

2011

Interim Report
January–March



swisscom

Facts & Figures

In CHF million, except where indicated	31.3.2011	31.3.2010	Change
Net revenue and results			
Net revenue	2,862	2,953	-3.1%
Operating income before depreciation and amortisation (EBITDA) ¹	1,126	1,058	6.4%
EBITDA as % of net revenue	% 39.3	35.8	
Operating income (EBIT) ²	648	557	16.3%
Net income	474	377	25.7%
Share of net income attributable to equity holders of Swisscom Ltd	469	394	19.0%
Earnings per share	CHF 9.05	7.61	19.0%
Balance sheet and cash flows			
Equity at end of period	6,236	6,290	-0.9%
Equity ratio at end of period ³	% 29.2	25.1	
Operating free cash flow ⁴	463	742	-37.6%
Capital expenditure ⁵	422	383	10.2%
Net debt at end of period ⁶	8,559	8,537	0.3%
Employees			
Full-time equivalent employees at end of period	FTE 19,664	19,427	1.2%
Average number of full-time equivalent employees	FTE 19,430	19,426	-
Operational data			
Telephone access lines PSTN/ISDN in Switzerland	in thousand 3,201	3,346	-4.3%
Unbundled fixed access lines in Switzerland	in thousand 270	192	40.6%
Telephone access lines in Switzerland	in thousand 3,471	3,538	-1.9%
Broadband access lines in Switzerland	in thousand 1,605	1,509	6.4%
Swisscom TV subscribers in Switzerland	in thousand 469	275	70.5%
Mobile subscribers in Switzerland	in thousand 5,861	5,650	3.7%
Broadband subscribers in Italy	in thousand 1,733	1,678	3.3%
Swisscom share			
Par value per share at end of period	CHF 1.00	1.00	-
Number of shares issued at end of period	in mio. 51.802	51.802	-
Number of shares outstanding at end of period	in mio. 51.792	51.798	-
Quoted price at end of period	CHF 409.50	384.80	6.4%
Market capitalisation at end of period ⁷	21,209	19,932	6.4%

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 associated companies and income tax expense.

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

³ Equity as a percentage of total assets.

⁴ Definition operating free cash flow: operating income (EBITDA), change in operating assets and liabilities less net capital expenditure in tangible and other intangible assets and dividends paid to minority interests.

⁵ Excluding expenditures in fibre-optic cooperations.

⁶ Definition net debt: financial liabilities less cash and cash equivalents, current financial assets and non-current fixed interest-bearing investments.

⁷ Quoted price at end of period, multiplied by number of shares outstanding at end of period.

Financial Review Group

Summary

In CHF million, except where indicated	31.3.2011	31.3.2010	Change
Net revenue	2,862	2,953	-3.1%
Operating income before depreciation and amortisation (EBITDA)	1,126	1,058	6.4%
EBITDA as % of net revenue	39.3	35.8	
Operating income (EBIT)	648	557	16.3%
Net income	474	377	25.7%
Earnings per share (in CHF)	9.05	7.61	19.0%
Capital expenditure	422	383	10.2%
Net debt at end of period	8,559	8,537	0.3%
Full-time equivalent employees at end of period	19,664	19,427	1.2%

In the first quarter of 2011, Swisscom's net revenue fell by CHF 91 million or 3.1% to CHF 2,862 million, while operating income before depreciation and amortisation (EBITDA) grew by CHF 68 million or 6.4% to CHF 1,126 million. Revenue and income performance is heavily impacted by the appreciation of the Swiss franc. The average euro exchange rate was around 11% lower than in the prior-year period. In addition, a provision of EUR 70 million (CHF 102 million) was recognised in the first quarter of 2010 for VAT proceedings against Fastweb. At constant exchange rates and adjusted for the provision for Fastweb, revenue and EBITDA declined by 0.6% and 1.4% respectively. Fastweb's net revenue fell by 5.8% in local currency terms to EUR 435 million. Net revenue excluding Fastweb rose by 0.8% or CHF 18 million to CHF 2,303 million, chiefly due to the acquisition of subsidiaries.

The CHF 97 million or 25.7% increase in net income to CHF 474 million is largely attributable to the aforementioned provision recognised in the previous year for VAT proceedings against Fastweb. Earnings per share rose by 19.0% to CHF 9.05.

Capital expenditure increased by CHF 39 million or 10.2% to CHF 422 million, mainly due to higher levels of investment in telecoms infrastructure in Switzerland.

Net debt declined by CHF 289 million from the end of 2010 to CHF 8,559 million at the end of March 2011.

Headcount increased year-on-year by 237 full-time equivalents or 1.2% to 19,664 full-time equivalent employees, largely due to the acquisition of subsidiaries at Swisscom IT Services and Swisscom Switzerland.

The financial outlook for the 2011 business year remains unchanged. Swisscom expects to close 2011 with net revenue of at least CHF 11.8 billion, EBITDA in excess of CHF 4.6 billion and capital expenditure below CHF 2.0 billion. After a transitional year in 2011 – with no revenue growth, but slightly higher EBITDA – Swisscom expects Fastweb to post strong revenue and cash flow growth in the years ahead thanks to marketing initiatives and efficiency improvements. Projected capital expenditure does not include expenses in connection with the planned mobile frequency auction. The outlook is also bound up with uncertainty regarding currency movements. The conversion of Fastweb's financial results is based on an assumed euro exchange rate of CHF 1.30 (prior year CHF 1.37). If all targets are met, Swisscom will propose a minimum dividend of CHF 21 per share for the 2011 financial year.

Segment results

In CHF million	31.3.2011	31.3.2010	Change
Swisscom Switzerland	2,084	2,091	-0.3%
Fastweb	562	672	-16.4%
Other operating segments	422	408	3.4%
Group Headquarters	2	1	-
Intersegment elimination	(208)	(219)	-5.0%
Total net revenue	2,862	2,953	-3.1%

In CHF million	31.3.2011	31.3.2010	Change
Swisscom Switzerland	947	929	1.9%
Fastweb	139	82	69.5%
Other operating segments	70	81	-13.6%
Group Headquarters	(25)	(32)	-21.9%
Intersegment elimination	(5)	(2)	-
Total operating income before depreciation and amortisation (EBITDA)	1,126	1,058	6.4%

Swisscom's reporting is divided into the segments "Residential Customers", "Small & Medium-Sized Enterprises", "Corporate Business", "Wholesale" and "Networks & IT", as well as "Fastweb" and "Other operating segments". "Group Headquarters", which includes non-allocated costs, is reported separately.

The divisions of Swisscom Switzerland are reported as individual segments. The support functions of Swisscom Switzerland – finance, human resources and strategy – are included in the Networks & IT division. The revenue and results of the segments correspond to the internal reporting system. No separate network costs are charged for financial management of the customer segments Residential Customers, Small & Medium-Sized Enterprises, Corporate Business as well as those of Wholesale. The results of the customer segments therefore correspond to a contribution margin before network costs. Network costs are budgeted, monitored and controlled by the Networks & IT division, which is managed as a cost center. Consequently, no revenue is credited to the Networks & IT segment in the context of segment reporting. The segment result of the Networks & IT segment consists of operating expenses as well as depreciation and amortisation less capitalised self-constructed assets and other income. The total segment result for Swisscom Switzerland corresponds to the operating income (EBIT) of Swisscom Switzerland.

The segment result for Fastweb and Other operating segments corresponds to the operating income (EBIT) of these units. This covers net revenue from external customers and other segments less segment expense and depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets. Segment expense includes goods and services purchased, personnel expense and other operating expenses less capitalised self-constructed assets and other income. Group Headquarters does not charge financial management fees to other segments, nor does the Networks & IT segment charge any network costs to other segments. Other inter-segment services are billed at market prices.

Swisscom Switzerland

In CHF million, except where indicated	31.3.2011	31.3.2010	Change
Revenue from external customers	2,067	2,075	-0.4%
Intersegment revenue	17	16	6.3%
Net revenue Swisscom Switzerland	2,084	2,091	-0.3%
Direct costs	(433)	(439)	-1.4%
Indirect costs (including capitalised self-constructed assets and other income)	(704)	(723)	-2.6%
Total segment expense	(1,137)	(1,162)	-2.2%
Segment result before depreciation and amortisation	947	929	1.9%
Margin as % of net revenue	45.4	44.4	
Depreciation, amortisation and impairment losses	(253)	(264)	-4.2%
Segment result	694	665	4.4%
Capital expenditure	270	222	21.6%
Full-time equivalent employees at end of period	11,814	11,811	-
Telephone access lines PSTN/ISDN in thousand	3,201	3,346	-4.3%
Unbundled fixed access lines in thousand	270	192	40.6%
Total telephone access lines in thousand	3,471	3,538	-1.9%
Broadband access lines retail in thousand	1,605	1,509	6.4%
Broadband access lines wholesale in thousand	214	293	-27.0%
Swisscom TV subscribers in thousand	469	275	70.5%
Mobile subscribers (SIM cards) in thousand	5,861	5,650	3.7%
Average revenue in CHF per mobile user (ARPU) per month	46	47	-2.1%
Average minutes per mobile user (AMPU) per month	120	116	3.4%

Revenue generated by Swisscom Switzerland from external customers was virtually unchanged compared to the prior year despite continuing price erosion. Revenue from external customers fell by CHF 8 million or 0.4% to CHF 2,067 million. Price erosion in Swiss core business of CHF 141 million was almost compensated by the growth in customer numbers and volume of CHF 133 million. The trend towards bundled offerings and new price models (flat-rate tariffs) continued during the reporting period. The number of PSTN/ISDN access lines decreased by 145,000 or 4.3% to 3.20 million due to a combination of loss of market share to cable network operators on the one hand, and an increase in unbundled access lines from 78,000 to 270,000 on the other. This increase was driven primarily by the migration of wholesale customers from broadband access lines to unbundled access lines, resulting in wholesale broadband access lines declining by 79,000 to 214,000. By contrast, the number of retail broadband access lines increased by 96,000 or 6.4% to 1.61 million. At the end of the first quarter of 2011, the number of Swisscom TV customers totalled 469,000, equivalent to a year-on-year increase of 70.5%. The number of mobile subscribers increased year-on-year by 211,000 or 3.7% to 5.86 million. Thanks to sustained customer growth and higher smartphone sales, revenue from mobile data services rose by CHF 21 million or 23.1% to CHF 112 million. This volume growth more than compensated for the reduction in mobile data roaming prices. Average monthly revenue per mobile user (ARPU) fell by 2.1% to CHF 46 as result of price reductions and new tariff models. Thanks to cost savings, the segment result before depreciation and amortisation grew by CHF 18 million or 1.9% to CHF 947 million, despite revenue being flat. This led to a 1.0 percentage point increase in profit margin to 45.4%.

Residential Customers

The Residential Customers segment mainly comprises access fees for broadband services, fixed and mobile subscriptions as well as national and international telephone and data traffic for residential customers. The segment also includes value-added services, TV offerings, handset sales and directories business.

In CHF million, except where indicated	31.3.2011	31.3.2010	Change
Revenue from external customers	1,201	1,186	1.3%
Intersegment revenue	62	72	-13.9%
Net revenue	1,263	1,258	0.4%
Segment expenses	(510)	(511)	-0.2%
Segment result before depreciation and amortisation	753	747	0.8%
Margin as % of net revenue	59.6	59.4	
Capital expenditure	26	28	-7.1%
Full-time equivalent employees at end of period	4,670	4,653	0.4%
Telephone access lines PSTN/ISDN in thousand	2,444	2,581	-5.3%
Broadband access lines in thousand	1,413	1,333	6.0%
Swisscom TV subscribers in thousand	455	268	69.8%
Mobile subscribers (SIM cards) in thousand	4,520	4,438	1.8%

Revenue from external customers grew year-on-year by CHF 15 million or 1.3% to CHF 1,201 million. In addition to the economic recovery, this increase is chiefly due to sustained customer growth, positive performance of the new bundled offerings and higher smartphone sales. Mobile revenue rose thanks to increased use of mobile data services and customer growth and despite continuing price erosion and the introduction of new (flat-rate) tariff models. The number of mobile subscribers increased year-on-year by 82,000 or 1.8% to 4.52 million. The customer growth in broadband, Swisscom TV and bundled offerings in the fixed-network area failed to fully offset the decline in traditional voice and phone line business. The number of broadband access lines rose by 80,000 or 6.0% year-on-year to CHF 1.41 million, while the number of Swisscom TV customers grew by 69.8% or 187,000 to 455,000 in the space of a year. Bundled offerings enjoyed growing popularity, with the number of triple-play customers (Swisscom TV, broadband and fixed-line telephony) in the Residential Customers segment totalling 251,000 at the end of the first quarter of 2011, representing a year-on-year increase of 172,000. Segment expense was virtually unchanged year-on-year at CHF 510 million. The additional advertising, customer acquisition and retention costs were almost offset by lower termination and roaming costs. The segment result before depreciation and amortisation rose by CHF 6 million or 0.8% to CHF 753 million, and the profit margin increased by 0.2 percentage points to 59.6%. Headcount increased year-on-year by 0.4% to 4,670 full-time equivalents.

Small & Medium-Sized Enterprises

The Small & Medium-Sized Enterprises segment mainly comprises access fees for broadband services, fixed-line and mobile subscriptions as well as national and international telephone and data traffic for small and medium-sized enterprises.

In CHF million, except where indicated	31.3.2011	31.3.2010	Change
Revenue from external customers	276	271	1.8%
Intersegment revenue	11	14	-21.4%
Net revenue	287	285	0.7%
Segment expenses	(73)	(75)	-2.7%
Segment result before depreciation and amortisation	214	210	1.9%
Margin as % of net revenue	74.6	73.7	
Capital expenditure	3	1	-
Full-time equivalent employees at end of period	738	756	-2.4%
Telephone access lines PSTN/ISDN in thousand	512	514	-0.4%
Broadband access lines in thousand	162	148	9.5%
Swisscom TV subscribers in thousand	14	7	100.0%
Mobile subscribers (SIM cards) in thousand	497	468	6.2%

Revenue from external customers grew year-on-year by CHF 5 million or 1.8% to CHF 276 million, chiefly driven by mobile subscriber growth and higher revenue from mobile data services. Despite lower traffic volumes and a reduction in tariffs, fixed-network revenue remained on a par with the prior year thanks to growth in bundled products. The number of mobile subscribers grew by 29,000 or 6.2% to 497,000. The number of broadband access lines rose year-on-year by 14,000 or 9.5% to 162,000. Compared to the previous year, segment expense fell by CHF 2 million or 2.7% to CHF 73 million. The segment result before depreciation and amortisation rose accordingly by CHF 4 million or 1.9% to CHF 214 million and the profit margin from 73.7% to 74.6%. Headcount decreased year-on-year by 18 full-time equivalents or 2.4% to 738 full-time equivalents.

Corporate Business

The Corporate Business segment specialises in communications solutions for corporate customers. Offerings range from individual products to integrated solutions for business ICT infrastructures. These include a comprehensive range of services for the planning, installation, commissioning, maintenance and operation of fixed and mobile network infrastructures and associated IT systems.

In CHF million, except where indicated

	31.3.2011	31.3.2010	Change
Revenue from external customers	427	414	3.1%
Intersegment revenue	28	32	-12.5%
Net revenue	455	446	2.0%
Segment expenses	(225)	(209)	7.7%
Segment result before depreciation and amortisation	230	237	-3.0%
<i>Margin as % of net revenue</i>	<i>50.5</i>	<i>53.1</i>	
Capital expenditure	18	14	28.6%
Full-time equivalent employees at end of period	2,322	2,210	5.1%
Telephone access lines PSTN/ISDN in thousand	245	251	-2.4%
Broadband access lines in thousand	30	28	7.1%
Mobile subscribers (SIM cards) in thousand	844	744	13.4%

Revenue from external customers grew year-on-year by CHF 13 million or 3.1% to CHF 427 million. This increase was largely the result of growth in outsourcing and project business and the rising demand for mobile data services. In addition, Axept AG was acquired at the end of 2010, which contributed CHF 7 million to the increase in revenue. This more than offset the decline in prices and volumes in the fixed-network area and lower traffic and subscription prices in the mobile sector. Segment expense rose by CHF 16 million or 7.7% to CHF 225 million due to higher headcount and increased expenditure for outsourcing and project business. The segment result before depreciation and amortisation consequently fell by CHF 7 million or 3.0% to CHF 230 million, while the profit margin declined from 53.1% to 50.5%. The increase in headcount of 112 full-time equivalents or 5.1% to 2,322 full-time equivalents is principally due to the acquisition of Axept AG at the end of 2010.

Wholesale

Wholesale primarily covers the use of Swisscom fixed and mobile networks by other telecoms providers as well as the use of third-party networks by Swisscom. In addition, it includes roaming by foreign operators whose customers use the Swisscom mobile network, as well as broadband services and regulated products related to the unbundling of the local loop for other telecoms providers.

In CHF million, except where indicated

	31.3.2011	31.3.2010	Change
Revenue from external customers	163	204	-20.1%
Intersegment revenue	96	122	-21.3%
Net revenue	259	326	-20.6%
Segment expenses	(157)	(207)	-24.2%
Segment result before depreciation and amortisation	102	119	-14.3%
<i>Margin as % of net revenue</i>	<i>39.4</i>	<i>36.5</i>	
Full-time equivalent employees at end of period	100	104	-3.8%
Broadband access lines in thousand	214	293	-27.0%
Unbundled fixed access lines in thousand	270	192	40.6%

Revenue from external customers decreased year-on-year by CHF 41 million or 20.1% to CHF 163 million. Revenue from mobile telephony declined mainly as a result of lower termination and roaming fees. Other declines in revenue were attributable to a reduction in data services and continued unbundling of the local loop. The number of wholesale broadband access lines fell by 79,000 to 214,000 during the last twelve months, while the number of unbundled access lines increased by 78,000 to 270,000 in the same period. Intersegment revenue was down CHF 26 million or 21.3% to CHF 96 million, mainly as a result of lower termination and roaming fees. Segment expense fell by CHF 50 million or 24.2% to CHF 157 million. The reduction in costs is largely a consequence of lower termination and roaming fees. The segment result fell by CHF 17 million or 14.3% to CHF 102 million, mainly due to a decline in revenue from external customers. The fall in intersegment revenue had only a minimal impact on the segment's overall result. Headcount fell by 3.8% year-on-year to 100 full-time equivalents.

Networks & IT

The Networks & IT segment primarily covers the planning, operation and maintenance of Swisscom's fixed and mobile network infrastructures and associated IT systems. It also includes the support functions for Swisscom Switzerland, namely finance, human resources and strategy. Since expenses incurred are not charged to individual business units, the segment discloses costs only and no revenue.

In CHF million, except where indicated

	31.3.2011	31.3.2010	Change
Operating expenses	(393)	(428)	-8.2%
Capitalised self-constructed assets and other income	41	44	-6.8%
Segment result before depreciation and amortisation	(352)	(384)	-8.3%
Depreciation, amortisation and impairment losses	(214)	(225)	-4.9%
Segment result	(566)	(609)	-7.1%
Capital expenditure	224	180	24.4%
Full-time equivalent employees at end of period	3,984	4,088	-2.5%

The segment result before depreciation and amortisation improved by CHF 32 million or 8.3% to CHF –352 million. The decline in operating expenses is chiefly due to the headcount reduction as a result of efficiency improvements. Headcount fell by 104 full-time equivalents or 2.5% year-on-year to 3,984 full-time equivalents. The segment result improved by CHF 43 million or 7.1% to CHF –566 million, due to reduced operating expenses on the one hand and lower depreciation and amortisation on the other. The main reason for the CHF 11 million decline in depreciation and amortisation is the change in useful life for fibre-optic cables from 20 years to 30 years. The increase in capital expenditure of CHF 44 million or 24.4% to CHF 224 million compared to the previous year is largely attributable to the continued expansion of the fibre-optic network and mobile network.

Fastweb

Fastweb is the third largest broadband telecoms company in Italy. Fastweb offers products and services for voice, data, Internet and TV, as well as a full range of VPN and mobile communication services. Fastweb offers its services in all larger towns and cities in Italy as well as in all market segments. The services are offered directly via the company's own fibre-optic network, via unbundled access lines as well as via wholesale products of Telecom Italia.

In EUR million, except where indicated	31.3.2011	31.3.2010	Change
Revenue from external customers	433	460	-5.9%
Intersegment revenue	2	2	-
Net revenue	435	462	-5.8%
Segment expenses	(328)	(405)	-19.0%
Segment result before depreciation and amortisation	107	57	87.7%
Margin as % of net revenue	24.6	12.3	
Capital expenditure	98	99	-1.0%
Full-time equivalent employees at end of period	3,103	3,119	-0.5%
Broadband subscribers in Italy in thousand	1,733	1,678	3.3%

Net revenue fell by 5.8% or EUR 27 million to EUR 435 million year-on-year, chiefly as a result of lower revenue from residential customers. In a bid to reduce costs and bad debt losses, the Residential Customers segment streamlined its product portfolio. Price pressure continues. As a result, revenue from residential customers fell year-on-year by EUR 32 million or 14.3% to EUR 191 million. The number of broadband subscribers grew by net 55,000 or 3.3% to 1.73 million in the space of a year. At the end of the first quarter of 2011, Fastweb launched a new TV and broadband bundled offering in collaboration with Sky Italia which aims to generate further customer growth. Revenue from corporate business was up 4.9% or EUR 9 million to EUR 188 million, with Fastweb benefiting from multi-year contracts with public administration offices and the acquisition of other corporate customers from industry and the financial sector.

The segment result before depreciation and amortisation totalled EUR 107 million, equivalent to a year-on-year increase of EUR 50 million or 87.7%. In the first quarter of 2010 VAT proceedings were instigated against Fastweb, which resulted in a provision of EUR 70 million being recognised under other operating expense. Adjusted for this one-off item, the segment result before depreciation and amortisation fell by EUR 20 million or 15.7% as a consequence of the streamlined product portfolio and price reductions, while the profit margin fell by 2.9 percentage points.

At 31 March 2011, headcount was 3,103 full-time equivalents, equivalent to a year-on-year decline of 16 full-time equivalents or 0.5%. Capital expenditure fell by EUR 1 million or 1.0% to EUR 98 million. Around 45% of investment spending related directly to customer growth.

In the consolidated financial statements of Swisscom the weakening of the euro negatively impacted revenue as well as the segment result before depreciation and amortisation. The average CHF/EUR exchange rate fell by 11.1% year-on-year. In Swiss francs net revenue fell by 16.4% compared to 5.8% in local currency terms. The segment result before depreciation and amortisation increased by 69.5% in Swiss francs, while in local currency terms this increase amounted to 87.7%.

Other operating segments

Other operating segments mainly comprise Swisscom IT Services, Swisscom Participations and Swisscom Hospitality Services. Swisscom IT Services' core business encompasses the realisation of large IT projects (including consultancy and the implementation of new systems), the management of complex IT infrastructures, end-user services and service desk services. Swisscom IT Services is also the leading provider of integrated banking solutions, including peripheral systems, as well as Business Process Outsourcing (BPO) for the Swiss financial sector. In addition, Swisscom IT Services offers its customers the full range of SAP services, from SAP consulting and SAP industry solutions to SAP operation. The purpose of the companies belonging to Swisscom Participations is to identify and tap growth potential in areas closely related to Swisscom's core business. Swisscom Hospitality Services specialises in serving the communications needs of the hotel industry.

In CHF million, except where indicated	31.3.2011	31.3.2010	Change
Revenue from external customers	236	210	12.4%
Intersegment revenue	186	198	-6.1%
Net revenue	422	408	3.4%
Segment expenses	(352)	(327)	7.6%
Segment result before depreciation and amortisation	70	81	-13.6%
Margin as % of net revenue	16.6	19.9	
Capital expenditure	32	19	68.4%
Full-time equivalent employees at end of period	4,394	4,160	5.6%

Revenue from external customers increased year-on-year by CHF 26 million or 12.4% to CHF 236 million, while revenue generated from external customers by Swisscom IT Services was up by CHF 23 million or 19.7% to CHF 140 million. Excluding acquisitions, revenue from external customers rose by CHF 10 million or 7.7% year-on-year, largely due to higher revenues from project business with companies in the financial sector. At CHF 78 million, revenue from external customers at Swisscom Participations increased by CHF 4 million or 5.4% year-on-year. This is chiefly due to higher revenue for construction services performed at Calex. Intersegment revenue fell year-on-year by CHF 12 million or 6.1% to CHF 186 million, largely due to the lower volume of services procured from Swisscom IT Services by other segments compared to the previous year.

At CHF 352 million, segment expense was CHF 25 million or 7.6% higher than the previous-year level, mainly due to the acquisition of subsidiaries and an increase in construction services at Calex. The segment result before depreciation and amortisation fell by CHF 11 million or 13.6% to CHF 70 million, which is chiefly the result of revenue growth with lower margins. At 4,394 full-time equivalents, headcount at 31 March 2011 was 234 full-time equivalents or 5.6% higher than a year earlier. The increase is chiefly due to the acquisition of subsidiaries. Capital expenditure increased by CHF 13 million or 68.4% to CHF 32 million, largely due to increased investment activities at Swisscom IT Services.

Group Headquarters

Group Headquarters chiefly comprises the four divisions Group Finance & Controlling, Group Strategy & Business Development, Group Communications and Group Human Resources, as well as the employment company Worklink AG.

In CHF million, except where indicated	31.3.2011	31.3.2010	Change
Net revenue	2	1	100.0%
Operating expenses	(27)	(33)	-18.2%
Operating income before depreciation and amortisation (EBITDA)	(25)	(32)	-21.9%
Full-time equivalent employees at end of period	353	337	4.7%

The operating result before depreciation and amortisation improved by CHF 7 million year-on-year to CHF 25 million. This improvement can largely be attributed to the reversal of provisions for headcount reduction.

Depreciation, amortisation and non-operating results

In CHF million, except where indicated	31.3.2011	31.3.2010	Change
Operating income before depreciation and amortisation (EBITDA)	1,126	1,058	6.4%
Depreciation, amortisation and impairment losses	(478)	(501)	-4.6%
Operating income (EBIT)	648	557	16.3%
Financial income and financial expense, net	(42)	(64)	-34.4%
Share of results of associated companies	4	4	-
Income before income taxes	610	497	22.7%
Income tax expense	(136)	(120)	13.3%
Net income	474	377	25.7%
Share of net income attributable to equity holders of Swisscom Ltd	469	394	19.0%
Share of net income attributable to minority interests	5	(17)	-
Average number of shares outstanding (in millions)	51.800	51.798	-
Earnings per share (in CHF)	9.05	7.61	19.0%

Depreciation, amortisation and impairment losses declined year-on-year by CHF 23 million or 4.6% to CHF 478 million. The decrease was mainly attributable to currency effects. In addition, from fiscal year 2011 the useful life for fibre-optic cables has been increased from 20 to 30 years. This had a positive impact on depreciation and amortisation in the first quarter of 2011 of CHF 4 million. Depreciation and amortisation includes scheduled amortisation related to business combinations amounting to CHF 35 million (prior year: CHF 39 million), which were capitalised as intangible assets for purchase price allocation purposes.

Net financial expense improved by CHF 22 million year-on-year to CHF 42 million, largely due to an improvement in net interest result. Net interest expense for the first three months of 2011 was CHF 46 million (prior year: CHF 66 million).

Income tax expense amounted to CHF 136 million (prior year: CHF 120 million), corresponding to an effective income tax rate of 22.3% (prior year: 24.1%). The decrease in the effective income tax rate is mainly attributable to the fact that no positive tax effects were recognised on the provision for the VAT proceedings against Fastweb in the first quarter of 2010. Excluding one-off items, a long-term income tax rate of around 21% is expected in future. At CHF 119 million, income tax payments were CHF 61 million higher than a year earlier.

Net income increased year-on-year by CHF 97 million or 25.7% to CHF 474 million. This was primarily attributable to the provision for the VAT proceedings against Fastweb, which was recognised in the first quarter of 2010. Excluding this one-off item, net income remained practically stable versus a year earlier. Earnings per share are calculated on the basis of net income attributable to the equity holders of Swisscom Ltd and average number of shares outstanding. Share of net income attributable to equity holders of Swisscom Ltd increased year-on-year by 19.0% to CHF 469 million. Earnings per share rose accordingly from CHF 7.61 to CHF 9.05.

Cash flows

In CHF million	31.3.2011	31.3.2010	Change
Operating income before depreciation and amortisation (EBITDA)	1,126	1,058	68
Capital expenditure	(422)	(383)	(39)
Proceeds from sale of property, plant and equipment and other intangible assets	7	3	4
Change in defined benefit obligations	(23)	(35)	12
Change in net working capital and other cash flow from operating activities	(225)	99	(324)
Operating free cash flow	463	742	(279)
Net interest paid	(13)	(15)	2
Income taxes paid	(119)	(58)	(61)
Free cash flow	331	669	(338)
Other cash flows from investing activities, net	(8)	44	(52)
Issuance and repayment of financial liabilities, net	(231)	(363)	132
Purchase of minority interests of Fastweb	(92)	—	(92)
Other cash flows from financing activities	(5)	(5)	—
(Net decrease) net increase in cash and cash equivalents	(5)	345	(350)

Operating free cash flow declined by CHF 279 million or 37.6% to CHF 463 million, largely due to an increase in net working capital as a result of higher trade receivables at Swisscom Switzerland and lower trade payables. In the first quarter of 2010, the operating result before depreciation and amortisation (EBITDA) and the change in net working capital reflect the recognition of a provision for the VAT proceedings against Fastweb totalling CHF 102 million. Capital expenditure increased by CHF 39 million or 10.2% to CHF 422 million, due to higher levels of investment in telecommunications infrastructure in Switzerland. The buyout process for the minority stakes in Fastweb was completed in the first quarter of 2011 and the remaining purchase amount of EUR 71 million (CHF 92 million) was paid. The total price for the outstanding minority shares in Fastweb amounted to EUR 256 million.

Net debt

In CHF million, except where indicated	31.3.2011	31.12.2010	Change
Money market borrowings	590	700	(110)
Debenture bonds	5,239	5,195	44
Bank loans	1,355	1,460	(105)
Private placements	1,425	1,409	16
Finance lease liabilities	671	675	(4)
Other financial liabilities	193	333	(140)
Total financial liabilities	9,473	9,772	(299)
Cash and cash equivalents	(484)	(483)	(1)
Current financial assets	(120)	(122)	2
Non-current fixed interest-bearing deposits	(310)	(319)	9
Net debt	8,559	8,848	(289)

Net debt consists of financial liabilities less cash and cash equivalents, current financial assets and non-current fixed-interest-bearing investments. Swisscom has set itself the goal of achieving a maximum net debt/EBITDA ratio of around 2.0. This value may be exceeded temporarily. Any figure below this represents financial room for manoeuvre. At 31 December 2010 the net debt/EBITDA ratio was 1.9.

Balance sheet

In CHF million	31.3.2011	31.12.2010	Change
Assets			
Cash and cash equivalents and current financial assets	604	605	-0.2%
Trade and other receivables	2,893	2,742	5.5%
Property, plant and equipment	7,985	7,899	1.1%
Goodwill	6,353	6,261	1.5%
Other intangible assets	2,015	2,023	-0.4%
Investments in associated companies and non-current financial assets	653	646	1.1%
Other current and non-current assets	866	827	4.7%
Total assets	21,369	21,003	1.7%
Liabilities and equity			
Financial liabilities	9,473	9,772	-3.1%
Trade and other payables	2,212	2,215	-0.1%
Defined benefit obligations	896	1,283	-30.2%
Provisions	833	862	-3.4%
Tax liabilities	659	588	12.1%
Other current and non-current liabilities	1,060	1,005	5.5%
Total liabilities	15,133	15,725	-3.8%
Share of equity attributable to equity holders of Swisscom Ltd	6,202	5,250	18.1%
Share of equity attributable to minority interests	34	28	21.4%
Total equity	6,236	5,278	18.2%
Total liabilities and equity	21,369	21,003	1.7%
Equity ratio at end of period	29.2%	25.1%	

Total assets at 31 March 2011 amounted to CHF 21,369 million, an increase of CHF 366 million or 1.7% versus the end of 2010. Equity rose by CHF 958 million or 18.2% to CHF 6,236 million. The increase in equity is made up of net income of CHF 474 million and other comprehensive income recognised in equity of CHF 487 million. The other comprehensive income includes currency translation gains of CHF 221 million in respect of foreign subsidiaries and mainly as a result of changes in interest rates actuarial gains of CHF 367 million from defined benefit pension plans. Compared to the end of 2010, the CHF/EUR exchange rate increased from 1.25 to 1.30. At 31 March 2011 cumulative currency translation losses recognised in equity amounted to around CHF 1.6 billion.

Litigation

In October 2002 the Competition Commission launched an investigation into termination fees in the mobile communications market. The Competition Commission concluded in its investigation that Swisscom commanded a dominant position in the market and that it had abused this position by levying unreasonably high fees on other telecoms service providers between 1 April 2004 and 31 May 2005. It therefore imposed a fine of CHF 333 million on Swisscom in February 2007. Swisscom challenged the ruling and took the case to the Federal Supreme Court, the court of final appeal. In its ruling of 11 April 2011, the Federal Supreme Court upheld Swisscom's appeal against the allegation that it occupied a market-dominant position. As a result, Swisscom is not required to pay the fine of CHF 333 million imposed by the Competition Commission. Swisscom had not recognised any provisions for the sanction proceedings.

Outlook

The financial outlook for the 2011 business year remains unchanged. Swisscom expects to close 2011 with net revenue of at least CHF 11.8 billion, EBITDA in excess of CHF 4.6 billion and capital expenditure below CHF 2.0 billion. After a transitional year in 2011 – with no revenue growth, but slightly higher EBITDA – Swisscom expects Fastweb to post strong revenue and cash flow growth in the years ahead thanks to marketing initiatives and efficiency improvements. Projected capital expenditure does not include expenses in connection with the planned mobile frequency auction. The outlook is also bound up with uncertainty regarding currency movements. The conversion of Fastweb's financial results is based on an assumed euro exchange rate of CHF 1.30 (prior year CHF 1.37). If all targets are met, Swisscom will propose a minimum dividend of CHF 21 per share for the 2011 financial year.

Consolidated interim financial statements (condensed and unaudited)

Consolidated income statement (condensed and unaudited)

In CHF million, except where indicated	Note	1.1.–31.3.2011	1.1.–31.3.2010 restated ¹
Net revenue	3	2,862	2,953
Goods and services purchased		(599)	(642)
Personnel expense		(635)	(651)
Other operating expense		(577)	(676)
Capitalised self-constructed assets and other income		75	74
Operating income before depreciation and amortisation (EBITDA)		1,126	1,058
Depreciation, amortisation and impairment losses		(478)	(501)
Operating income (EBIT)	3	648	557
Financial income and financial expense, net	4	(42)	(64)
Share of results of associated companies		4	4
Income before income taxes		610	497
Income tax expense		(136)	(120)
Net income		474	377
Share of net income attributable to equity holders of Swisscom Ltd		469	394
Share of net income attributable to minority interests		5	(17)
Basic and diluted earnings per share (in CHF)		9.05	7.61

¹ See Note 1 accounting policies.

Consolidated statement of comprehensive income (unaudited)

In CHF million	1.1.–31.3.2011	1.1.–31.3.2010 restated ¹
Net income	474	377
Foreign currency translation adjustments of foreign subsidiaries	221	(254)
Change in fair value of cash flow hedges	7	6
Gains and losses from cash flow hedges transferred to income statement	4	–
Actuarial gains and losses from defined benefit plans	367	(24)
Income tax expense	(112)	(5)
Other comprehensive income	487	(277)
Comprehensive income	961	100
Share of comprehensive income attributable to equity holders of Swisscom Ltd	955	128
Share of comprehensive income attributable to minority interests	6	(28)

¹ See Note 1 accounting policies.

Consolidated balance sheet (condensed and unaudited)

In CHF million	Note	31.3.2011	31.12.2010 restated ¹	1.1.2010 restated ¹
Assets				
Cash and cash equivalents	484	483	532	
Trade and other receivables	2,893	2,742	2,926	
Other financial assets	120	122	178	
Other assets	591	509	512	
Non-current assets held for sale	5	4	6	
Total current assets	4,093	3,860	4,154	
Property, plant and equipment	7,985	7,899	8,176	
Goodwill and other intangible assets	8,368	8,284	9,022	
Investments in associated companies	240	231	228	
Other financial assets	413	415	424	
Other assets	270	314	196	
Total non-current assets	17,276	17,143	18,046	
Total assets	21,369	21,003	22,200	
Liabilities and equity				
Financial liabilities	5	864	941	1,270
Trade and other payables		2,212	2,215	2,314
Current income tax liabilities		84	35	219
Provisions	6	129	146	137
Other liabilities		748	685	701
Total current liabilities	4,037	4,022	4,641	
Financial liabilities	5	8,609	8,831	8,949
Defined benefit obligations		896	1,283	827
Provisions	6	704	716	740
Deferred tax liabilities		575	553	523
Other liabilities		312	320	330
Total non-current liabilities	11,096	11,703	11,369	
Total liabilities	15,133	15,725	16,010	
Share of equity attributable to equity holders of Swisscom Ltd		6,202	5,250	5,871
Share of equity attributable to minority interests		34	28	319
Total equity	6,236	5,278	6,190	
Total liabilities and equity	21,369	21,003	22,200	

¹ See Note 1 accounting policies.

Consolidated cash flow statement (condensed and unaudited)

In CHF million	1.1.-31.3.2011	1.1.-31.3.2010
Operating income before depreciation and amortisation (EBITDA)	1,126	1,058
Change in operating assets and liabilities and other payments or receipts from operating activities	(231)	64
Income taxes paid	(119)	(58)
Cash flow provided by operating activities	776	1,064
Capital expenditure	(422)	(383)
Other cash flows from investing activities, net	(8)	56
Cash flow used in investing activities	(430)	(327)
Issuance and repayment of financial liabilities, net	(231)	(363)
Purchase of minority interests of Fastweb	(92)	—
Other cash flows from financing activities, net	(28)	(29)
Cash flow used in financing activities	(351)	(392)
(Net decrease) net increase in cash and cash equivalents	(5)	345
Cash and cash equivalents at beginning of year	483	532
Foreign currency translation adjustments in respect of cash and cash equivalents	6	(11)
Cash and cash equivalents at end of period	484	866

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 minority interests	Total equity
Balance at 31 December 2009	52	370	6,700	(1)	(830)	6,291	319	6,610
Change in accounting policies ¹	—	—	(420)	—	—	(420)	—	(420)
Balance at 1 January 2010, restated	52	370	6,280	(1)	(830)	5,871	319	6,190
Net income	—	—	394	—	—	394	(17)	377
Other comprehensive income	—	—	(20)	—	(246)	(266)	(11)	(277)
Comprehensive income	—	—	374	—	(246)	128	(28)	100
Balance at 31 March 2010	52	370	6,654	(1)	(1,076)	5,999	291	6,290
Balance at 31 December 2010	52	370	6,415	(1)	(1,586)	5,250	28	5,278
Net income	—	—	469	—	—	469	5	474
Other comprehensive income	—	—	307	—	179	486	1	487
Comprehensive income	—	—	776	—	179	955	6	961
Acquisition of treasury shares for share-based payments	—	—	—	(3)	—	(3)	—	(3)
Balance at 31 March 2011	52	370	7,191	(4)	(1,407)	6,202	34	6,236

¹ See Note 1 accounting policies.

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 controlled directly or indirectly via a majority of the votes or in any other way (hereinafter referred to as Swisscom). The consolidated interim financial statements for the three months to 31 March 2011 were prepared in accordance with International Accounting Standard "IAS 34 Interim Financial Reporting" and should be read in conjunction with the consolidated annual financial statements for the financial year ended 31 December 2010. The consolidated interim financial statements were prepared in accordance with the accounting policies described in the 2010 consolidated annual financial statements, with the exception of the following changes in accounting policies.

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 is active 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 whole year.

For the consolidated interim financial statements a CHF/EUR exchange rate of 1.301 was used as the end-of-period rate (31 December 2010 CHF/EUR 1.250) and 1.291 as the average rate for the period (prior year: CHF/EUR 1.453).

The following changes in International Financial Reporting Standards and Interpretations were applied for the first time in the year under review:

From 1 January 2011 Swisscom is applying several changes to the existing International Financial Reporting Standards (IFRSs) and Interpretations which have no material impact on the results of operations or financial situation of the Group.

Voluntary change in accounting policies

To increase transparency of reporting, actuarial gains and losses arising from defined benefit pension plans are no longer recognised using the “corridor” method but instead are reported in full in the period in which they occur, under other comprehensive income. Under the corridor method, actuarial gains and losses were recognised as a personnel expense over the assumed average remaining working lives of the insured if they exceeded 10% of the greater of the defined benefit obligation or fair value of the plan assets. The change has been made retrospectively. The effects on the balance sheet and income statement are as follows:

	Reported	Adjustment	Restated
In CHF million			
Balance sheet at 1 January 2010			
Deferred tax assets	57	94	151
Defined benefit assets	38	(38)	—
Defined benefit obligations	351	476	827
Equity	6,610	(420)	6,190
Share of equity attributable to equity holders of Swisscom Ltd	6,291	(420)	5,871
Share of equity attributable to minority interests	319	—	319
In CHF million			
Balance sheet at 1 January 2011			
Deferred tax assets	71	199	270
Defined benefit assets	263	(263)	—
Defined benefit obligations	341	942	1,283
Equity	6,284	(1,006)	5,278
Share of equity attributable to equity holders of Swisscom Ltd	6,256	(1,006)	5,250
Share of equity attributable to minority interests	28	—	28
In CHF million			
Income statement full year 2010			
Personnel expense	(2,520)	2	(2,518)
Net income	1,786	2	1,788
Share of net income attributable to equity holders of Swisscom Ltd	1,811	2	1,813
Share of net income attributable to minority interests	(25)	—	(25)
Earnings per share	34.96	0.04	35.00

Change in useful lives of fixed assets

Following agreements between Swisscom and regional utilities concerning the joint construction of fibre-optic networks, a review of the useful lives of fibre-optic cables was carried out. Until now Swisscom has applied a useful life of 20 years for these cables. Following the review and taking economic factors into account, the useful life for fibre-optic cables was adjusted from 20 years to 30 years. In line with IAS 8 the change has been applied prospectively from 1 January 2011. The effect on depreciation and amortisation for the full year 2011 is CHF 14 million, of which CHF 4 million for the first quarter of 2011.

2 Purchase of minority interests

In May 2007 Swisscom acquired 82.08% of Fastweb S.p.A. (Fastweb) in a friendly takeover. On 11 October 2010 Swisscom launched a public takeover bid for the remaining 17.92% of Fastweb shares. The bid period ran until 12 November 2010. Swisscom offered a price of EUR 18.00 per Fastweb share. By the end of the bid period 12.75% of the shares had been tendered, corresponding to a purchase price of EUR 183 million (CHF 243 million). By the end of 2010 a further 0.16% had been acquired via the stock exchange for EUR 2 million (CHF 3 million). A buyout process was initiated for the remaining 5.01% of Fastweb's shares and a financial liability of EUR 71 million (CHF 96 million) was recognised as at 31 December 2010. The bid price per Fastweb share was EUR 18.00. In the buyout process, completed in March 2011, a further 3.16% of the shares were tendered. In addition, Swisscom purchased the remaining Fastweb shares that were still on the market and de-listed Fastweb from the Milan stock exchange on 22 March 2011. The total purchase price for the outstanding minority shares was EUR 256 million. Transaction costs of CHF 7 million were incurred in connection with the buyout of the outstanding minority shares.

3 Segment information

Reportable operating segments are identified using the management approach, whereby external segment reporting is based on the internal organisational and management structure and the internal financial reports that are regularly reviewed by the chief operating decision maker. Swisscom's chief operating decision maker is the Board of Directors of Swisscom Ltd.

Swisscom's reporting is divided into the segments "Residential Customers", "Small & Medium-Sized Enterprises", "Corporate Business", "Wholesale" and "Network & IT", as well as "Fastweb" and "Other operating segments". "Group Headquarters", which includes non-allocated costs, is reported separately.

Group Headquarters does not charge financial management fees to other segments, nor does the Networks & IT segment charge any network costs to other segments. The results of the Residential Customers, Small & Medium-Sized Enterprises and Wholesale segments therefore correspond to a contribution margin before network costs. The segment result of the Networks & IT segment consists of operating expenses as well as depreciation and amortisation less capitalised self-constructed assets and other income. The total segment result for Swisscom Switzerland corresponds to the operating income (EBIT) of Swisscom Switzerland. The segment result for Fastweb and Other operating segments corresponds to the operating income (EBIT) of these units. This covers net revenue from external customers and other segments less segment expense and depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets. Segment expense includes goods and services purchased, personnel expense and other operating expenses less capitalised self-constructed assets and other income.

Other inter-segment services are billed at market prices. Cross-charging of services and sales of assets between the individual segments can result in unrealised gains or losses. These are eliminated and reported under segment information in the "Elimination" column.

Net revenue and results of the individual segments are as follows for the first three months of 2010 and 2011:

1.1.–31.3.2011, in CHF million	Swisscom Switzerland	Fastweb	Other operating segments	Group Head-quarters	Elimination	Total
Net revenue from external customers	2,067	559	236	–	–	2,862
Net revenue with other segments	17	3	186	2	(208)	–
Net revenue	2,084	562	422	2	(208)	2,862
Segment result	694	(44)	28	(28)	(2)	648
Financial income and financial expense, net					(42)	
Share of results of associated companies					4	
Income before income taxes						610
Income tax expense					(136)	
Net income						474

1.1.–31.3.2011, in CHF million	Residential Customers	Small & Medium-Sized Enterprises	Corporate Business	Wholesale	Networks & IT	Elimination	Swisscom Switzerland
Net revenue from external customers	1,201	276	427	163	–	–	2,067
Net revenue with other segments	62	11	28	96	–	(180)	17
Net revenue	1,263	287	455	259	–	(180)	2,084
Segment result	729	213	216	102	(566)	–	694

1.1.–31.3.2010, in CHF million	Swisscom Switzerland	Fastweb	Other operating segments	Group Head-quarters	Elimination	Total
Net revenue from external customers	2,075	668	210	–	–	2,953
Net revenue with other segments	16	4	198	1	(219)	–
Net revenue	2,091	672	408	1	(219)	2,953
Segment result	665	(106)	33	(34)	(1)	557
Financial income and financial expense, net					(64)	
Share of results of associated companies					4	
Income before income taxes						497
Income tax expense					(120)	
Net income						377

1.1.–31.3.2010, in CHF million	Residential Customers	Small & Medium-Sized Enterprises	Corporate Business	Wholesale	Networks & IT	Elimination	Swisscom Switzerland
Net revenue from external customers	1,186	271	414	204	–	–	2,075
Net revenue with other segments	72	14	32	122	–	(224)	16
Net revenue	1,258	285	446	326	–	(224)	2,091
Segment result	722	209	224	119	(609)	–	665

4 Net financial result

In CHF million	1.1.–31.3.2011	1.1.–31.3.2010
Interest income	21	8
Interest expense	(67)	(74)
Net interest expense	(46)	(66)
Other financial income and expense, net	4	2
Financial income and financial expense, net	(42)	(64)

5 Financial liabilities

In CHF million	31.3.2011	31.12.2010
Money market borrowings	590	700
Bank loans	55	16
Debenture bonds	119	76
Private placements	4	1
Other financial liabilities	96	148
Total current financial liabilities	864	941
Bank loans	1,301	1,444
Debenture bonds	5,120	5,119
Private placements	1,421	1,408
Finance lease liabilities	616	661
Other financial liabilities	151	199
Total non-current financial liabilities	8,609	8,831
Total financial liabilities	9,473	9,772

6 Provisions

In CHF million	Dismantlement and restoration costs	Regulatory proceedings	Other	Total
Balance at 31 December 2010	487	159	216	862
Additions of provisions	1	5	5	11
Present-value adjustments	3	1	–	4
Release of unused provisions	(19)	–	(3)	(22)
Use of provisions	–	(13)	(12)	(25)
Foreign currency translation adjustments	–	–	3	3
Balance at 31 March 2011	472	152	209	833
Thereof current provisions	–	13	116	129
Thereof non-current provisions	472	139	93	704

Provisions for dismantlement and restoration costs

The provisions for dismantling and restoration costs relate to the dismantling of mobile base stations and transmitters of Swisscom Broadcast and restoration of the land held by third-party owners to the original state. The provisions are measured based on estimated future dismantling costs and discounted using an average interest rate of 2.99%. In the first quarter of 2011 the effect from

the use of different interest rates and adjustment of the estimated costs amounted to CHF 19 million. Of this amount, adjustments of CHF 16 million were recorded under property, plant and equipment and CHF 3 million were recognised in the income statement. The non-current portion of the provision is expected to be settled subsequent to 2020.

Provisions for regulatory proceedings in Switzerland

In accordance with the terms of the revised Telecommunications Act, Swisscom provides interconnection services and other access services for other providers of telecoms services in Switzerland. During the last few years several telecoms service providers have filed applications with the Federal Communications Commission (ComCo) calling for a reduction in the fees billed to them by Swisscom. On the basis of legal assessments Swisscom has in the past recognised provisions. The provisions recognised in the 2010 consolidated financial statements have not changed to any material extent in the current financial year.

Other provisions

Other provisions mainly include provisions for the VAT proceedings against Fastweb, termination benefits, environmental, contractual and tax risks, as well as provisions for claims. Other provisions recognised in the consolidated financial statements for 2010 have not changed to any material extent in the current year.

7 Contingent liabilities

Competition law investigation concerning mobile termination fees

On 15 October 2002 the Competition Commission (ComCo) launched an investigation into the mobile termination fees of the three mobile phone operators Swisscom, Sunrise and Orange. These are the fees that a mobile phone operator levies on other telecoms service providers for routing calls through its network. The Competition Commission concluded in its investigation that Swisscom held a dominant position in the market and that it had abused this position by levying unreasonably high fees on other telecoms service providers between 1 April 2004 and 31 May 2005. It therefore imposed a fine of CHF 333 million on Swisscom on 5 February 2007. At the same time, the Competition Commission continued its investigation into the mobile termination fees of all three mobile phone operators for the period after 31 May 2005. Following an appeal by Swisscom, the Federal Administrative Court confirmed in its findings that Swisscom commanded a dominant position in the mobile termination market, but rejected the Competition Commission's allegation of abuse and overturned the fine. Swisscom filed a complaint with the Federal Supreme Court against the allegation that it occupied a dominant market position, while the Federal Department of Economic Affairs (FDEA) challenged the rejection of the abuse allegation and the overturning of the fine. In its ruling of 11 April 2011 the Federal Supreme Court rejected the complaint of the FDEA and upheld Swisscom's appeal against the allegation that it commanded a market-dominant position. In its ruling, the Federal Supreme Court states that Swisscom did not act improperly when setting mobile termination fees and that there is no legal basis to conclude that the company occupies a dominant position in the market. The Federal Supreme Court therefore agrees with Swisscom's arguments and has fully overturned the sanction ruling imposed by the Competition Commission in respect of mobile termination fees. As a result, Swisscom is not required to pay the fine of CHF 333 million imposed by the Competition Commission. Swisscom had not recognised any provisions for the sanction proceedings.

Other competition law and regulatory proceedings

With regard to the other contingent liabilities described in the consolidated financial statements relating to the competition law and regulatory proceedings, Swisscom is of the opinion that it is unlikely that the fine will be imposed and has therefore not recognised any provisions in the consolidated financial statements as at 31 March 2011. In the event of a court ruling that Swisscom has abused its market position claims may be brought against Swisscom under civil law. Swisscom still considers it unlikely that such civil law claims could be enforced.

8 Related parties

Transactions between Swisscom and various related parties in the first three months of 2011 are similar to those described in the consolidated financial statements for 2010.

9 Events after the balance sheet date

Approval of the interim report

The Board of Directors of Swisscom Ltd approved the release of this interim report on 3 May 2011.

Competition law investigation concerning mobile termination fees

In its ruling of 11 April 2011, the Federal Supreme Court overturned the sanction ruling imposed by the Competition Commission in respect of mobile termination fees. As a result, Swisscom will not have to pay the fine of CHF 333 million imposed by the Competition Commission. See Note 7.

Dividend

The Annual General Meeting of Swisscom Ltd approved the payment of an ordinary dividend of CHF 21 per share on 20 April 2011. A total dividend of CHF 1,088 million was paid out on 29 April 2011.

Share information

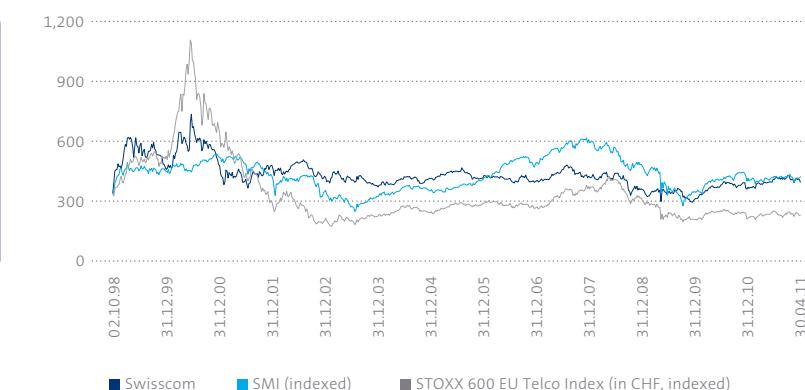
31.12.2010–31.3.2011	virt-x
Quoted price at 31 December 2010 in CHF ¹	411.10
Quoted price at 31 March 2011 in CHF ¹	409.50
Year high in CHF ¹	433.50
Year low in CHF ¹	387.10
Total trading volume	7,256,634
Daily average of traded shares	113,385
Total turnover in CHF million	2,987.3
Daily average in CHF million	46.7

Source: Bloomberg

¹ paid prices

Share performance since the IPO

Share performance 1998–2011 in CHF



Share information

On 31 March 2011 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 terms of the Telecommunications Enterprise Act (TEA). The par value per registered share is CHF 1.

At the end of March 2011 Swisscom had 60,006 registered shareholders and around 15% unregistered shareholdings.

At the Annual General Meeting of 20 April 2011 the shareholders of Swisscom Ltd approved a gross dividend payment of CHF 21 per share. A total dividend of CHF 1,088 million was paid out on 29 April 2011.

Each registered share entitles the holder to one vote. Voting rights can only be exercised if the shareholder has been entered with voting rights in the share register of Swisscom Ltd. The Board of Directors may refuse to enter a shareholder with voting rights in the share register if such voting rights exceed 5% of the company's share capital.

Financial calendar

> 11 August 2011	2011 Half-Year Results
> 9 November 2011	2011 Third-Quarter Report
> February 2012	2011 Annual Results
> 4 April 2012	Annual General Meeting

Stock exchanges

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

Stock exchange	Bloomberg	Reuters	Telekurs
virt-x, London	SCMN, VX	SCM.VX	SCMN, VTX

Quarterly review 2010 and 2011

In CHF million, except where indicated	1. quarter	2. quarter	3. quarter	4. quarter	2010	1. quarter	2. quarter	3. quarter	4. quarter	31.3.2011
Net revenue	2,953	2,993	3,030	3,012	11,988	2,862				2,862
Goods and services purchased	(642)	(626)	(671)	(726)	(2,665)	(599)				(599)
Personnel expense	(651)	(644)	(583)	(640)	(2,518)	(635)				(635)
Other operating expense	(676)	(572)	(594)	(668)	(2,510)	(577)				(577)
Capitalised self-constructed assets and other income	74	79	76	75	304	75				75
Operating income (EBITDA)	1,058	1,230	1,258	1,053	4,599	1,126				1,126
Depreciation and amortisation	(501)	(489)	(488)	(494)	(1,972)	(478)				(478)
Operating income (EBIT)	557	741	770	559	2,627	648				648
Net financial result	(64)	(100)	(113)	(88)	(365)	(42)				(42)
Share of results of associated companies	4	7	7	10	28	4				4
Income before income taxes	497	648	664	481	2,290	610				610
Income tax expense	(120)	(151)	(129)	(102)	(502)	(136)				(136)
Net income	377	497	535	379	1,788	474				474
Attributable to equity holders of Swisscom Ltd	394	494	536	389	1,813	469				469
Attributable to minority interests	(17)	3	(1)	(10)	(25)	5				5
Earnings per share in CHF	7.61	9.54	10.35	7.50	35.00	9.05				9.05
Net revenue by segments										
Swisscom Switzerland	2,091	2,132	2,177	2,166	8,566	2,084				2,084
Fastweb	672	659	624	621	2,576	562				562
Other operating segments	408	420	451	457	1,736	422				422
Group Headquarters	1	2	1	2	6	2				2
Intersegment elimination	(219)	(220)	(223)	(234)	(896)	(208)				(208)
Total net revenue	2,953	2,993	3,030	3,012	11,988	2,862				2,862
Segment result before depreciation and amortisation										
Swisscom Switzerland	929	972	1,012	891	3,804	947				947
Fastweb	82	203	188	116	589	139				139
Other operating segments	81	86	98	75	340	70				70
Group Headquarters	(32)	(28)	(36)	(27)	(123)	(25)				(25)
Intersegment elimination	(2)	(3)	(4)	(2)	(11)	(5)				(5)
Total segment result (EBITDA)	1,058	1,230	1,258	1,053	4,599	1,126				1,126
Capital expenditure										
Swisscom Switzerland	222	259	303	420	1,204	270				270
Fastweb	144	149	128	164	585	126				126
Other operating segments	19	24	36	51	130	32				32
Intersegment elimination	(2)	(1)	(5)	(8)	(16)	(6)				(6)
Total capital expenditure	383	431	462	627	1,903	422				422
Number of full-time equivalent employees at end of period										
Swisscom Switzerland	11,811	11,710	11,665	11,716	11,716	11,814				11,814
Fastweb	3,119	3,133	3,125	3,123	3,123	3,103				3,103
Other operating segments	4,160	4,296	4,381	4,368	4,368	4,394				4,394
Group Headquarters	337	341	340	340	340	353				353
Total full-time equivalent employees	19,427	19,480	19,511	19,547	19,547	19,664				19,664
Operating free cash flow	742	674	607	489	2,512	463				463
Net debt	8,537	9,227	8,807	8,848	8,848	8,559				8,559

Quarterly review 2010 and 2011

In CHF million, except where indicated	1. quarter	2. quarter	3. quarter	4. quarter	2010	1. quarter	2. quarter	3. quarter	4. quarter	31.3.2011
Swisscom Switzerland										
Revenue and results										
Residential Customers	481	512	542	506	2,041	492				492
Small & Medium-Sized Enterprises	110	120	125	120	475	116				116
Corporate Business	143	153	152	152	600	150				150
Wholesale	98	93	92	77	360	75				75
Revenue wireless	832	878	911	855	3,476	833				833
Residential Customers	538	532	531	537	2,138	526				526
Small & Medium-Sized Enterprises	151	152	152	150	605	150				150
Corporate Business	185	182	180	185	732	178				178
Wholesale	105	95	95	86	381	86				86
Revenue wireline	979	961	958	958	3,856	940				940
Residential Customers	21	23	27	28	99	30				30
Small & Medium-Sized Enterprises	1	1	2	1	5	2				2
Corporate Business	2	1	3	2	8	3				3
Revenue convergent products	24	25	32	31	112	35				35
Small & Medium-Sized Enterprises	—	1	1	—	2	1				1
Corporate Business	32	33	31	50	146	39				39
Revenue solutions business	32	34	32	50	148	40				40
Residential Customers	146	139	157	177	619	153				153
Small & Medium-Sized Enterprises	9	9	6	12	36	7				7
Corporate Business	52	65	65	64	246	57				57
Wholesale	1	4	—	2	7	2				2
Revenue other	208	217	228	255	908	219				219
Residential Customers	1,186	1,206	1,257	1,248	4,897	1,201				1,201
Small & Medium-Sized Enterprises	271	283	286	283	1,123	276				276
Corporate Business	414	434	431	453	1,732	427				427
Wholesale	204	192	187	165	748	163				163
Revenue from external customers	2,075	2,115	2,161	2,149	8,500	2,067				2,067
Segment result before depreciation and amortisation										
Residential Customers	747	778	789	694	3,008	753				753
Small & Medium-Sized Enterprises	210	220	224	215	869	214				214
Corporate Business	237	252	252	250	991	230				230
Wholesale	119	109	102	109	439	102				102
Networks & IT	(384)	(386)	(356)	(376)	(1,502)	(352)				(352)
Intersegment elimination	—	(1)	1	(1)	(1)	—				—
Segment result (EBITDA)	929	972	1,012	891	3,804	947				947
Margin as % of net revenue	44.4	45.6	46.5	41.1	44.4	45.4				45.4

Quarterly review 2010 and 2011

In thousand, except where indicated	1. quarter	2. quarter	3. quarter	4. quarter	2010	1. quarter	2. quarter	3. quarter	4. quarter	31.3.2011
Swisscom Switzerland										
Operational data										
Residential Customers	2,581	2,542	2,507	2,475	2,475	2,444				2,444
Small & Medium-Sized Enterprises	514	513	513	512	512	512				512
Corporate Business	251	249	247	246	246	245				245
Access lines PSTN/ISDN	3,346	3,304	3,267	3,233	3,233	3,201				3,201
Unbundled fixed access lines	192	219	238	255	255	270				270
Telephone access lines	3,538	3,523	3,505	3,488	3,488	3,471				3,471
Residential Customers	1,333	1,349	1,369	1,396	1,396	1,413				1,413
Small & Medium-Sized Enterprises	148	152	155	158	158	162				162
Corporate Business	28	29	29	30	30	30				30
Broadband access lines retail	1,509	1,530	1,553	1,584	1,584	1,605				1,605
Wholesale	293	260	240	226	226	214				214
Broadband access lines	1,802	1,790	1,793	1,810	1,810	1,819				1,819
Residential Customers	268	308	348	409	409	455				455
Small & Medium-Sized Enterprises	7	9	10	12	12	14				14
Swisscom TV subscribers	275	317	358	421	421	469				469
Residential customers postpaid	2,201	2,207	2,221	2,231	2,231	2,218				2,218
Residential customers prepaid	2,180	2,180	2,198	2,213	2,213	2,222				2,222
Small & Medium-Sized Enterprises	466	475	482	489	489	494				494
Corporate Business	744	764	789	817	817	844				844
Mobile subscribers single subscriptions	5,591	5,626	5,690	5,750	5,750	5,778				5,778
Residential Customers	57	63	68	75	75	80				80
Small & Medium-Sized Enterprises	2	2	3	3	3	3				3
Mobile subscribers convergent products	59	65	71	78	78	83				83
Mobile subscribers	5,650	5,691	5,761	5,828	5,828	5,861				5,861
Residential Customers	40	42	45	41	42	39				39
Small & Medium-Sized Enterprises	89	95	97	90	93	85				85
Corporate Business	67	70	68	64	67	61				61
ARPU mobile per month in CHF	47	50	52	48	49	46				46
Residential Customers	99	101	101	105	102	105				105
Small & Medium-Sized Enterprises	203	213	212	214	211	205				205
Corporate Business	168	168	162	164	166	156				156
AMPU mobile per month in minutes	116	119	118	122	119	120				120
Traffic retail in million minutes	2,434	2,269	2,162	2,297	9,162	2,242				2,242
Traffic wholesale in million minutes	2,642	2,394	2,222	2,381	9,639	2,363				2,363

In EUR million, except where indicated

Fastweb										
Residential Customers	223	218	202	200	702	191				191
Small & Medium-Sized Enterprises	60	63	55	58	392	56				56
Corporate Business	177	189	210	215	776	186				186
Revenue from external customers	460	470	467	473	1,870	433				433
Segment result (EBITDA)	57	143	141	92	433	107				107
Broadband subscribers in thousand	1,678	1,694	1,712	1,724	1,724	1,733				1,733

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.

