

2013

Interim Report
January–June



swisscom



Facts & Figures

In CHF million, except where indicated	1 st half-year 2013	1 st half-year 2012	Change
Net revenue and results			
Net revenue	5,596	5,621	-0.4%
Operating income before depreciation and amortisation (EBITDA) ¹	2,102	2,224	-5.5%
EBITDA as % of net revenue	% 37.6	39.6	
Operating income (EBIT) ²	1,110	1,261	-12.0%
Net income	819	907	-9.7%
Share of net income attributable to equity holders of Swisscom Ltd	815	900	-9.4%
Earnings per share	CHF 15.73	17.37	-9.4%
Balance sheet and cash flows			
Equity at end of period	4,685	4,388	6.8%
Equity ratio at end of period ³	% 23.7	22.3	
Capital expenditure	1,021	1,017	0.4%
Operating free cash flow ⁴	860	979	-12.2%
Net debt at end of period ⁵	8,622	9,144	-5.7%
Operational data			
Fixed access lines in Switzerland	in thousand 2,936	3,058	-4.0%
Broadband access lines retail in Switzerland	in thousand 1,767	1,694	4.3%
Swisscom TV access lines in Switzerland	in thousand 902	694	30.0%
Mobile access lines in Switzerland	in thousand 6,307	6,114	3.2%
Unbundled fixed access lines in Switzerland	in thousand 280	317	-11.7%
Broadband access lines wholesale in Switzerland	in thousand 201	176	14.2%
Broadband access lines in Italy	in thousand 1,887	1,673	12.8%
Swisscom share			
Number of shares issued at end of period	in mio. 51.802	51.802	-
Quoted price at end of period	CHF 413.60	381.20	8.5%
Market capitalisation at end of period ⁶	21,425	19,747	8.5%
Employees			
Full-time equivalent employees at end of period	FTE 19,859	19,805	0.3%
Full-time equivalent employees in Switzerland at end of period	FTE 17,096	16,426	4.1%

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 (EBITDA), change in operating assets and liabilities less net capital expenditure in tangible and other intangible assets and dividends paid to non-controlling interests.

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

⁶ Quoted price at end of period, multiplied by number of shares outstanding at end of period.

Group financial review

Summary

In CHF million, except where indicated	1 st half-year 2013	1 st half-year 2012	Change
Net revenue	5,596	5,621	-0.4%
Operating income before depreciation and amortisation (EBITDA)	2,102	2,224	-5.5%
EBITDA as % of net revenue	37.6	39.6	
Operating income (EBIT)	1,110	1,261	-12.0%
Net income	819	907	-9.7%
Earnings per share (in CHF)	15.73	17.37	-9.4%
Capital expenditure	1,021	1,017	0.4%
Operating free cash flow	860	979	-12.2%
Net debt at end of period	8,622	9,144	-5.7%
Full-time equivalent employees at end of period	19,859	19,805	0.3%

Swisscom posted a fall in net revenue of CHF 25 million or 0.4% to CHF 5,596 million for the first half of 2013 and a drop in operating income before depreciation and amortisation (EBITDA) of CHF 122 million or 5.5% to CHF 2,102 million. At constant exchange rates and excluding hubbing revenues from Fastweb (wholesale revenues from interconnection services) and revenue effects from company acquisitions, net revenue shrank by 1.0%. The decline was mainly attributable to general price erosion and lower roaming fees in Swiss core business, which were largely offset by customer and volume growth. On a like-for-like basis, EBITDA was 5.9% lower, reflecting mainly the fall in revenue coupled with higher subscriber acquisition costs in Swiss core business and at Fastweb. In addition, network maintenance and IT expenses in Switzerland increased. Net revenue from Swiss business dropped by CHF 37 million or 0.8% to CHF 4,526 million and EBITDA on a like-for-like basis by CHF 92 million or 4.7% to CHF 1,861 million. Net revenue posted by Fastweb (excluding revenue from hubbing) fell in local currency terms by EUR 13 million or 1.6% to EUR 785 million and EBITDA dropped by EUR 23 million or 9.9% to EUR 210 million. Net income posted by Swisscom declined by CHF 88 million or 9.7% to CHF 819 million, largely due to the drop in EBITDA.

Capital expenditure increased by CHF 4 million or 0.4% to CHF 1,021 million. In Switzerland, capital expenditure fell short of the prior-year level, down CHF 34 million or 4.6% to CHF 706 million, mainly due to unfavourable weather conditions. In Italy, Fastweb increased capital expenditure by EUR 28 million or 12.3% to EUR 256 million by expanding the country's fibre-optic networks. Operating free cash flow declined by CHF 119 million or 12.2% to CHF 860 million, mainly reflecting the fall in operating income before depreciation and amortisation (EBITDA). Net debt increased by CHF 551 million or 6.8% to CHF 8,622 million versus the end of 2012, primarily due to the dividend payout of CHF 1,140 million in April 2013.

Overall headcount increased year-on-year by 54 full-time equivalent positions or 0.3% to 19,859 FTEs. The higher headcount attributable to company acquisitions and the insourcing of external staff in Swiss business was offset by a fall at Fastweb due to the outsourcing of jobs in customer care and network maintenance. In Switzerland, headcount grew by 670 FTEs or 4.1% to 17,096 FTEs. Swisscom expects company acquisitions to generate additional revenue in 2013 of around CHF 150 million, albeit with a minimal impact on the other financial targets set for the current year. Swisscom expects now to close the 2013 financial year with net revenue in excess of CHF 11.4 billion versus the hitherto estimate of around CHF 11.3 billion. It also anticipates EBITDA of at least CHF 4.25 billion and capital expenditure in the region of CHF 2.4 billion. Subject to achieving its targets, Swisscom will again propose a dividend of CHF 22 per share for the 2013 financial year at the Annual General Meeting.

Segment results

In CHF million	2 nd quarter 2013	2 nd quarter 2012	Change	1 st half-year 2013	1 st half-year 2012	Change
Net revenue						
Residential Customers	1,289	1,247	3.4%	2,520	2,499	0.8%
Small & Medium-Sized Enterprises	289	293	-1.4%	569	581	-2.1%
Corporate Business	443	458	-3.3%	882	906	-2.6%
Wholesale	244	239	2.1%	481	480	0.2%
Intersegment elimination	(156)	(151)	3.3%	(302)	(301)	0.3%
Swisscom Switzerland	2,109	2,086	1.1%	4,150	4,165	-0.4%
Fastweb	509	516	-1.4%	996	1,026	-2.9%
Other operating segments	454	425	6.8%	866	852	1.6%
Group Headquarters	1	1	-	1	1	-
Intersegment elimination	(211)	(209)	1.0%	(417)	(423)	-1.4%
Net revenue	2,862	2,819	1.5%	5,596	5,621	-0.4%
Operating income before depreciation and amortisation (EBITDA)						
Residential Customers	731	744	-1.7%	1,441	1,492	-3.4%
Small & Medium-Sized Enterprises	216	225	-4.0%	429	448	-4.2%
Corporate Business	226	235	-3.8%	446	465	-4.1%
Wholesale	96	89	7.9%	192	183	4.9%
Network & IT	(380)	(358)	6.1%	(742)	(730)	1.6%
Intersegment elimination	(1)	-	-	(1)	-	-
Swisscom Switzerland	888	935	-5.0%	1,765	1,858	-5.0%
Fastweb	139	149	-6.7%	258	280	-7.9%
Other operating segments	86	75	14.7%	159	145	9.7%
Group Headquarters	(30)	(30)	-	(59)	(57)	3.5%
Intersegment elimination	(5)	(6)	-16.7%	(9)	(11)	-18.2%
Reconciliation to pension cost ¹	(7)	3	-	(12)	9	-
Operating income before depreciation and amortisation (EBITDA)	1,071	1,126	-4.9%	2,102	2,224	-5.5%

¹ Ordinary employer contributions as pension cost are included in segment results. The difference to the pension cost under IAS 19 is disclosed as a reconciliation item.

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

Swisscom Switzerland is the Swiss market leader in the field of telecommunications. Fastweb is one of the largest broadband telecoms companies in Italy. Other operating segments mainly comprise Swisscom Participations and Swisscom IT Services, the leading provider of IT services in Switzerland. Group Headquarters chiefly comprises the Group divisions Group Business Steering, Group Strategy & Innovation, Group Communications & Responsibility and Group Human Resources, as well as the employment agency Worklink AG.

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

Segment expense comprises goods and services purchased, personnel expense and other operating expenses less capitalised self-constructed assets and other income. Segment expense includes the employer's ordinary contributions as pension cost. The difference between the ordinary employer contributions and pension cost under IAS 19 is disclosed as a reconciliation item between the segment results and the Group result.

Swisscom Switzerland

In CHF million, except where indicated	2 nd quarter 2013	2 nd quarter 2012	Change	1 st half-year 2013	1 st half-year 2012	Change
Net revenue and results						
Mobile single subscriptions	696	756	-7.9%	1,369	1,487	-7.9%
Fixed-line single subscriptions	556	620	-10.3%	1,130	1,263	-10.5%
Bundles	376	272	38.2%	725	525	38.1%
Wholesale	146	147	-0.7%	295	300	-1.7%
Other	320	278	15.1%	600	563	6.6%
Revenue from external customers	2,094	2,073	1.0%	4,119	4,138	-0.5%
Intersegment revenue	15	13	15.4%	31	27	14.8%
Net revenue	2,109	2,086	1.1%	4,150	4,165	-0.4%
Direct costs	(449)	(404)	11.1%	(869)	(806)	7.8%
Indirect costs	(772)	(747)	3.3%	(1,516)	(1,501)	1.0%
Segment expense	(1,221)	(1,151)	6.1%	(2,385)	(2,307)	3.4%
Segment result before depreciation and amortisation	888	935	-5.0%	1,765	1,858	-5.0%
Margin as % of net revenue	42.1	44.8		42.5	44.6	
Depreciation, amortisation and impairment losses	(277)	(258)	7.4%	(545)	(515)	5.8%
Segment result	611	677	-9.7%	1,220	1,343	-9.2%
Operational data at the balance sheet date in thousand						
Fixed access lines				2,936	3,058	-4.0%
Broadband access lines retail				1,767	1,694	4.3%
Swisscom TV access lines				902	694	30.0%
Mobile access lines				6,307	6,114	3.2%
Bundles				889	699	27.2%
Unbundled fixed access lines				280	317	-11.7%
Broadband access lines wholesale				201	176	14.2%
Revenue generating units (RGU)				11,912	11,560	3.0%
Capital expenditure and headcount						
Capital expenditure	354	329	7.6%	638	666	-4.2%
Full-time equivalent employees at end of period				12,344	11,915	3.6%

Revenue from external customers fell by CHF 19 million or 0.5% in the first half-year of 2013 to CHF 4,119 million (+1.0% in the second quarter). The fall was mainly attributable to general price erosion of around CHF 200 million and lower roaming fees of around CHF 90 million and was largely offset by continuing customer and volume growth of around CHF 260 million. Higher revenue in the second quarter of 2013 was attributable to the purchase of a majority shareholding in Cinetrade, Switzerland's leading film rights and content trading company for the purchase and commercialisation of programme and sports broadcast rights. The number of revenue-generating units (RGUs) with end customers increased year-on-year by 352,000 or 3.0% to 11.9 million (+61,000 in the second quarter).

The new NATEL infinity mobile subscriptions launched in June 2012, allowing unlimited calling, texting and Internet surfing to all networks, remain very popular with customers. By the end of June 2013, over 1.3 million customers, or around a third of all monthly subscribers, had signed up for the new infinity subscriptions (+200,000 in the second quarter). The number of mobile lines increased year-on-year by 193,000 or 3.2% to 6.3 million (+37,000 in the second quarter). The number of post-paid customers grew by 244,000 (+53,000 in the second quarter), while the number of prepaid customers declined by 51,000 (-16,000 in the second quarter). In the first half of 2013, Swisscom sold a total of 773,000 mobile devices (+20.8%), of which 66% were smartphones.

Demand remains high for bundled offerings such as Vivo Libero, which includes Internet access and TV, or Vivo Casa and Vivo Tutto, which combine fixed-line access with telephony, Internet and TV and the additional option of a mobile line. Within the space of a year, the number of customers using bundled offerings grew by 190,000 or 27.2% to 889,000 (+47,000 in the second quarter). Revenue from bundled offerings rose year-on-year by CHF 200 million or 38.1% to CHF 725 million (+38.7% in the second quarter). Key drivers in bundled business are television and mobile communications.

The number of Swisscom TV connections increased year-on-year by 208,000 or 30.0% to 902,000 (+42,000 in the second quarter), of which 849,000 were fixed-fee subscriptions. Broadband lines with end customers grew year-on-year by 73,000 or 4.3% to 1.77 million (+16,000 in the second quarter). The number of fixed lines declined by 122,000 or 4.0% year-on-year to 2.9 million (-34,000 in the second quarter), chiefly due to customers migrating to cable network providers or switching from fixed to mobile. The number of wholesale broadband lines rose by 25,000 or 14.2% to 201,000 (+5,000 in the second quarter). Unbundled subscriber lines fell by 37,000 or 11.7% year-on-year to 280,000 (-10,000 in the second quarter).

Segment expense increased in the first half of 2013 by CHF 78 million or 3.4% to CHF 2,385 million (+6.1% in the second quarter). The CHF 63 million or 7.8% rise in direct costs to CHF 869 million (+11.1% in the second quarter) reflects higher goods purchased and subscriber acquisition costs. The CHF 15 million or 1.0% increase in indirect costs to CHF 1,516 million (+3.3% in the second quarter) was mainly attributable to increased weather-related expenditure on maintenance and repairs as well as higher IT costs. Personnel expense fell by CHF 9 million or 1.0% to CHF 853 million. Adjusted for restructuring-related costs and additional personnel costs by company acquisitions, personnel expense increased by CHF 2 million. The segment result before depreciation and amortisation declined by CHF 93 million or 5.0% to CHF 1,765 million, narrowing the profit margin accordingly by 2.1 percentage points to 42.5%.

Depreciation and amortisation increased year-on-year by CHF 30 million or 5.8% to CHF 545 million due primarily to the amortisation of mobile licences acquired in the previous year and increased depreciation due to the ongoing expansion of the fibre-optic network. The segment result declined accordingly by CHF 123 million or 9.2% to CHF 1,220 million. Capital expenditure decreased year-on-year by CHF 28 million or 4.2% to CHF 638 million. Lower year-on-year capital expenditure on network infrastructure expansion was mainly due to unfavourable weather conditions. The head-count increased year-on-year by 429 FTEs or 3.6% to 12,344 FTEs, largely due to the acquisition of Cinetrade and the insourcing of employees.

Fastweb

In EUR million, except where indicated	2 nd quarter 2013	2 nd quarter 2012	Change	1 st half-year 2013	1 st half-year 2012	Change
Residential Customers	186	182	2.2%	372	364	2.2%
Corporate Business	193	196	-1.5%	371	379	-2.1%
Wholesale hubbing	11	28	-60.7%	25	55	-54.5%
Wholesale other	21	22	-4.5%	40	51	-21.6%
Revenue from external customers	411	428	-4.0%	808	849	-4.8%
Intersegment revenue	1	2	-50.0%	2	4	-50.0%
Net revenue	412	430	-4.2%	810	853	-5.0%
Segment expense	(299)	(306)	-2.3%	(600)	(620)	-3.2%
Segment result before depreciation and amortisation	113	124	-8.9%	210	233	-9.9%
Margin as % of net revenue	27.4	28.8		25.9	27.3	
Capital expenditure	130	116	12.1%	256	228	12.3%
Full-time equivalent employees at end of period				2,379	3,032	-21.5%
Broadband access lines in thousand				1,887	1,673	12.8%

Net revenue at Fastweb fell in the first half of 2013 by EUR 43 million or 5.0% to EUR 810 million (−4.2% in the second quarter), and was mainly due to the planned reduction in revenues from interconnection services (hubbing). Low-margin hubbing revenue contracted by EUR 30 million. Excluding hubbing, revenue dropped year-on-year by EUR 13 million or 1.6% to EUR 785 million (−0.2% in the second quarter). Fastweb's broadband customer base grew year-on-year by 214,000 or 12.8% to 1.89 million (+26,000 in the second quarter), also thanks to the bundled TV and broadband package offered in partnership with Sky Italia. In the residential customer segment, fierce competition drove down average year-on-year revenue per broadband customer by around 9.0%, but this was more than outweighed by customer growth. Residential customer revenue rose year-on-year by EUR 8 million or 2.2% to EUR 372 million (+2.2% in the second quarter). By contrast, business customer revenue contracted by EUR 8 million or 2.1% to EUR 371 million (−1.5% in the second quarter), while other wholesale revenue was EUR 11 million or 21.6% lower at EUR 40 million (−4.5% in the second quarter).

In the first-half of 2013 segment result before depreciation and amortisation fell by EUR 23 million or 9.9% to EUR 210 million (−8.9% in the second quarter), mainly due to increased subscriber acquisition costs and the launch of new fibre-optic offerings. The profit margin shrank by 1.4 percentage points to 25.9%.

Headcount at 30 June 2013 totalled 2,379 FTEs, which equates to a fall of 653 FTEs or 21.5% versus the previous year. The decrease reflects the outsourcing of jobs in customer care and network maintenance. Spending on fibre-optic network expansion in Italy resulted in a rise in capital expenditure of EUR 28 million or 12.3% to EUR 256 million (+12.1% in the second quarter) and a ratio of capital expenditure to net revenue of 31.6% (prior year: 26.7%). Around 39% of investment spending related directly to customer growth.

In the Swisscom consolidated financial statements, the strengthening of the euro impacted positively on revenue and on the segment result before depreciation and amortisation. The average CHF/EUR exchange rate applied was 2.1% higher compared with the prior-year period. In Swiss franc terms, net revenue declined by 2.9% versus 5.0% in local currency. The segment result before depreciation and amortisation was 7.9% lower in Swiss francs and 9.9% lower in local currency.

Other operating segments

In CHF million, except where indicated	2 nd quarter 2013	2 nd quarter 2012	Change	1 st half-year 2013	1 st half-year 2012	Change
Revenue from external customers	261	232	12.5%	484	461	5.0%
Intersegment revenue	193	193	—	382	391	-2.3%
Net revenue	454	425	6.8%	866	852	1.6%
Segment expense	(368)	(350)	5.1%	(707)	(707)	—
Segment result before depreciation and amortisation	86	75	14.7%	159	145	9.7%
Margin as % of net revenue	18.9	17.6		18.4	17.0	
Capital expenditure				76	85	-10.6%
Full-time equivalent employees at end of period				4,802	4,509	6.5%

In the first-half of 2013 revenue from external customers increased by CHF 23 million or 5.0% to CHF 484 million (+12.5% in the second quarter). At Swisscom IT Services, revenue from external customers rose by CHF 19 million or 7.1% to CHF 287 million (+21.5% in the second quarter), mainly thanks to the business platform acquired from Entris Banking in the second quarter of 2013. Incoming orders at Swisscom IT Services rose year-on-year by CHF 225 million or 127.1% to CHF 402 million (+126.7% in the second quarter). Intersegment revenue fell year-on-year by CHF 9 million or 2.3% to CHF 382 million, largely due to a lower volume of construction services rendered by Swisscom Participations for Swisscom Switzerland.

Segment expense remained largely unchanged at CHF 707 million (+5.1% in the second quarter). Lower costs resulting from efficiency improvements were offset by higher costs from company acquisitions. The first-half segment result before depreciation and amortisation rose by CHF 14 million or 9.7% year-on-year to CHF 159 million (+14.7% in the second quarter). Headcount increased by 293 FTEs or 3.3% year-on-year to 4,802 FTEs as a result of company acquisitions. At CHF 76 million, capital expenditure was CHF 9 million or 10.6% below the prior-year level. Increased investment by Swisscom IT Services in IT infrastructure was more than offset by lower investment in construction projects at Swisscom Real Estate.

Group Headquarters

The first-half operating result before depreciation and amortisation was CHF 2 million or 3.5% lower year-on-year at CHF –59 million. Headcount fell year-on-year by 15 FTEs or 4.3% to 334 FTEs.

Depreciation, amortisation and non-operating income

In CHF million, except where indicated	2 nd quarter 2013	2 nd quarter 2012	Change	1 st half-year 2013	1 st half-year 2012	Change
Operating income before depreciation and amortisation (EBITDA)	1,071	1,126	-4.9%	2,102	2,224	-5.5%
Depreciation, amortisation and impairment losses	(501)	(482)	3.9%	(992)	(963)	3.0%
Operating income (EBIT)	570	644	-11.5%	1,110	1,261	-12.0%
Net interest expense	(47)	(66)	-28.8%	(103)	(124)	-16.9%
Other financial income and expense, net	(11)	(10)	10.0%	(20)	(28)	-28.6%
Share of results of associates	6	8	-25.0%	12	14	-14.3%
Income before income taxes	518	576	-10.1%	999	1,123	-11.0%
Income tax expense	(89)	(114)	-21.9%	(180)	(216)	-16.7%
Net income	429	462	-7.1%	819	907	-9.7%
Share of net income attributable to equity holders of Swisscom Ltd	427	458	-6.8%	815	900	-9.4%
Share of net income attributable to non-controlling interests	2	4	-	4	7	-
Average number of shares outstanding (in millions)	51.801	51.801	-	51.800	51.800	-
Earnings per share (in CHF)	8.24	8.84	-6.8%	15.73	17.37	-9.4%

In the first-half of 2013 depreciation and amortisation rose year-on-year by CHF 29 million or 3.0% to CHF 992 million (+3.9% in the second quarter), largely due to increased amortisation at Swisscom Switzerland relating to the acquisition of mobile licences in the previous year and increased depreciation due to the continuing expansion of the fibre-optic network. Intangible assets resulting from company acquisitions were capitalised for purchase price allocation purposes. First-half depreciation and amortisation includes scheduled amortisation related to acquisitions amounting to CHF 68 million (prior year: CHF 67 million).

Net interest expense fell by CHF 21 million to CHF 103 million. This includes positive effects of CHF 27 million arising from the fair value adjustment of interest rate derivatives. The net financial result improved year-on-year by CHF 8 million.

Income tax expense amounted to CHF 180 million (prior year: CHF 216 million), corresponding to an effective income tax rate of 18.0% (prior year: 19.2%). Excluding exceptional items, the long-term income tax rate is expected to average around 21%.

Net income was down year-on-year by CHF 88 million or 9.7% to CHF 819 million, largely reflecting lower operating income before depreciation and amortisation (EBITDA). Earnings per share is calculated based on net income attributable to shareholders of Swisscom Ltd and on the average number of shares outstanding. The share of net income attributable to shareholders of Swisscom Ltd declined year-on-year by 9.4% to CHF 815 million. Earnings per share fell accordingly from CHF 17.37 to CHF 15.73.

Cash flows

In CHF million	1 st half-year 2013	1 st half-year 2012	Change
Operating income before depreciation and amortisation (EBITDA)	2,102	2,224	(122)
Capital expenditure	(1,021)	(1,017)	(4)
Proceeds from sale of property, plant and equipment and other intangible assets	20	7	13
Change in defined benefit obligations	1	(11)	12
Change in net working capital and other cash flows from operating activities	(228)	(210)	(18)
Dividends paid to non-controlling interests	(14)	(14)	—
Operating free cash flow	860	979	(119)
Net interest paid	(72)	(72)	—
Income taxes paid	(99)	(106)	7
Free cash flow	689	801	(112)
Acquisition of subsidiaries, net of cash and cash equivalents acquired	(71)	(18)	(53)
Other cash flows from investing activities, net	71	(22)	93
Issuance and repayment of financial liabilities, net	120	277	(157)
Dividends paid to equity holders of Swisscom Ltd	(1,140)	(1,140)	—
Other cash flows from financing activities	(34)	(22)	(12)
Net decrease in cash and cash equivalents	(365)	(124)	(241)

Free cash flow declined by CHF 112 million to CHF 689 million, mainly due to lower operating income before depreciation and amortisation (EBITDA), which dropped by CHF 122 million or 5.5% to CHF 2,102 million. Net working capital increased by CHF 228 million versus the end of 2012 (first-half of 2012: CHF 210 million), chiefly due to lower trade payables.

Capital expenditure rose by CHF 4 million or 0.4% to CHF 1,021 million. In Switzerland, capital expenditure was down on the prior-year level, dropping by CHF 34 million or 4.6% to CHF 706 million, mainly as a result of unfavourable weather conditions. In Italy, spending on expanding the country's fibre-optic network resulted in increased capital expenditure at Fastweb of CHF 40 million or 14.5% to CHF 315 million.

Balance sheet

In CHF million, except where indicated

	30.06.2013	31.12.2012	Change
Assets			
Cash and cash equivalents and current financial assets	187	578	-67.6%
Trade and other receivables	2,651	2,658	-0.3%
Property, plant and equipment	8,786	8,549	2.8%
Goodwill	4,849	4,662	4.0%
Other intangible assets	2,089	2,121	-1.5%
Investments in associates and non-current financial assets	346	465	-25.6%
Other current and non-current assets	838	763	9.8%
Total assets	19,746	19,796	-0.3%
Liabilities and equity			
Financial liabilities	8,946	8,783	1.9%
Trade and other payables	1,832	1,993	-8.1%
Defined benefit obligations	1,850	2,108	-12.2%
Provisions	830	840	-1.2%
Tax liabilities	575	425	35.3%
Other current and non-current liabilities	1,028	930	10.5%
Total liabilities	15,061	15,079	-0.1%
Share of equity attributable to equity holders of Swisscom Ltd	4,669	4,690	-0.4%
Share of equity attributable to non-controlling interests	16	27	-40.7%
Total equity	4,685	4,717	-0.7%
Total liabilities and equity	19,746	19,796	-0.3%
Equity ratio at end of period	23.7%	23.8%	
Net debt	8,622	8,071	6.8%

Total assets at 30 June 2013 stood at CHF 19,746 million, down CHF 50 million or 0.3% versus the end of 2012. Equity was CHF 32 million or 0.7% lower at CHF 4,685 million. The CHF 1,140 million dividend payout to Swisscom Ltd shareholders was largely offset by the positive effect from net income of CHF 819 million and other comprehensive income recognised in equity of CHF 304 million. This includes currency translation gains of CHF 64 million in respect of foreign group companies, as well as actuarial gains of CHF 286 million from pension plans mainly as a result of interest rate changes. Compared to the end of 2012, the CHF/EUR exchange rate increased from 1.207 to 1.234. On 30 June 2013, cumulative currency translation losses recognised in equity amounted to around CHF 1.5 billion.

Net debt comprises financial liabilities less cash and cash equivalents, current financial assets and non-current, fixed-interest-bearing deposits. Swisscom aims to achieve a maximum net debt/EBITDA ratio of around 2x. This value may be exceeded temporarily. Any figure below this represents financial room for manoeuvre. The CHF 551 million rise in net debt to CHF 8,622 million versus the end of 2012 is primarily attributable to the CHF 1,140 million dividend payout in April 2013.

Changes in accounting policies

As of 1 January 2013, Swisscom has been applying various amendments to IAS 19 "Employee Benefits". The main effects of the amendments on Swisscom's financial reporting are presented and explained below:

- Amendments to IAS 19 require immediate recognition of actuarial gains and losses in equity under other comprehensive income. This has no impact on Swisscom's reporting since Swisscom has previously applied this method for recognising actuarial gains and losses.
- Until now, effects relating to pension plan amendments were required to be recognised in part in the vesting period in income statement. In future, these effects must be recognised immediately in income statement.
- Under the revised standard, the interest rate on plan assets may not exceed the discount rate. It is no longer permitted to base the interest rate on plan assets on an expected rate of return. Net interest expense is now disclosed in the financial result.
- Disability benefit costs are recognised as an expense and liability as from the start of the pension payment.
- Under IAS 19, Swisscom now takes future employee contributions into account in its calculations (risk sharing).

The effects of the retroactive changes in accounting policies to the consolidated balance sheet as at 1 January 2013 and the 2012 income statement are as follows:

In CHF million, except where indicated	Reported	Adjustment	Restated
Balance sheet at 1 January 2013			
Defined benefit obligations	2,801	(693)	2,108
Deferred tax assets	417	(132)	285
Equity	4,156	561	4,717
Equity ratio (in %)	20.7		23.8
Income statement full year 2012			
Net revenue	11,384	–	11,384
Operating income before depreciation and amortisation (EBITDA)	4,381	96	4,477
Operating income (EBIT)	2,431	96	2,527
Income before income taxes	2,167	66	2,233
Net income	1,762	53	1,815
Earnings per share (in CHF)	33.88	1.02	34.90

The positive impact of the changes in accounting policies after tax on equity as at 1 January 2013 amounts to CHF 561 million. As a result, the equity ratio has increased from 20.7% to 23.8%. The adjusted pension cost for 2012 is CHF 66 million lower at CHF 80 million. CHF 50 million of the pension cost is recognised in EBITDA and CHF 30 million in the financial result. After tax, the positive impact of the changes in accounting policies is CHF 53 million on net income and CHF 1.02 on earnings per share.

The pension cost for 2012 under the old and new regulations is summarised as follows:

In CHF million	1 st quarter	2 nd quarter	3 rd quarter	4 th quarter	2012
Pension cost, reported					
Current service cost	51	53	53	51	208
Plan amendments and plan curtailments	(4)	(5)	(4)	(42)	(55)
Net interest income	(1)	(2)	(2)	(2)	(7)
Total pension cost	46	46	47	7	146
Thereof recognised in EBITDA	46	46	47	7	146
Thereof recognised in financial result	–	–	–	–	–
Pension cost, restated					
Current service cost	52	52	52	51	207
Plan amendments and plan curtailments	–	–	–	(157)	(157)
Net interest expense	7	8	7	8	30
Total pension cost	59	60	59	(98)	80
Thereof recognised in EBITDA	52	52	52	(106)	50
Thereof recognised in financial result	7	8	7	8	30

Various amendments to the Swisscom pension plan were approved in the fourth quarter of 2012. A key element included a reduction in the conversion rates, which resulted in a decrease in pension obligations of CHF 157 million. Under the amended standard, this positive exceptional effect was recognised immediately in income statement in the fourth quarter of 2012. Under the old regulations, positive effects recognised in 2012 relating to pension plan amendments totalled CHF 55 million. This included CHF 38 million in effects associated with pension plan amendments approved in 2012. The remaining amount relates to earlier pension plan amendments. Net interest expense for 2012 now amounts to CHF 30 million. Under the old regulations, net interest expense was based on the expected rate of return and amounted to CHF 7 million. Net interest expense is now disclosed in the financial result.

Pension plan costs of CHF 256 million affecting EBITDA and net interest expense of CHF 37 million are expected for 2013. On a like-for-like basis (restated), pension plan costs affecting EBITDA rose by CHF 206 million due to exceptional effects related to the 2012 pension plan amendments, a lower discount rate and a changed life expectancy assumption. Under the old regulations, pension plan costs affecting EBITDA in 2013 rose by CHF 110 million compared to costs in 2012.

Outlook

During the first half of 2013, Swisscom acquired Entris Integrator AG and Entris Operations AG, as well as a majority shareholding in CT Cinetrade AG. Swisscom expects these acquisitions to generate additional revenue for 2013 of around CHF 150 million, with only minimal impact on the other financial targets set for the current year. Excluding Fastweb, Swisscom now expects revenue for 2013 of around CHF 9.5 billion instead of the previous estimate of around CHF 9.34 billion. EBITDA excluding Fastweb is still expected to decline to CHF 3.64 billion. The revised accounting standard relating to employee benefits will result in a non-cash increase in pension cost of CHF 110 million compared to the reported values. On an adjusted basis, pension cost excluding net interest expense for 2013 will increase by CHF 206 million versus the previous year. In addition, continuing customer and volume growth will generate higher direct costs, mainly due to the acquisition of new customers and the procurement of devices. Maintenance and further expansion of the network infrastructure will also temporarily push up indirect costs. Capital expenditure at Swisscom (excluding Fastweb) is estimated to rise to CHF 1.75 billion for 2013. Excluding revenue from hubbing, Fastweb anticipates a stable revenue performance in 2013 in local currency terms (EUR 1.6 billion) and unchanged EBITDA of around EUR 500 million. The expansion of the fibre-optic networks in Italy is expected to increase capital expenditure to EUR 550 million.

Based on the current CHF/EUR exchange rate of 1.23, Swisscom expects now revenue in excess of CHF 11.4 billion (compared to its hitherto estimate of around CHF 11.3 billion), unchanged EBITDA of at least CHF 4.25 billion and capital expenditure in the region of CHF 2.4 billion. Subject to achieving its targets, Swisscom will again propose a dividend of CHF 22 per share for the 2013 financial year at the Annual General Meeting.

Consolidated interim financial statements (condensed and unaudited)

Consolidated income statement (condensed and unaudited)

In CHF million, except where indicated	Note	2 nd quarter 2013	2 nd quarter 2012 restated ¹	1 st half-year 2013	1 st half-year 2012 restated ¹
Net revenue	3	2,862	2,819	5,596	5,621
Goods and services purchased		(604)	(566)	(1,156)	(1,121)
Personnel expense		(691)	(659)	(1,362)	(1,335)
Other operating expense		(599)	(551)	(1,156)	(1,115)
Capitalised self-constructed assets and other income		103	83	180	174
Operating income before depreciation and amortisation (EBITDA)		1,071	1,126	2,102	2,224
Depreciation, amortisation and impairment losses		(501)	(482)	(992)	(963)
Operating income (EBIT)	3	570	644	1,110	1,261
Financial income and financial expense, net	4	(58)	(76)	(123)	(152)
Share of results of associates		6	8	12	14
Income before income taxes		518	576	999	1,123
Income tax expense		(89)	(114)	(180)	(216)
Net income		429	462	819	907
Share of net income attributable to equity holders of Swisscom Ltd		427	458	815	900
Share of net income attributable to non-controlling interests	2	4	4	4	7
Basic and diluted earnings per share (in CHF)		8.24	8.84	15.73	17.37

¹ See Note 1 accounting policies.

Consolidated statement of comprehensive income (unaudited)

In CHF million	2 nd quarter 2013	2 nd quarter 2012 restated ¹	1 st half-year 2013	1 st half-year 2012 restated ¹
Net income	429	462	819	907
Other comprehensive income				
Actuarial gains and losses of defined benefit obligations	222	(378)	286	(36)
Income tax expense	(45)	78	(57)	7
Items that will not be reclassified to income statement, net of tax	177	(300)	229	(29)
Foreign currency translation adjustments of foreign subsidiaries	24	(7)	64	(41)
Change in fair value of cash flow hedges	2	6	10	(3)
Gains and losses from cash flow hedges transferred to income statement	2	3	3	6
Income tax expense	8	–	(2)	9
Items that are or may be reclassified subsequently to income statement, net of tax	36	2	75	(29)
Other comprehensive income	213	(298)	304	(58)
Comprehensive income	642	164	1,123	849
Share of comprehensive income attributable to equity holders of Swisscom Ltd	640	163	1,119	845
Share of comprehensive income attributable to non-controlling interests	2	1	4	4

¹ See Note 1 accounting policies.

Consolidated balance sheet (condensed and unaudited)

In CHF million	Note	30.06.2013	31.12.2012 restated ¹	1.1.2012 restated ¹
Assets				
Cash and cash equivalents		173	538	314
Trade and other receivables		2,651	2,658	2,745
Other financial assets		14	40	73
Other assets		501	436	522
Total current assets		3,339	3,672	3,654
Property, plant and equipment		8,786	8,549	8,222
Goodwill and other intangible assets		6,938	6,783	6,543
Investments in associates	2	138	268	233
Other financial assets		208	197	197
Other assets		337	327	280
Total non-current assets		16,407	16,124	15,475
Total assets		19,746	19,796	19,129
Liabilities and equity				
Financial liabilities	5	2,370	1,053	804
Trade and other payables		1,832	1,993	1,957
Current income tax liabilities		261	189	37
Provisions	6	137	154	148
Other liabilities		743	643	676
Total current liabilities		5,343	4,032	3,622
Financial liabilities	5	6,576	7,730	8,027
Defined benefit obligations	1	1,850	2,108	1,492
Provisions	6	693	686	755
Deferred tax liabilities		314	236	244
Other liabilities		285	287	296
Total non-current liabilities		9,718	11,047	10,814
Total liabilities		15,061	15,079	14,436
Share of equity attributable to equity holders of Swisscom Ltd		4,669	4,690	4,666
Share of equity attributable to non-controlling interests		16	27	27
Total equity		4,685	4,717	4,693
Total liabilities and equity		19,746	19,796	19,129

¹ See Note 1 accounting policies.

Consolidated cash flow statement (condensed and unaudited)

In CHF million	Note	1 st half-year 2013	1 st half-year 2012 restated ¹
Net income		819	907
Adjustment for non-cash items		1,277	1,321
Change in operating assets and liabilities		(194)	(225)
Income taxes paid		(99)	(106)
Cash flow provided by operating activities		1,803	1,897
Capital expenditure for tangible and other intangible assets		(1,049)	(1,017)
Acquisition of subsidiaries, net of cash and cash equivalents acquired	2	(71)	(18)
Other cash flows from investing activities, net		70	(22)
Cash flow used in investing activities		(1,050)	(1,057)
Issuance and repayment of financial liabilities, net		120	277
Dividends paid to equity holders of Swisscom Ltd	8	(1,140)	(1,140)
Dividends paid to non-controlling interests		(14)	(14)
Other cash flows from financing activities, net		(84)	(87)
Cash flow used in financing activities		(1,118)	(964)
Net decrease in cash and cash equivalents		(365)	(124)
Cash and cash equivalents at beginning of year		538	314
Foreign currency translation adjustments in respect of cash and cash equivalents		—	(1)
Cash and cash equivalents at end of period		173	189

¹ See Note 1 accounting policies.

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 2011	52	136	5,704	–	(1,620)	4,272	24	4,296
Change in accounting policies ¹	–	–	394	–	–	394	3	397
Balance at 1 January 2012, restated¹	52	136	6,098	–	(1,620)	4,666	27	4,693
Net income, restated ¹	–	–	900	–	–	900	7	907
Other comprehensive income, restated ¹	–	–	(24)	–	(31)	(55)	(3)	(58)
Comprehensive income, restated¹	–	–	876	–	(31)	845	4	849
Dividends paid	–	–	(1,140)	–	–	(1,140)	(14)	(1,154)
Purchase of treasury shares for share-based payments	–	–	–	(6)	–	(6)	–	(6)
Allocation of treasury shares for share-based payments	–	–	–	6	–	6	–	6
Balance at 30 June 2012, restated¹	52	136	5,834	–	(1,651)	4,371	17	4,388
Balance at 31 December 2012, restated¹	52	136	6,135	–	(1,633)	4,690	27	4,717
Net income	–	–	815	–	–	815	4	819
Other comprehensive income	–	–	229	–	75	304	–	304
Comprehensive income	–	–	1,044	–	75	1,119	4	1,123
Dividends paid	–	–	(1,140)	–	–	(1,140)	(14)	(1,154)
Transactions with non-controlling interests	–	–	–	–	–	–	(1)	(1)
Purchase of treasury shares for share-based payments	–	–	–	(7)	–	(7)	–	(7)
Allocation of treasury shares for share-based payments	–	–	–	7	–	7	–	7
Balance at 30 June 2013	52	136	6,039	–	(1,558)	4,669	16	4,685

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 first half-year ending 30 June 2013 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 year ending 31 December 2012. The consolidated interim financial statements were prepared in accordance with the accounting policies described in the 2012 consolidated 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 1.234 was used as the end-of-period rate (31 December 2012: CHF/EUR 1.207) and 1.229 as the average rate for the period (first half of 2012: CHF/EUR 1.204).

Changes in accounting policies

As of 1 January 2013, Swisscom has adopted various amendments to existing International Financial Reporting Standards (IFRSs) and Interpretations; with the exception of the changes described below, the amendments will have no material impact on the Group's results or financial position. The amendments to IAS 19 “Employee Benefits” require immediate recognition of actuarial gains or losses in other comprehensive income. Until now entities could choose between immediate recognition in the income statement or the statement of comprehensive income or deferring recognition using the so-called “corridor” approach. This has no impact on Swisscom's reporting, as Swisscom has always applied this method for recognising actuarial gains and losses. The amendments to IAS 19 also require that management disclose the estimated return on pension plan assets using the discount rate and no longer on the basis of the estimated return based on asset allocation. Swisscom now calculates disability benefits based on the actual number of disability cases rather than the expected number of cases in accordance with the actuarial tables (BVG 2010, Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans). Under IAS 19, Swisscom now takes future employee contributions into account in its calculations (risk sharing). The amended IAS 19 also calls for more detailed disclosure in the Notes. Entities must now disclose information about the financing strategy for their pension plans, and not only describe but also quantify the financing risks inherent in the plans. This requires among other things a sensitivity analysis to show to what extent pension plan obligations fluctuate in the event of changes in significant measurement assumptions. In future, the average remaining duration of pension plan obligations must also be disclosed. The changes have been made retroactively.

The effects on the consolidated balance sheet, consolidated income statement and consolidated statement of comprehensive income are as follows:

In CHF million, except where indicated	Reported	Adjustment	Restated
Balance sheet at 1 January 2012			
Deferred tax assets	311	(88)	223
Defined benefit obligations	1,977	(485)	1,492
Equity	4,296	397	4,693
Share of equity attributable to equity holders of Swisscom Ltd	4,272	394	4,666
Share of equity attributable to non-controlling interests	24	3	27
Balance sheet at 1 January 2013			
Deferred tax assets	417	(132)	285
Defined benefit obligations	2,801	(693)	2,108
Equity	4,156	561	4,717
Share of equity attributable to equity holders of Swisscom Ltd	4,132	558	4,690
Share of equity attributable to non-controlling interests	24	3	27
Income statement full year 2012			
Personnel expense	(2,581)	96	(2,485)
Financial expense	(325)	(30)	(355)
Income tax expense	(405)	(13)	(418)
Net income	1,762	53	1,815
Share of net income attributable to equity holders of Swisscom Ltd	1,755	53	1,808
Share of net income attributable to non-controlling interests	7	–	7
Earnings per share (in CHF)	33.88	1.02	34.90
Income statement 1.1.–30.6..2012			
Personnel expense	(1,323)	(12)	(1,335)
Financial income and financial expense, net	(137)	(15)	(152)
Income tax expense	(222)	6	(216)
Net income	928	(21)	907
Share of net income attributable to equity holders of Swisscom Ltd	921	(21)	900
Share of net income attributable to non-controlling interests	7	–	7
Earnings per share (in CHF)	17.78	(0.41)	17.37
Statement of comprehensive income full year 2012			
Net income	1,762	53	1,815
Actuarial gains and losses of defined benefit obligations	(908)	139	(769)
Income tax expense	185	(28)	157
Other comprehensive income	(741)	111	(630)
Comprehensive income	1,021	164	1,185
Share of comprehensive income attributable to equity holders of Swisscom Ltd	1,017	164	1,181
Share of comprehensive income attributable to non-controlling interests	4	–	4
Statement of comprehensive income 1.1.–30.6.2012			
Net income	928	(21)	907
Actuarial gains and losses of defined benefit obligations	(105)	69	(36)
Income tax expense	21	(14)	7
Other comprehensive income	(113)	55	(58)
Comprehensive income	815	34	849
Share of comprehensive income attributable to equity holders of Swisscom Ltd	811	34	845
Share of comprehensive income attributable to non-controlling interests	4	–	4

Swisscom is adopting the amendments to IAS 32 "Disclosures: Offsetting Financial Assets and Financial Liabilities" early, starting from the 2013 financial year. In principle, the amendments do not affect the current offsetting model prescribed by IAS 32, whereby financial assets and liabilities should only be offset when on the balance sheet date a legal entity has a legally enforceable right to set off the amounts, and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The amendments state clearly that the entity must have a right to offset on the balance sheet date, i.e. it must not depend on an event in the future. In addition, it must be legally enforceable for all contracting parties both in the normal course of business as well as in the case of insolvency of one of the parties. As a result of the amendments, Swisscom has reassessed its contracts in the area of roaming-fee billing and concluded that the billing meets the concrete offsetting criteria and can now for the most part be offset. The effect of the offsetting on other payables and receivables amounts to CHF 233 million as at 1 January 2012 and to CHF 166 million as at 31 December 2012. Other payables and receivables for the first quarter of 2013 declined by CHF 174 million.

2 Business combinations

In April 2013, Swisscom IT Services took over the Entris Banking business platform and also acquired all shares in Entris Integrator AG. The Entris Integrator AG business platform is used by banks to process their banking transactions, from payment transactions and credit business to securities trading and e-banking. Following the acquisition, the company's name was changed to Swisscom Banking Provider AG. In June 2013, Swisscom IT Services Ltd acquired all the shares in Entris Operations AG. Entris Operations AG specialises in the processing of payment transactions and securities trading for around 50 banks. Following the takeover, Entris Operations AG was merged with Swisscom Banking Provider Ltd. Swisscom also increased its holding in CT Cinetrade AG (Cinetrade) from 49% to 75% in April 2013. Cinetrade holds film and sports broadcast rights for pay TV, video on demand (VOD) and pay per view (PPV) and makes use of these via its pay TV platforms and VOD/PPV services. Cinetrade also operates a leading cinema chain in Switzerland.

The newly acquired companies are deemed to be immaterial business combinations and are therefore presented in aggregate. The business combinations in 2013 are provisionally included in the consolidated financial statements as at 30 June 2013, as the purchase price allocations had not been completed when the consolidated financial statements were prepared. Goodwill and other intangible assets of CHF 212 million are recognised from the provisional purchase price allocation. These business combinations resulted in additional net revenue of CHF 46 million and net income of CHF 5 million in the 2013 interim results. Had the subsidiaries acquired in 2013 been included in the consolidated financial statements from 1 January 2013, this would have resulted in consolidated pro-forma net revenue of CHF 5,662 million and consolidated pro-forma net income of CHF 827 million.

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

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

Swisscom has changed the disclosure of the pension cost in segment reporting with retroactive effect. Segment expense includes the employer's ordinary contributions reported under pension cost. The difference between the employer's ordinary contributions and pension cost under IAS 19 is disclosed in the "Elimination" column. In the 2013 first-half figures, in accordance with IAS 19 the Elimination column contains an expense of CHF 12 million as a reconciliation item for pension cost in accordance with IAS 19 (first-half 2012: income of CHF 9 million; full-year 2012 income of CHF 179 million).

Cross-charging of services and sales of assets between the individual segments may result in unrealised gains or losses. These are eliminated and reported under segment information in the "Elimination" column.

As of 1 January 2013, Swisscom streamlined its management structure in a move aimed at strengthening Swiss business and improving efficiency within the Group. This resulted in the transfer of various organisational units to other segments. The prior-year figures have been restated accordingly.

Net revenue and the results of the individual segments for the first half of 2012 and 2013 are presented below:

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

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

1 st half-year 2012, in CHF million, restated	Swisscom Switzerland	Fastweb	Other operating segments	Group Headquarters	Elimination	Total
Net revenue from external customers	4,138	1,022	461	—	—	5,621
Net revenue with other segments	27	4	391	1	(423)	—
Net revenue	4,165	1,026	852	1	(423)	5,621
Segment result	1,343	(75)	57	(65)	1	1,261
Financial income and financial expense, net					(152)	
Share of results of associates					14	
Income before income taxes						1,123
Income tax expense					(216)	
Net income						907

1 st half-year 2012, in CHF million, restated	Residential Customers	Small & Medium-Sized Enterprises	Corporate Business	Wholesale	Network & IT	Elimination	Swisscom Switzerland
Net revenue from external customers	2,412	568	858	300	—	—	4,138
Net revenue with other segments	87	13	48	180	—	(301)	27
Net revenue	2,499	581	906	480	—	(301)	4,165
Segment result	1,446	446	432	183	(1,164)	—	1,343

4 Financial income and expense

	1 st half-year 2013	1 st half-year 2012 restated
In CHF million		
Interest income	27	9
Interest expense	(130)	(133)
Net interest expense of financial assets and financial liabilities	(103)	(124)
Foreign exchange gains	2	–
Net interest expense of defined benefit obligations	(18)	(15)
Other financial income and expense, net	(4)	(13)
Financial income and financial expense, net	(123)	(152)

5 Financial liabilities

	30.06.2013	31.12.2012
Bank loans	44	196
Debenture bonds	1,923	631
Private placements	137	131
Finance lease liabilities	6	7
Other financial liabilities	260	88
Total current financial liabilities	2,370	1,053
Bank loans	1,087	973
Debenture bonds	3,578	4,824
Private placements	1,126	1,121
Finance lease liabilities	629	632
Other financial liabilities	156	180
Total non-current financial liabilities	6,576	7,730
Total financial liabilities	8,946	8,783

6 Provisions

In CHF million	Dismantlement and restoration costs	Regulatory proceedings	Other	Total
Balance at 31 December 2012	512	104	224	840
Additions of provisions	2	7	15	24
Present-value adjustments	2	1	–	3
Release of unused provisions	(1)	–	(15)	(16)
Use of provisions	(1)	–	(20)	(21)
Balance at 30 June 2013	514	112	204	830
Thereof current provisions	–	20	117	137
Thereof non-current provisions	514	92	87	693

Provisions for dismantling and restoration costs

The provisions for dismantling and restoration costs relate to the dismantling of mobile base stations and transmitters owned by Swisscom Broadcast and the restoration of 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 2.01%. Payment of the provisions is expected to be made subsequent to 2020.

Provisions for regulatory proceedings

In accordance with the terms of the revised Telecommunications Act, Swisscom provides interconnection services and other access services to other providers of telecoms services in Switzerland. During the last few years, a number of telecoms service providers have filed applications with the Federal Communications Commission (ComCom) calling for a reduction in the charges billed to them by Swisscom. On the basis of legal assessments, Swisscom has in the past recognised provisions. The provisions recognised in the 2012 consolidated financial statements have not changed to any material extent in the current financial year.

Other provisions

Other provisions mainly include provisions for workforce reductions, environmental and contractual risks, and provisions for claims. Other provisions recognised in the 2012 consolidated financial statements have not changed to any material extent in the current financial year.

7 Contingent liabilities

Competition Commission proceedings

In a decision taken on 5 November 2009, the Competition Commission imposed a fine of CHF 220 million on Swisscom for allegedly abusing its market-dominant position in the area of ADSL services. Swisscom appealed against the decision to the Federal Administrative Court on 7 December 2009. In view of its legal assessment, Swisscom is of the opinion that, as things stand at present, it is unlikely that the fine will be ultimately imposed and has therefore not recognised any provisions in its consolidated statements for the year ending 30 June 2013. 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.

Regulatory proceedings

With regard to the other contingent liabilities described in the 2012 consolidated financial statements relating to regulatory proceedings, Swisscom is of the opinion that an outflow of funds is unlikely and has therefore not recognised any provisions in the consolidated financial statements as at 30 June 2013.

Other contingent liabilities

In the second quarter of 2012, a competitor of Fastweb filed a complaint against Fastweb in connection with the tendering procedure for corporate-customer contracts. Based on a legal assessment, Swisscom was of the opinion that the case was unlikely to result in a cash outflow and therefore did not recognise any related provisions. An out-of-court settlement was reached in the first quarter of 2013 and the complaint filed by Fastweb's competitor was withdrawn. Had the outcome of the case been negative, the cash outflow would have amounted to around EUR 60 million (CHF 72 million).

8 Dividend payouts

On 4 April 2013, the Annual General Meeting of Swisscom Ltd approved the payment of an ordinary dividend of CHF 22 per share. A total dividend amount of CHF 1,140 million was paid out on 11 April 2013.

9 Financial instruments

Carrying amounts and fair values of financial instruments

The carrying amounts and fair values of financial assets and financial liabilities as at 30 June 2013 are as follows:

In CHF million	Carrying amount	Fair value
30 June 2013		
Cash and cash equivalents	173	173
Trade and other receivables	2,651	2,651
Other financial assets		
Term deposits with maturities over 90 days	10	10
Other loans and receivables	166	175
Available-for-sale financial assets	40	40
Derivative financial instruments	6	6
Total financial assets	3,046	3,055
Bank loans	1,131	1,166
Debenture bonds	5,501	5,900
Private placements	1,263	1,285
Finance lease liabilities	635	1,238
Other interest-bearing financial liabilities	207	207
Other non-interest-bearing financial liabilities	39	39
Derivative financial instruments	170	170
Trade and other payables	1,832	1,832
Total financial liabilities	10,778	11,837

Fair value hierarchy

The fair value hierarchy encompasses the following three levels:

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

In CHF million	Level 1	Level 2	Level 3	Total
30 June 2013				
Financial assets				
Available-for-sale financial assets	1	–	19	20
Derivative financial assets	–	6	–	6
Financial liabilities				
Derivative financial liabilities	–	170	–	170

In addition, financial assets available-for-sale as at 30 June 2013 with a carrying amount of CHF 20 million were measured at cost. Level 3 assets comprise investments in various investment funds. The fair values are calculated based on a valuation model. There were no reclassifications between the various levels in 2013.

10 Related parties

Transactions between Swisscom and various related parties in the first half of 2013 are similar to those explained in the consolidated financial statements for 2012.

11 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 6 August 2013.

Further information

Share information

Swisscom share key figures

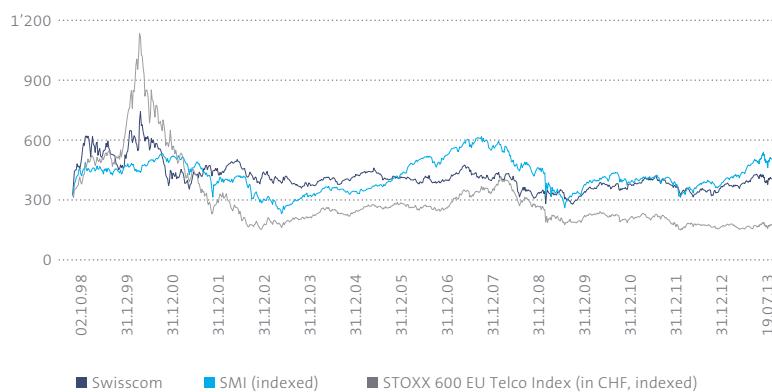
31.12.2012–30.6.2013	SIX Swiss Exchange
Closing price at 31 December 2012 in CHF ¹	393.80
Closing price at 30 June 2013 in CHF ¹	413.60
Change in %	5.0
Year high in CHF ¹	446.30
Year low in CHF ¹	390.20
Total trading volume in shares	13,761,811
Total turnover in CHF million	5,746
Daily average of traded shares	112,801
Daily average in CHF million	47.1

Source: Bloomberg

¹ paid prices

Share performance since the IPO

Share performance 1998–2013 in CHF



Share information

On 30 June 2013, 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 June 2013, Swisscom had around 68,000 registered shareholders and around 14% unregistered shares (dispo shares).

At the Annual General Meeting on 4 April 2013, the shareholders of Swisscom Ltd approved a gross dividend payment of CHF 22 per share. A total dividend amount of CHF 1,140 million was paid out on 11 April 2013.

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

- > 7 November 2013 Publication of 2013 Third-Quarter Results
- > 6 February 2014 Publication of 2013 Annual Results
- > 7 April 2014 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	SIX Telekurs
Six Swiss Exchange, Zurich	SCMN:VX	SCMN.VX	SCMN

Quarterly review 2012 and 2013

In CHF million, except where indicated	1 st quarter	2 nd quarter	3 rd quarter	4 th quarter	2012	1 st quarter	2 nd quarter	3 rd quarter	4 th quarter	2013
Income statement										
Net revenue	2,802	2,819	2,806	2,957	11,384	2,734	2,862			5,596
Goods and services purchased	(555)	(566)	(566)	(712)	(2,399)	(552)	(604)			(1,156)
Personnel expense	(676)	(659)	(606)	(544)	(2,485)	(671)	(691)			(1,362)
Other operating expense	(564)	(551)	(590)	(691)	(2,396)	(557)	(599)			(1,156)
Capitalised costs and other income	91	83	78	121	373	77	103			180
Operating income (EBITDA)	1,098	1,126	1,122	1,131	4,477	1,031	1,071			2,102
Depreciation and amortisation	(481)	(482)	(491)	(496)	(1,950)	(491)	(501)			(992)
Operating income (EBIT)	617	644	631	635	2,527	540	570			1,110
Net interest expense	(58)	(66)	(67)	(62)	(253)	(56)	(47)			(103)
Other financial result	(18)	(10)	(10)	(35)	(73)	(9)	(11)			(20)
Result of associates	6	8	11	7	32	6	6			12
Income before income taxes	547	576	565	545	2,233	481	518			999
Income tax expense	(102)	(114)	(116)	(86)	(418)	(91)	(89)			(180)
Net income	445	462	449	459	1,815	390	429			819
Attributable to equity holders of Swisscom Ltd	442	458	448	460	1,808	388	427			815
Attributable to non-controlling interests	3	4	1	(1)	7	2	2			4
Earnings per share (in CHF)	8.53	8.84	8.65	8.88	34.90	7.49	8.24			15.73
Net revenue										
Swisscom Switzerland	2,079	2,086	2,108	2,188	8,461	2,041	2,109			4,150
Fastweb	510	516	492	530	2,048	487	509			996
Other operating segments	427	425	415	461	1,728	412	454			866
Group Headquarters	–	1	–	1	2	–	1			1
Intersegment elimination	(214)	(209)	(209)	(223)	(855)	(206)	(211)			(417)
Total net revenue	2,802	2,819	2,806	2,957	11,384	2,734	2,862			5,596
Segment result before depreciation and amortisation										
Swisscom Switzerland	923	935	933	766	3,557	877	888			1,765
Fastweb	131	149	148	174	602	119	139			258
Other operating segments	70	75	70	59	274	73	86			159
Group Headquarters	(27)	(30)	(29)	(24)	(110)	(29)	(30)			(59)
Intersegment elimination	(5)	(6)	(4)	(10)	(25)	(4)	(5)			(9)
Reconciliation to pension cost	6	3	4	166	179	(5)	(7)			(12)
Total segment result (EBITDA)	1,098	1,126	1,122	1,131	4,477	1,031	1,071			2,102
Capital expenditure										
Swisscom Switzerland	337	329	679	507	1,852	284	354			638
Fastweb	135	140	118	138	531	155	160			315
Other operating segments	36	49	45	37	167	38	38			76
Group Headquarters	–	–	–	1	1	–	–			–
Intersegment elimination	(6)	(3)	(6)	(7)	(22)	(3)	(5)			(8)
Total capital expenditure	502	515	836	676	2,529	474	547			1,021
Number of full-time equivalent employees at end of period										
Swisscom Switzerland	11,999	11,915	11,884	11,862	11,862	12,018	12,344			12,344
Fastweb	3,064	3,032	2,911	2,893	2,893	2,389	2,379			2,379
Other operating segments	4,501	4,509	4,457	4,419	4,419	4,505	4,802			4,802
Group Headquarters	350	349	343	340	340	335	334			334
Total full-time equivalent employees	19,914	19,805	19,595	19,514	19,514	19,247	19,859			19,859
Operating free cash flow	483	496	279	624	1,882	245	615			860
Net debt	8,390	9,144	8,622	8,071	8,071	7,931	8,622			8,622

Quarterly review 2012 and 2013

In CHF million, except where indicated	1 st quarter	2 nd quarter	3 rd quarter	4 th quarter	2012	1 st quarter	2 nd quarter	3 rd quarter	4 th quarter	2013
Swisscom Switzerland										
Revenue and results										
Residential Customers										
Residential Customers	465	476	474	443	1,858	428	442			870
Small & Medium-Sized Enterprises	119	125	118	110	472	104	109			213
Corporate Business	147	155	152	148	602	141	145			286
Revenue mobile single subscriptions	731	756	744	701	2,932	673	696			1,369
Residential Customers	354	336	328	320	1,338	304	289			593
Small & Medium-Sized Enterprises	136	132	128	127	523	124	121			245
Corporate Business	153	152	151	153	609	146	146			292
Revenue fixed-line single subscriptions	643	620	607	600	2,470	574	556			1,130
Residential Customers	233	250	281	296	1,060	309	330			639
Small & Medium-Sized Enterprises	20	22	32	38	112	40	46			86
Revenue bundles	253	272	313	334	1,172	349	376			725
Total revenue single subscriptions and bundles										
Total revenue single subscriptions and bundles	1,627	1,648	1,664	1,635	6,574	1,596	1,628			3,224
Solution business	85	87	88	100	360	84	87			171
Hardware sales	137	136	122	166	567	128	143			271
Wholesale	153	147	151	143	594	149	146			295
Other revenue	63	55	68	132	312	68	90			158
Revenue from external customers	2,065	2,073	2,093	2,176	8,407	2,025	2,094			4,119
Residential Customers	1,208	1,204	1,227	1,300	4,939	1,190	1,247			2,437
Small & Medium-Sized Enterprises	281	287	284	283	1,135	274	282			556
Corporate Business	423	435	431	450	1,739	412	419			831
Wholesale	153	147	151	143	594	149	146			295
Revenue from external customers	2,065	2,073	2,093	2,176	8,407	2,025	2,094			4,119
Segment result before depreciation and amortisation										
Residential Customers	748	744	735	659	2,886	710	731			1,441
Small & Medium-Sized Enterprises	223	225	223	211	882	213	216			429
Corporate Business	230	235	242	238	945	220	226			446
Wholesale	94	89	93	91	367	96	96			192
Network & IT	(372)	(358)	(360)	(433)	(1,523)	(362)	(380)			(742)
Intersegment elimination	—	—	—	—	—	—	—			(1)
Segment result (EBITDA)	923	935	933	766	3,557	877	888			1,765
Margin as % of net revenue	44.4	44.8	44.3	35.0	42.0	43.0	42.1			42.5
Fastweb, in EUR million										
Residential Customers	182	182	179	181	724	186	186			372
Corporate Business	183	196	193	219	791	178	193			371
Wholesale hubbing	27	28	16	16	87	14	11			25
Wholesale other	29	22	19	22	92	19	21			40
Revenue from external customers	421	428	407	438	1,694	397	411			808
Segment result (EBITDA)	109	124	121	146	500	97	113			210
Margin as % of net revenue	25.8	28.8	29.7	33.3	29.4	24.4	27.4			25.9
Capital expenditure	112	116	98	115	441	126	130			256
Broadband access lines in thousand	1,654	1,673	1,704	1,767	1,767	1,861	1,887			1,887

Quarterly review 2012 and 2013

In thousand, except where indicated	1 st quarter	2 nd quarter	3 rd quarter	4 th quarter	2012	1 st quarter	2 nd quarter	3 rd quarter	4 th quarter	2013
Swisscom Switzerland										
Operational data										
Access lines										
Single subscriptions	2,536	2,465	2,407	2,350	2,350	2,272	2,207			2,207
Bundles	557	593	627	663	663	698	729			729
Fixed access lines	3,093	3,058	3,034	3,013	3,013	2,970	2,936			2,936
Single subscriptions	1,023	995	969	939	939	909	878			878
Bundles	659	699	739	788	788	842	889			889
Broadband access lines retail	1,682	1,694	1,708	1,727	1,727	1,751	1,767			1,767
Single subscriptions	236	245	248	270	270	291	289			289
Bundles	419	449	480	521	521	569	613			613
Swisscom TV access lines	655	694	728	791	791	860	902			902
Prepaid single subscriptions	2,243	2,231	2,210	2,199	2,199	2,196	2,180			2,180
Postpaid single subscriptions	3,657	3,654	3,672	3,702	3,702	3,741	3,763			3,763
Mobile single subscriptions	5,900	5,885	5,882	5,901	5,901	5,937	5,943			5,943
Bundles	182	229	271	316	316	333	364			364
Mobile access lines	6,082	6,114	6,153	6,217	6,217	6,270	6,307			6,307
Revenue generating units (RGU)	11,512	11,560	11,623	11,748	11,748	11,851	11,912			11,912
Broadband access lines wholesale	179	176	181	186	186	196	201			201
Unbundled fixed access lines	312	317	310	300	300	290	280			280
Bundles										
2Play bundles	240	237	239	248	248	257	264			264
3Play bundles	347	374	387	403	403	428	451			451
4Play bundles	72	88	113	137	137	157	174			174
Total bundles	659	699	739	788	788	842	889			889
Data traffic in million										
Fixed-line traffic in minutes	2,158	1,989	1,847	1,961	7,955	1,918	1,889			3,807
Mobile traffic in minutes	1,654	1,633	1,612	1,683	6,582	1,728	1,817			3,545
Data SMS mobile	691	694	694	677	2,756	628	607			1,235
Swisscom Group										
Information by geographical regions										
Net revenue in Switzerland	2,278	2,285	2,299	2,406	9,268	2,236	2,336			4,572
Net revenue in other countries	524	534	507	551	2,116	498	526			1,024
Total net revenue (in CHF million)	2,802	2,819	2,806	2,957	11,384	2,734	2,862			5,596
EBITDA in Switzerland	966	980	979	939	3,864	910	933			1,843
EBITDA in other countries	132	146	143	192	613	121	138			259
Total EBITDA (in CHF million)	1,098	1,126	1,122	1,131	4,477	1,031	1,071			2,102
Capital expenditure in Switzerland	366	374	718	536	1,994	319	387			706
Capital expenditure in other countries	136	141	118	140	535	155	160			315
Total capital expenditure (in CHF million)	502	515	836	676	2,529	474	547			1,021
Full-time equivalent employees in Switzerland	16,503	16,426	16,339	16,269	16,269	16,483	17,096			17,096
Full-time equivalent employees in other countries	3,411	3,379	3,256	3,245	3,245	2,764	2,763			2,763
Total full-time equivalent employees	19,914	19,805	19,595	19,514	19,514	19,247	19,859			19,859

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 company 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.

