the other participations to the Other Operating Segments. Swisscom sold its subsidiary Alphapay Ltd and Swisscom Hospitality Services in the second quarter of 2015.
Segment expense increased year-on-year by CHF 8 million or 3.1% to CHF 265 million, mainly as a result of company acquisitions (+1.5% in the second quarter). The segment result before depreciation and amortisation dropped by CHF 20 million or 36.4% to CHF 35 million (–42.4% in the second quarter). Headcount decreased year-on-year by 46 FTEs or 2.6% to 1,722 FTEs. Excluding company acquisitions and disposals, headcount fell by 1.0%.

Group Headquarters and reconciliation of pension cost

Operating income before depreciation and amortisation fell year-on-year by CHF 2 million or 3.6% to CHF –58 million. Headcount fell year-on-year by 0.3% to 325 FTEs.
An expense of CHF 36 million (prior year: CHF 0 million) is recognised as a pension cost reconciliation item under IAS 19 for the first half of 2015.

Depreciation and amortisation, non-operating results

In CHF million, except where indicated	2. quarter 2015	2. quarter 2014	Change	1st half-year 2015	1st half-year 2014	Change
Operating income before depreciation and amortisation (EBITDA)	**1,082**	**1,121**	**–3.5%**	**2,133**	**2,182**	**–2.2%**
Depreciation, amortisation and impairment losses	(521)	(512)	1.8%	(1,028)	(1,022)	0.6%
Operating income (EBIT)	**561**	**609**	**–7.9%**	**1,105**	**1,160**	**–4.7%**
Net interest expense	(49)	(53)	–7.5%	(96)	(114)	–15.8%
Other financial income and expense, net	16	(11)	–	(41)	(34)	–
Share of results of associates	8	10	–20.0%	13	13	–
Income before income taxes	**536**	**555**	**–3.4%**	**981**	**1,025**	**–4.3%**
Income tax expense	(103)	(122)	–15.6%	(197)	(219)	–10.0%
Net income	**433**	**433**	**–**	**784**	**806**	**–2.7%**
Share of net income attributable to equity holders of Swisscom Ltd	433	430	0.7%	784	799	–1.9%
Share of net income attributable to non-controlling interests	–	3	–	–	7	–
Earnings per share (in CHF)	8.36	8.30	0.7%	15.13	15.42	–1.9%

Depreciation and amortisation rose by CHF 6 million or 0.6% year-on-year to CHF 1,028 million. At constant exchange rates depreciation and amortisation rose by CHF 51 million or 5.0%, which was mainly due to higher depreciation and amortisation at 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 2015 includes scheduled amortisation of CHF 60 million (prior year: CHF 66 million) related to company acquisitions.

Net interest expense was CHF 18 million lower at CHF 96 million as a result of the lower average interest costs for financial debt. At CHF 41 million, other net financial expense rose by CHF 7 million compared to the previous year. The net financial expense for the first half of 2015 includes foreign currency losses of CHF 34 million (prior year: gains of CHF 2 million) and negative effects of CHF 9 million arising from the fair value adjustment of interest rate swaps (prior year: negative effects of CHF 19 million). The sale of the subsidiary Alphapay Ltd and Swisscom Hospitality Services resulted in a gain in the second quarter of CHF 19 million, which was recognised in other financial income.

Income tax expense amounted to CHF 197 million (prior year: CHF 219 million), corresponding to an effective income tax rate of 20.1% (prior year: 21.4%). Excluding non-recurring items, an income tax rate of around 21% is expected in the long term.

Net income fell by CHF 22 million or 2.7% year-on-year to CHF 784 million. Here, the lower operating income was partly offset by the reduced interest expense. 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 the equity holders of Swisscom Ltd declined year-on-year by CHF 15 million or 1.9% to CHF 784 million. Earnings per share fell accordingly from CHF 15.42 to CHF 15.13.

Cash flows

In CHF million	1st half-year 2015	1st half-year 2014	Change
Operating income before depreciation and amortisation (EBITDA)	2,133	2,182	(49)
Capital expenditure [1]	(1,142)	(1,117)	(25)
Proceeds from sale of property, plant and equipment and other intangible assets	13	32	(19)
Change in defined benefit obligations	33	(22)	55
Change in net working capital and other cash flow from operating activities	(285)	(229)	(56)
Dividends paid to non-controlling interests	(7)	(16)	9
Operating free cash flow	**745**	**830**	**(85)**
Net interest paid	(24)	(72)	48
Income taxes paid	(257)	(281)	24
Free cash flow	**464**	**477**	**(13)**
Acquisition of subsidiaries, net of cash and cash equivalents acquired	(61)	(8)	(53)
Other cash flows from investing activities, net	67	68	(1)
Issuance and repayment of financial liabilities, net	624	110	514
Dividends paid to equity holders of Swisscom Ltd	(1,140)	(1,140)	–
Other cash flows from financing activities	(37)	(5)	(32)
Net decrease in cash and cash equivalents	**(83)**	**(498)**	**415**

[1] Excluding capital expenditure totalling CHF 10 million (prior year: CHF 18 million) in real estate projects for which sales contracts were signed.

Free cash flow dropped by CHF 13 million or 2.7% to CHF 464 million The lower net interest paid as well as the lower income taxes paid largely offset the decline in the operating free cash flow. The operating free cash flow fell by CHF 85 million or 10.2% to CHF 745 million, which is mainly due to the decrease in operating income before depreciation and amortization (EBITDA) and the increase in capital expenditure. The net working capital increased compared to the end of 2014 by CHF 285 million (prior year: increase of CHF 229 million), which is mainly due to the increase in accounts receivable and the decrease in accounts payable. Capital expenditure increased year-on-year by CHF 25 million or 2.2% to CHF 1,142 million, mainly due to the expansion of the broadband and access networks in Switzerland.

In the second quarter of 2015, Swisscom issued two debenture bonds with a total nominal amount of CHF 400 million: CHF 250 million with a coupon of 0.25% and maturity in 2023, and CHF 150 million with a coupon of 1.00% and maturity in 2035. In April 2015, Swisscom paid an ordinary dividend of CHF 22 per share, which corresponds to an amount of CHF 1,140 million.

Balance sheet

In CHF million, except where indicated	30.06.2015	31.12.2014	Change
Assets			
Cash and cash equivalents and current financial assets	241	342	–29.5%
Trade and other receivables	2,639	2,586	2.0%
Property, plant and equipment	9,667	9,720	–0.5%
Goodwill	4,948	4,809	2.9%
Other intangible assets	1,777	2,099	–15.3%
Investments in associates and non-current financial assets	391	404	–3.2%
Income tax assets	373	351	6.3%
Other current and non-current assets	622	621	0.2%
Total assets	**20,658**	**20,932**	**–1.3%**
Liabilities and equity			
Financial liabilities	9,135	8,604	6.2%
Trade and other payables	1,751	1,876	–6.7%
Defined benefit obligations	2,415	2,441	–1.1%
Provisions	942	932	1.1%
Income tax liabilities	392	529	–25.9%
Other current and non-current liabilities	1,106	1,093	1.2%
Total liabilities	**15,741**	**15,475**	**1.7%**
Share of equity attributable to equity holders of Swisscom Ltd	4,920	5,454	–9.8%
Share of equity attributable to non-controlling interests	(3)	3	–
Total equity	**4,917**	**5,457**	**–9.9%**
Total liabilities and equity	**20,658**	**20,932**	**–1.3%**
Equity ratio at end of period	23.8%	26.1%	
Net debt	**8,760**	**8,120**	**7.9%**

Total assets at 30 June 2015 amounted to CHF 20,658 million, a decrease of CHF 274 million or 1.3% versus the end of 2014. Equity fell by CHF 540 million or 9.9% to CHF 4,917 million, which corresponds to an equity ratio of 23.8% (26.1% as at 31 December 2014). Net income of CHF 784 million was offset by the dividend of CHF 1,140 million paid in April 2015 and the other net loss of CHF 178 million recognised in equity. This loss consists of losses of CHF 202 million from the translation of foreign group companies. Compared to the end of 2014, the CHF/EUR exchange rate fell from 1.202 to 1.041. On 30 June 2015, cumulative currency translation losses recognised in equity amounted to around CHF 1.8 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 2.1. This value may be exceeded temporarily. Financial leeway exists if the target is not reached.

Outlook

The financial outlook for fiscal year 2015 is now based on an average EUR exchange rate of CHF 1.05 (previously, the EUR/CHF exchange rate was at parity). As a result, the expectations for net revenue, EBITDA and capital expenditure are somewhat higher.
Swisscom expects to close 2015 with net revenue in excess of CHF 11.5 billion (previously, more than CHF 11.4 billion), which corresponds a decline of some CHF 200 million compared to the previous year. Calculated at the same exchange rate as 2014, revenue in 2015 would increase by CHF 100 million compared to 2014. Excluding Fastweb, Swisscom expects revenue to increase by CHF 100 million. Fastweb's revenue for 2015 in local currency (EUR) is expected to be on a par with 2014. Translated into the reporting currency, however, this corresponds to a decline of about CHF 300 million.
EBITDA of more than CHF 4.2 billion forecast for 2015 (previously about CHF 4.2 billion) is some CHF 200 million below the figure for 2014. CHF 100 million of the decline is the result of the appreciation of the Swiss franc; the remaining CHF 100 million is due to the following effects: The change in the network infrastructure and services to Internet Protocol (All IP) will lead to higher costs in 2015. In addition, lower gains will be generated from real estate sales, and pension costs pursuant to IFRS will be higher as a result of lower interest. These effects cannot be offset by the additional contributions from the acquired companies and the related synergies. Fastweb's EBITDA in local currency is expected to be higher. This is primarily due to lower usage fees for regulated services from other network operators. A further reduction of regulated prices is anticipated, and the volume of services purchased will decrease as a result of the migration of customers to their own ultra-fast broadband network.
Swisscom now expects capital expenditure for 2015 in excess of CHF 2.3 billion (previously CHF 2.3 billion). As a result of the further expansion of the ultra-fast broadband network and investments in the IT platform for banking transactions, capital expenditure in Switzerland will remain unchanged from the prior year at CHF 1.75 billion. At Fastweb, the investment volume reached its peak in 2014 and will decline slightly in 2015 in local currency, which corresponds to a currency-related decrease of CHF 100 million.
If the targets are met, Swisscom will propose to the Annual General Meeting of Shareholders payment of an unchanged dividend of CHF 22 per share for the 2015 financial year.

Consolidated interim financial statements (condensed and unaudited)

Consolidated income statement (condensed and unaudited)

In CHF million, except where indicated	Note	2. quarter 2015	2. quarter 2014	1st half-year 2015	1st half-year 2014
Net revenue	3	**2,865**	**2,879**	**5,758**	**5,700**
Goods and services purchased		(553)	(558)	(1,121)	(1,110)
Personnel expense		(757)	(684)	(1,513)	(1,376)
Other operating expense		(577)	(599)	(1,186)	(1,196)
Capitalised self-constructed assets and other income		104	83	195	164
Operating income before depreciation and amortisation (EBITDA)		**1,082**	**1,121**	**2,133**	**2,182**
Depreciation, amortisation and impairment losses		(521)	(512)	(1,028)	(1,022)
Operating income (EBIT)	3	**561**	**609**	**1,105**	**1,160**
Financial income and financial expense, net	4	(33)	(64)	(137)	(148)
Share of results of associates		8	10	13	13
Income before income taxes		**536**	**555**	**981**	**1,025**
Income tax expense		(103)	(122)	(197)	(219)
Net income		**433**	**433**	**784**	**806**
Share of net income attributable to equity holders of Swisscom Ltd		433	430	784	799
Share of net income attributable to non-controlling interests		–	3	–	7
Basic and diluted earnings per share (in CHF)		8.36	8.30	15.13	15.42

Consolidated statement of comprehensive income (unaudited)

In CHF million	2. quarter 2015	2. quarter 2014	1st half-year 2015	1st half-year 2014
Net income	**433**	**433**	**784**	**806**
Other comprehensive income				
Actuarial gains and losses from defined benefit pension plans	549	(133)	57	(436)
Income tax expense	(114)	30	(12)	90
Items that will not be reclassified to income statement, net of tax	**435**	**(103)**	**45**	**(346)**
Foreign currency translation adjustments of foreign subsidiaries	(11)	(5)	(260)	(23)
Change in fair value of cash flow hedges	3	2	(23)	1
Gains and losses from cash flow hedges transferred to income statement	–	3	(3)	4
Income tax expense	2	2	63	8
Items that are or may be reclassified subsequently to income statement, net of tax	**(6)**	**2**	**(223)**	**(10)**
Other comprehensive income	**429**	**(101)**	**(178)**	**(356)**
Comprehensive income	**862**	**332**	**606**	**450**
Share of comprehensive income attributable to equity holders of Swisscom Ltd	862	329	606	443
Share of comprehensive income attributable to non-controlling interests	–	3	–	7

Consolidated balance sheet (condensed and unaudited)

In CHF million	Note	30.06.2015	31.12.2014
Assets			
Cash and cash equivalents		220	302
Trade and other receivables		2,639	2,586
Other financial assets		21	40
Other assets		587	498
Total current assets		**3,467**	**3,426**
Property, plant and equipment		9,667	9,720
Goodwill and other intangible assets		6,725	6,908
Investments in associates		149	171
Other financial assets		242	233
Other assets		408	474
Total non-current assets		**17,191**	**17,506**
Total assets		**20,658**	**20,932**
Liabilities and equity			
Financial liabilities	5	2,485	1,580
Trade and other payables		1,751	1,876
Current income tax liabilities		141	172
Provisions	6	101	112
Other liabilities		744	718
Total current liabilities		**5,222**	**4,458**
Financial liabilities	5	6,650	7,024
Defined benefit obligations		2,415	2,441
Provisions	6	841	820
Deferred tax liabilities		251	357
Other liabilities		362	375
Total non-current liabilities		**10,519**	**11,017**
Total liabilities		**15,741**	**15,475**
Share of equity attributable to equity holders of Swisscom Ltd		4,920	5,454
Share of equity attributable to non-controlling interests		(3)	3
Total equity		**4,917**	**5,457**
Total liabilities and equity		**20,658**	**20,932**

Consolidated statement of cash flows (condensed and unaudited)

In CHF million	Note	1st half-year 2015	1st half-year 2014
Net income		784	806
Adjustment for non-cash items		1,343	1,363
Change in operating assets and liabilities		(236)	(219)
Income taxes paid		(257)	(281)
Cash flow provided by operating activities		**1,634**	**1,669**
Capital expenditure		(1,152)	(1,135)
Acquisition of subsidiaries, net of cash and cash equivalents acquired	2	(61)	(8)
Proceeds from sale of subsidiaries, net of cash and cash equivalents sold	2	28	–
Other cash flows from investing activities, net		28	108
Cash flow used in investing activities		**(1,157)**	**(1,035)**
Issuance and repayment of financial liabilities, net	5	624	110
Dividends paid to equity holders of Swisscom Ltd	8	(1,140)	(1,140)
Dividends paid to non-controlling interests		(7)	(16)
Other cash flows from financing activities, net		(37)	(86)
Cash flow used in financing activities		**(560)**	**(1,132)**
Net decrease in cash and cash equivalents		**(83)**	**(498)**
Cash and cash equivalents at beginning of period		302	723
Foreign currency translation adjustments in respect of cash and cash equivalents		1	1
Cash and cash equivalents at end of period		**220**	**226**

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 2013	**52**	**136**	**7,356**	**–**	**(1,571)**	**5,973**	**29**	**6,002**
Net income	–	–	799	–	–	799	7	806
Other comprehensive income	–	–	(346)	–	(10)	(356)	–	(356)
Comprehensive income	**–**	**–**	**453**	**–**	**(10)**	**443**	**7**	**450**
Dividends paid	–	–	(1,140)	–	–	(1,140)	(16)	(1,156)
Transactions with non-controlling interests	–	–	–	–	–	–	–	–
Acquisition of treasury shares for share-based payments	–	–	–	(5)	–	(5)	–	(5)
Allocation of treasury shares for share-based payments	–	–	–	5	–	5	–	5
Balance at 30 June 2014	**52**	**136**	**6,669**	**–**	**(1,581)**	**5,276**	**20**	**5,296**
Balance at 31 December 2014	**52**	**136**	**6,856**	**–**	**(1,590)**	**5,454**	**3**	**5,457**
Net income	–	–	784	–	–	784	–	784
Other comprehensive income	–	–	45	–	(223)	(178)	–	(178)
Comprehensive income	**–**	**–**	**829**	**–**	**(223)**	**606**	**–**	**606**
Dividends paid	–	–	(1,140)	–	–	(1,140)	(7)	(1,147)
Transactions with non-controlling interests	–	–	–	–	–	–	1	1
Acquisition of treasury shares for share-based payments	–	–	–	(2)	–	(2)	–	(2)
Allocation of treasury shares for share-based payments	–	–	–	2	–	2	–	2
Balance at 30 June 2015	**52**	**136**	**6,545**	**–**	**(1,813)**	**4,920**	**(3)**	**4,917**

Notes to the interim financial statements (condensed and unaudited)

1 Accounting policies

Basis of preparation

These unaudited consolidated 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 2015 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 2014. The consolidated interim financial statements were prepared in accordance with the accounting policies described in the 2014 consolidated financial statements and the revised accounting principles adopted on 1 January 2015.
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 1.041 was used as closing rate (31 December 2014: CHF/EUR 1.202) and 1.069 as the average rate for the period (prior year: CHF/EUR 1.219).

Changes in accounting principles

As of 1 January 2015, 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 disposal of subsidiaries

Business combinations

Swisscom made total payments of CHF 61 million in the first half of 2015 for the acquisition of subsidiaries. Of this amount, CHF 16 million is for deferred considerations for business combinations in prior years and CHF 45 million for subsidiaries acquired in the first half of 2015.
Swisscom acquired all stakes in two companies in Switzerland – Veltigroup and H-Net AG – in January and March 2015 respectively. With the acquisition of the Veltigroup, Swisscom has expanded its ICT portfolio for business customers as well as its presence in French-speaking Switzerland. Veltigroup is a leading ICT service provider in Switzerland and offers companies a comprehensive ICT range, from infrastructure to end-customer services and solutions. As a result of the acquisition of H-Net AG Swisscom has strengthened its portfolio in the healthcare area. H-Net AG is one of the leading companies in the area of administrative and medical data exchange in the healthcare sector.
The subsidiaries acquired in 2015 are deemed to be immaterial business combinations and are therefore shown in aggregate. The business combinations in 2015 have been provisionally included in the consolidated financial statements as at 30 June 2015, as the purchase price allocations had not been completed when the consolidated financial statements were prepared. The purchase consideration for subsidiaries acquired in the first half of 2015 amount to CHF 87 million. Less cash and cash equivalents acquired and deferred considerations totalling CHF 42 million, cash outflow in the first half of 2015 was CHF 45 million. Goodwill and other intangible assets of CHF 76 million were recognised from the provisional purchase price allocation. In the first six months of 2015, these business combinations resulted in additional net revenues of CHF 60 million and net income of CHF 1 million. Had the subsidiaries acquired in 2015 been included in the consolidated financial statements from 1 January 2015, this would have resulted in consolidated pro-forma net revenue of CHF 5,758 million and consolidated pro-forma net income of CHF 784 million.

Disposal of subsidiaries

Swisscom sold Alphapay Ltd and all stakes in Swisscom Hospitality Services Group for a total of CHF 42 million in the first six months of 2015. Alphapay Ltd is a collection service provider specialising in receivables management for third parties. Swisscom Hospitality Services offers guests and customers in the hotel and conference sector in Europe and North America Internet-based services. The disposal of subsidiaries resulted in a gain of CHF 19 million, which was recognised as other financial income in the second quarter of 2015.
The cash inflow from the sale of subsidiaries in the first half of 2015 was CHF 28 million. This is comprised of the purchase price of CHF 42 million, less cash and cash equivalents sold of CHF 10 million and deferred considerations of CHF 4 million. The deferred considerations of CHF 4 million were paid at the end of July 2015.

3 Segment information

Swisscom combined its activities for corporate customers in the Corporate Business, Network & IT, and Swisscom IT Services divisions in order to be able to provide its business customers with one-stop solutions and quicker cloud-based solutions. All corporate customers are served by the new Enterprise Customers division, making it one of the largest integrated ICT providers for corporate customers in Switzerland. The IT, Network & Innovation division will be responsible for the operation of all IT systems and will also take over the IT platforms previously managed by Swisscom IT Services. It will thus be responsible for the development and production of standardised IT and network services for the entire Group. In addition, real estate in Switzerland will now also be managed in the IT, Network & Innovation division. As a result of these adjustments, Swisscom IT Services and Swiss Real Estate Ltd will be integrated in the Enterprise Customers and IT, Network & Innovation segments. Previously, these business units were reported in the Other Operating Segments. The prior year's figures have been adjusted accordingly.

In CHF million	Reported	Adjustment	Restated
Net revenue financial year 2014			
Residential Customers	5,326	(164)	5,162
Small and Medium-Sized Enterprises	1,159	172	1,331
Enterprise Customers	1,788	781	2,569
Wholesale	929	–	929
IT, Network & Innovation	–	126	126
Elimination	(571)	(217)	(788)
Swisscom Switzerland	**8,631**	**698**	**9,329**
Fastweb	2,047	–	2,047
Other Operating Segments	1,889	(1,224)	665
Group Headquarters	2	–	2
Elimination	(866)	526	(340)
Total net revenue	**11,703**	**–**	**11,703**
Segment result financial year 2014			
Residential Customers	2,823	(92)	2,731
Small and Medium-Sized Enterprises	850	44	894
Enterprise Customers	832	22	854
Wholesale	381	–	381
IT, Network & Innovation	(2,483)	173	(2,310)
Elimination	–	(1)	(1)
Swisscom Switzerland	**2,403**	**146**	**2,549**
Fastweb	(119)	–	(119)
Other Operating Segments	186	(144)	42
Group Headquarters	(126)	(2)	(128)
Elimination	(22)	–	(22)
Total segment result	**2,322**	**–**	**2,322**

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 "IT, Network & Innovation", 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 IT, Network & Innovation segment charge any network costs to other segments. Other intersegment services are charged at market rates. The results of the Residential Customers, Small & Medium-Sized Enterprises, Enterprise Customers and Wholesale segments are reported as a contribution margin before network costs. The results of the IT, Network & Innovation segment consist of operating expenses and depreciation and amortisation less the revenue from the rental and administration of buildings and capitalised self-constructed assets and other income. The sum of the segment results of Swisscom Switzerland corresponds in aggregate to the operating result (EBIT) of Swisscom Switzerland. The segment results of Fastweb and Other Operating Segments correspond to the operating result (EBIT) of these units. The latter reflects the net revenues from external customers and other segments less segment expense and depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets. Segment expense includes the costs of goods and services purchased, personnel expense and other operating costs less capitalised self-constructed assets and other income.

Segment expense contains the ordinary employer contributions as pension costs. 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 half of 2015, an expense of CHF 36 million is disclosed under "Elimination" as a pension cost reconciliation item in accordance with IAS 19 (CHF 0 million in the first half of 2014).

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

Net revenue and segment results of the individual segments for the first half of 2015 are presented below:

1st half-year 2015, in CHF million	Swisscom Switzerland	Fastweb	Other Operating Segments	Group Head-quarters	Elimi-nation	Total
Net revenue from external customers	4,661	920	177	–	–	5,758
Net revenue with other segments	36	1	123	1	(161)	–
Net revenue	**4,697**	**921**	**300**	**1**	**(161)**	**5,758**
Segment result	**1,250**	**(46)**	**1**	**(58)**	**(42)**	**1,105**
Financial income and financial expense, net						(137)
Share of results of associates						13
Income before income taxes						**981**
Income tax expense						(197)
Net income						**784**

1st half-year 2015, in CHF million	Residential Customers	Small and Medium-Sized Enterprises	Enterprise Customers	Wholesale	IT, Network & Innovation	Elimi-nation	Swisscom Switzerland
Net revenue from external customers	2,499	652	1,205	288	–	17	4,661
Net revenue with other segments	75	15	102	176	65	(397)	36
Net revenue	**2,574**	**667**	**1,307**	**464**	**65**	**(380)**	**4,697**
Segment result	**1,405**	**429**	**401**	**193**	**(1,178)**	**–**	**1,250**

Net revenue and segment results of the individual segments for the first half of 2014 are presented below:

1st half-year 2014, in CHF million, restated	Swisscom Switzerland	Fastweb	Other Operating Segments	Group Head-quarters	Elimi-nation	Total
Net revenue from external customers	4,523	980	197	–	–	5,700
Net revenue with other segments	38	2	115	1	(156)	–
Net revenue	**4,561**	**982**	**312**	**1**	**(156)**	**5,700**
Segment result	**1,285**	**(84)**	**26**	**(58)**	**(9)**	**1,160**
Financial income and financial expense, net						(148)
Share of results of associates						13
Income before income taxes						**1,025**
Income tax expense						(219)
Net income						**806**

1st half-year 2014, in CHF million, restated	Residential Customers	Small and Medium-Sized Enterprises	Enterprise Customers	Wholesale	IT, Network & Innovation	Elimi-nation	Swisscom Switzerland
Net revenue from external customers	2,427	633	1,164	284	15	–	4,523
Net revenue with other segments	**77**	**17**	**105**	**173**	**48**	(382)	38
Net revenue	**2,504**	**650**	**1,269**	**457**	**63**	**(382)**	**4,561**
Segment result	**1,370**	**453**	**413**	**187**	**(1,137)**	**(1)**	**1,285**

4 Financial income and financial expense

In CHF million	1st half-year 2015	1st half-year 2014
Interest income	5	4
Interest expense	(101)	(118)
Net interest expense of financial assets and financial liabilities	**(96)**	**(114)**
(Foreign exchange losses) foreign exchange gains	(34)	2
Change in fair value of interest rate swaps	(9)	(19)
Gain from sale of subsidiaries. See Note 2.	19	–
Other financial income and expense, net	(17)	(17)
Financial income and financial expense, net	**(137)**	**(148)**

5 Financial liabilities

In CHF million	30.06.2015	31.12.2014
Bank loans	1,594	960
Debenture bonds	615	547
Private placements	151	–
Finance lease liabilities	15	14
Other financial liabilities	110	59
Total current financial liabilities	**2,485**	**1,580**
Bank loans	435	921
Debenture bonds	4,800	4,557
Private placements	778	925
Finance lease liabilities	540	547
Other financial liabilities	97	74
Total non-current financial liabilities	**6,650**	**7,024**
Total financial liabilities	**9,135**	**8,604**

In April 2015, Swisscom issued two debenture bonds with a total nominal amount of CHF 400 million. CHF 250 million with a coupon of 0.25% and maturity in 2023, and CHF 150 million with a coupon of 1.00% and maturity in 2035. The funds raised will be used to repay existing debts. In addition, interest rate swaps of CHF 225 million were concluded to hedge against the interest rate risk of financing and designated for hedge accounting as fair value hedges.

6 Provisions

In CHF million	Dismantlement and restoration costs	Regulatory proceedings	Other	Total
Balance at 31 December 2014	**646**	**106**	**180**	**932**
Additions of provisions	11	2	7	20
Present-value adjustments	6	–	–	6
Release of unused provisions	(1)	–	(3)	(4)
Use of provisions	–	–	(9)	(9)
Additions from acquisition of subsidiaries	–	–	2	2
Disposals from sale of subsidiaries	–	–	(2)	(2)
Foreign currency translation adjustments	–	–	(3)	(3)
Balance at 30 June 2015	**662**	**108**	**172**	**942**
Thereof current provisions	–	18	83	101
Thereof non-current provisions	662	90	89	841

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 1.59% (1.69% as at 31 December 2014). The decrease in the discount rate resulted in an effect of CHF 10 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. Based on legal assessments, Swisscom raised provisions in prior years. The provisions recognised in the 2014 consolidated financial statements have not changed materially during the current financial year.

Other provisions

Other provisions mainly include provisions for workforce reductions and environmental, contractual and tax risks. The other provisions recognised in the 2014 consolidated financial statements have not changed materially during the current financial year.

7 Contingent liabilities

Proceedings conducted by the Competition Commission

In its decision of 5 November 2009, the Competition Commission sanctioned Swisscom for abuse of a market-dominant position in the case of ADSL services and levied a fine of CHF 220 million. Swisscom appealed against the decision to the Federal Administrative Court on 7 December 2009. On the basis of a legal opinion, Swisscom concludes that, as things stand at present, it is not probable that a court of final appeal will levy sanctions and, as before, has therefore not recognised any provision in the consolidated interim financial statements at 30 June 2015. 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. On 23 July 2015, the Secretariat of the Competition Commission handed down its draft decree concerning the investigation into the broadcasting of live sport on pay TV to Swisscom and asked the Commission to levy a fine of CHF 143 million against Swisscom. For further information, see Note 11.

Regulatory proceedings

With regard to the other contingent liabilities which were reported in the 2014 consolidated financial statements in connection with regulatory proceedings, Swisscom is of the opinion that an outflow of resources is unlikely and, as before, has therefore not recognised any provision for this in the consolidated financial statements as at 30 June 2015.

8 Dividend payment

On 8 April 2015, 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 15 April 2015.

9 Financial instruments

Fair value of financial instruments

The carrying amounts and the fair values of financial assets and financial liabilities with the corresponding valuation categories can be found in the following table. The table does not include cash and cash equivalents, accounts receivable and payable or other receivables and liabilities whose carrying amount corresponds to an adequate estimate of the fair value. 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	Carrying amount				Fair Value		
	Loans and receivables	Available-for-sale	At fair value through profit or loss	Financial liabilities	Level 1	Level 2	Level 3
30 June 2015							
Derivative financial instruments	–	–	2	–	–	2	–
Available-for-sale financial assets	–	18	–	–	1	–	17
Financial assets measured at fair value	**–**	**18**	**2**	**–**	**1**	**2**	**17**
Other loans and receivables	194	–	–	–	–	210	–
Financial assets not measured at fair value	**194**	**–**	**–**	**–**	**–**	**210**	**–**
Derivative financial instruments	–	–	164	–	–	164	–
Financial liabilities measured at fair value	**–**	**–**	**164**	**–**	**–**	**164**	**–**
Bank loans	–	–	–	2,029	–	2,057	–
Debenture bonds	–	–	–	5,415	5,473	–	–
Private placements	–	–	–	929	–	963	–
Finance lease liabilities	–	–	–	555	–	1,184	–
Other interest-bearing financial liabilities	–	–	–	38	–	38	–
Other non-interest-bearing financial liabilities	–	–	–	5	–	5	–
Financial liabilities not measured at fair value	**–**	**–**	**–**	**8,971**	**5,473**	**4,247**	**–**

In addition, available-for-sale financial assets as of 30 June 2015 with a carrying amount of CHF 49 million are measured at acquisition cost. Level-3 financial instruments developed as follows in the first six months of 2015:

In CHF million	Available-for-sale financial assets
Balance at 31 December 2014	**18**
Disposals	(1)
Balance at 30 June 2015	**17**

Level-3 assets consist of investments in various investment funds. The fair value was calculated using a valuation model. In the first half of 2015, there were no reclassifications between the arious levels.

10 Related parties

Transactions between Swisscom and various related parties in the first half of 2015 are similar to those explained in the consolidated financial statements for 2014.

11 Events after the balance sheet date

Merger of Swisscom Directories Ltd (local.ch) and search.ch AG

In May 2014, Swisscom and Tamedia agreed to merge their companies Swisscom Directories Ltd (local.ch) and search.ch AG into a joint subsidiary. Swisscom will hold 69% of the joint subsidiary, while Tamedia will hold the remaining 31%. Swisscom Directories Ltd, with its online directories platform local.ch and its Local Guide phone directories business, is a leading advertiser and provider of directories in Switzerland. search.ch AG (search.ch) is a leading search and information service in Switzerland. The merger of Swisscom Directories Ltd (local.ch) and search.ch AG results in a comprehensive Swiss directory and information platform for individuals, companies and government as well as an important partner for Swiss SMEs.
Following authorisation from the Competition Commission (ComCo), the transaction was completed at the beginning of July 2015. Swisscom has granted Tamedia a right of sale (put option) and Tamedia has granted Swisscom a right of purchase (call option) for Tamedia's 31% share, which may be exercised from three years after the completion of the transaction. The fair value of the put option is estimated to be CHF 222 million. This amount will be recognised as a financial liability in the third quarter of 2015. The fair value of the put option also corresponds to the purchase consideration of the acquisition of search.ch AG. As there was no reliable information when the consolidated financial statements were prepared as at 30 June 2015, no statements can be made regarding the provisional purchase price allocation, including goodwill.

Investigation by the Competition Commission into the broadcasting of live sport on pay TV

In April 2013, the Competition Commission opened an investigation under the Federal Cartel Act against Swisscom concerning the broadcasting of live sport on pay TV. The Secretariat of the Competition Commission submitted its draft decree to Swisscom on 23 July 2015. The request to the Competition Commission proposes sanctions in the amount of CHF 143 million against Swisscom due to alleged prohibited marketing of sports content via pay TV. According to the Secretariat of the Competition Commission, Swisscom and Teleclub occupy a dominant market position, particularly with respect to the broadcasting of national football and ice hockey events, and must offer all TV platforms in Switzerland – if technically feasible – an equivalent Teleclub sport offering at non-discriminatory terms and conditions. Swisscom denies the allegations and believes that it acted lawfully in its marketing of sports content. As things stand, Swisscom does not believe it is likely that a court of final appeal will levy sanctions and has therefore not recognised a provision in its consolidated financial statements as at 30 June 2015.

Approval of the interim report

The Board of Directors of Swisscom Ltd approved the release of this interim report on 18 August 2015.

Further information

Share information

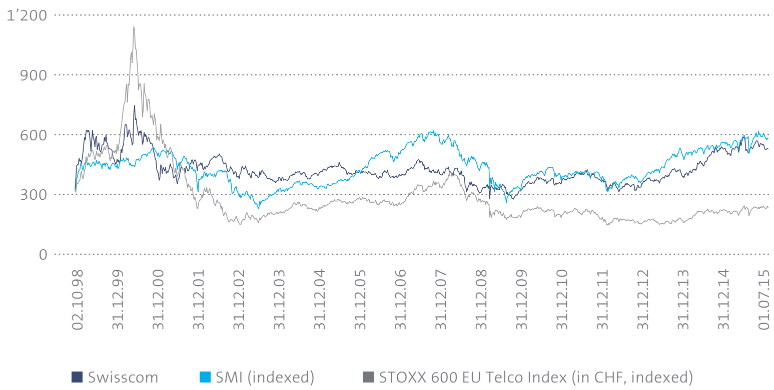
Swisscom share performance indicators

31.12.2014–30.6.2015	SIX Swiss Exchange
Closing price at 31 December 2014 in CHF [1]	522.50
Closing price at 30 June 2015 in CHF [1]	524.00
Change in %	0.3
Year high in CHF [1]	580.50
Year low in CHF [1]	500.00
Total volume of traded shares	18,362,950
Total turnover in CHF million	9,934
Daily average of traded shares	150,516
Daily average in CHF million	81

Source: Bloomberg
[1] paid prices

Share performance since IPO

Share performance 1998–2015 in CHF



Share information

On 30 June 2015, the share capital consisted 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 2015, Swisscom had 68,600 registered shareholders and around 21% unregistered shares (dispo shares).
At the Annual General Meeting on 8 April 2015, shareholders approved a gross dividend of CHF 22 per share. A total dividend amount of CHF 1,140 million was paid out on 15 April 2015.
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

- 19 August 2015 — 2015 Second-Quarter Results
- 05 November 2015 — 2015 Third-Quarter Results
- 04 February 2016 — 2015 Fourth-Quarter Results
- 06 April 2016 — Annual General Meeting
- 03 May 2016 — 2016 First-Quarter Results
- 18 August 2016 — 2016 Second-Quarter Results
- 03 November 2016 — 2016 Third-Quarter Results

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 2014 and 2015

In CHF million, except where indicated	1. quarter	2. quarter	3. quarter	4. quarter	2014	1. quarter	2. quarter	3. quarter	4. quarter	2015
Income statement										
Net revenue	**2,821**	**2,879**	**2,929**	**3,074**	**11,703**	**2,893**	**2,865**			**5,758**
Goods and services purchased	(552)	(558)	(583)	(676)	(2,369)	(568)	(553)			(1,121)
Personnel expense	(692)	(684)	(655)	(720)	(2,751)	(756)	(757)			(1,513)
Other operating expense	(597)	(599)	(620)	(724)	(2,540)	(609)	(577)			(1,186)
Capitalised self-constructed assets and other income	81	83	119	87	370	91	104			195
Operating income (EBITDA)	**1,061**	**1,121**	**1,190**	**1,041**	**4,413**	**1,051**	**1,082**			**2,133**
Depreciation and amortisation	(510)	(512)	(511)	(558)	(2,091)	(507)	(521)			(1,028)
Operating income (EBIT)	**551**	**609**	**679**	**483**	**2,322**	**544**	**561**			**1,105**
Net interest expense	(61)	(53)	(51)	(53)	(218)	(47)	(49)			(96)
Other financial result	(23)	(11)	25	(33)	(42)	(57)	16			(41)
Result of associates	3	10	8	5	26	5	8			13
Income before income taxes	**470**	**555**	**661**	**402**	**2,088**	**445**	**536**			**981**
Income tax expense	(97)	(122)	(118)	(45)	(382)	(94)	(103)			(197)
Net income	**373**	**433**	**543**	**357**	**1,706**	**351**	**433**			**784**
Attributable to equity holders of Swisscom Ltd	369	430	540	355	1,694	351	433			784
Attributable to non-controlling interests	4	3	3	2	12	–	–			–
Earnings per share (in CHF)	7.12	8.30	10.42	6.85	32.70	6.78	8.36			15.13
Net revenue										
Swisscom Switzerland	2,264	2,297	2,332	2,436	9,329	2,355	2,342			4,697
Fastweb	483	499	513	552	2,047	468	453			921
Other Operating Segments	144	168	172	181	665	144	156			300
Group Headquarters	–	1	–	1	2	–	1			1
Intersegment elimination	(70)	(86)	(88)	(96)	(340)	(74)	(87)			(161)
Total net revenue	**2,821**	**2,879**	**2,929**	**3,074**	**11,703**	**2,893**	**2,865**			**5,758**
Segment result before depreciation and amortisation										
Swisscom Switzerland	940	968	1,036	891	3,835	955	969			1,924
Fastweb	132	155	163	175	625	130	148			278
Other Operating Segments	22	33	31	17	103	16	19			35
Group Headquarters	(25)	(31)	(28)	(39)	(123)	(29)	(29)			(58)
Intersegment elimination	(6)	(6)	(8)	(7)	(27)	(4)	(6)			(10)
Reconciliation to pension cost	(2)	2	(4)	4	–	(17)	(19)			(36)
Total segment result (EBITDA)	**1,061**	**1,121**	**1,190**	**1,041**	**4,413**	**1,051**	**1,082**			**2,133**
Capital expenditure in property, plant and equipment and other intangible assets										
Swisscom Switzerland	346	423	470	505	1,744	388	453			841
Fastweb	173	173	148	188	682	160	138			298
Other Operating Segments	5	9	1	23	38	6	6			12
Intersegment elimination	(5)	(7)	(9)	(7)	(28)	(5)	(4)			(9)
Total capital expenditure	**519**	**598**	**610**	**709**	**2,436**	**549**	**593**			**1,142**
Full-time equivalent employees at end of period										
Swisscom Switzerland	15,662	15,761	16,375	16,445	16,445	16,964	17,062			17,062
Fastweb	2,362	2,373	2,378	2,391	2,391	2,373	2,377			2,377
Other Operating Segments	1,731	1,768	1,994	1,962	1,962	1,940	1,722			1,722
Group Headquarters	326	326	328	327	327	322	325			325
Total full-time equivalent employees	**20,081**	**20,228**	**21,075**	**21,125**	**21,125**	**21,599**	**21,486**			**21,486**
Operating free cash flow	334	496	640	390	1,860	344	401			745
Net debt	7,676	8,502	8,398	8,120	8,120	7,895	8,760			8,760

In CHF million, except where indicated	1. quarter	2. quarter	3. quarter	4. quarter	2014	1. quarter	2. quarter	3. quarter	4. quarter	2015
Swisscom Switzerland										
Revenue and results										
Residential Customers	435	448	465	447	1,795	438	449			887
Small and Medium-Sized Enterprises	103	107	104	105	419	101	102			203
Enterprise Customers	135	141	142	144	562	132	140			272
Revenue mobile single subscription	**673**	**696**	**711**	**696**	**2,776**	**671**	**691**			**1,362**
Residential Customers	257	245	233	226	961	207	191			398
Small and Medium-Sized Enterprises	115	111	109	107	442	106	103			209
Enterprise Customers	143	141	139	141	564	139	141			280
Revenue fixed-line single subscription	**515**	**497**	**481**	**474**	**1,967**	**452**	**435**			**887**
Residential Customers	381	408	430	449	1,668	461	476			937
Small and Medium-Sized Enterprises	58	62	66	67	253	69	71			140
Revenue bundles	**439**	**470**	**496**	**516**	**1,921**	**530**	**547**			**1,077**
Total revenue single subscription and bundles	**1,627**	**1,663**	**1,688**	**1,686**	**6,664**	**1,653**	**1,673**			**3,326**
Solution business	249	261	245	263	1,018	261	260			521
Hardware sold	138	121	132	198	589	148	128			276
Wholesale	145	139	144	142	570	148	140			288
Revenue other	87	93	105	127	412	126	124			250
Revenue from external customers	**2,246**	**2,277**	**2,314**	**2,416**	**9,253**	**2,336**	**2,325**			**4,661**
Residential Customers	1,202	1,225	1,256	1,323	5,006	1,252	1,247			2,499
Small and Medium-Sized Enterprises	314	319	327	341	1,301	320	332			652
Enterprise Customers	578	586	580	600	2,344	607	598			1,205
Wholesale	145	139	144	142	570	148	140			288
IT, Network & Innovation	7	8	7	10	32	9	8			17
Revenue from external customers	**2,246**	**2,277**	**2,314**	**2,416**	**9,253**	**2,336**	**2,325**			**4,661**
Segment result before depreciation and amortisation										
Residential Customers	710	716	731	688	2,845	730	742			1,472
Small and Medium-Sized Enterprises	226	233	233	223	915	217	232			449
Enterprise Customers	223	233	243	243	942	219	226			445
Wholesale	95	92	98	96	381	101	92			193
IT, Network & Innovation	(314)	(306)	(270)	(357)	(1,247)	(312)	(323)			(635)
Intersegment elimination	–	–	1	(2)	(1)	–	–			–
Segment result (EBITDA)	**940**	**968**	**1,036**	**891**	**3,835**	**955**	**969**			**1,924**
Margin as % of net revenue	41.5	42.1	44.4	36.6	41.1	40.6	41.4			41.0
Fastweb, in EUR million										
Residential Customers	188	188	187	190	753	193	196			389
Corporate Business	177	188	202	222	789	191	200			391
Wholesale hubbing	7	7	7	7	28	7	7			14
Wholesale other	23	26	28	38	115	37	29			66
Revenue from external customers	**395**	**409**	**424**	**457**	**1,685**	**428**	**432**			**860**
Segment result (EBITDA)	108	128	134	145	515	120	140			260
Margin as % of net revenue	27.3	31.3	31.6	31.7	30.5	28.0	32.4			30.2
Capital expenditure	142	142	122	156	562	147	132			279
Broadband access lines in thousand	1,984	1,994	2,016	2,072	2,072	2,124	2,157			2,157

In thousand, except where indicated	1. quarter	2. quarter	3. quarter	4. quarter	2014	1. quarter	2. quarter	3. quarter	4. quarter	2015
Swisscom Switzerland Operational data										
Access lines										
Single subscriptions	2,007	1,948	1,902	1,840	1,840	1,763	1,695			1,695
Bundles	849	882	909	938	938	972	1,002			1,002
Fixed access lines	**2,856**	**2,830**	**2,811**	**2,778**	**2,778**	**2,735**	**2,697**			**2,697**
Single subscriptions	773	745	718	681	681	650	615			615
Bundles	1,060	1,110	1,154	1,209	1,209	1,258	1,307			1,307
Broadband access lines retail	**1,833**	**1,855**	**1,872**	**1,890**	**1,890**	**1,908**	**1,922**			**1,922**
Single subscriptions	271	259	246	218	218	200	182			182
Bundles	781	832	879	947	947	1,001	1,056			1,056
Swisscom TV access lines	**1,052**	**1,091**	**1,125**	**1,165**	**1,165**	**1,201**	**1,238**			**1,238**
Prepaid single subscriptions	2,173	2,165	2,165	2,163	2,163	2,149	2,131			2,131
Postpaid single subscriptions	3,812	3,828	3,850	3,872	3,872	3,875	3,889			3,889
Mobile access lines single subscriptions	**5,985**	**5,993**	**6,015**	**6,035**	**6,035**	**6,024**	**6,020**			**6,020**
Bundles	444	467	484	505	505	531	551			551
Mobile access lines	**6,429**	**6,460**	**6,499**	**6,540**	**6,540**	**6,555**	**6,571**			**6,571**
Revenue generating units (RGU)	**12,170**	**12,236**	**12,307**	**12,373**	**12,373**	**12,399**	**12,428**			**12,428**
Broadband access lines wholesale	221	224	241	262	262	278	291			291
Unbundled fixed access lines	241	228	204	180	180	162	150			150
Bundles										
2Play bundles	287	294	302	304	304	302	301			301
3Play bundles	555	584	609	646	646	680	712			712
4Play bundles	218	231	242	255	255	266	278			278
nPlay bundles	–	1	1	4	4	10	16			16
Total bundles	**1,060**	**1,110**	**1,154**	**1,209**	**1,209**	**1,258**	**1,307**			**1,307**
Swisscom Group Information by geographical regions										
Net revenue in Switzerland	2,323	2,361	2,401	2,501	9,586	2,407	2,395			4,802
Net revenue in other countries	498	518	528	573	2,117	486	470			956
Total net revenue	**2,821**	**2,879**	**2,929**	**3,074**	**11,703**	**2,893**	**2,865**			**5,758**
EBITDA in Switzerland	924	966	1,028	870	3,788	914	932			1,846
EBITDA in other countries	137	155	162	171	625	137	150			287
Total EBITDA	**1,061**	**1,121**	**1,190**	**1,041**	**4,413**	**1,051**	**1,082**			**2,133**
Capital expenditure in Switzerland	345	424	463	519	1,751	388	454			842
Capital expenditure in other countries	174	174	147	190	685	161	139			300
Total capital expenditure	**519**	**598**	**610**	**709**	**2,436**	**549**	**593**			**1,142**
Full-time equivalent employees in Switzerland	17,395	17,545	18,220	18,272	18,272	18,776	18,828			18,828
Full-time equivalent employees in other countries	2,686	2,683	2,855	2,853	2,853	2,823	2,658			2,658
Total full-time equivalent employees	**20,081**	**20,228**	**21,075**	**21,125**	**21,125**	**21,599**	**21,486**			**21,486**

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.