swisscom

Annual Report 2013

About this report

Reporting structure

This integrated report combines Swisscom's financial and sustainability reporting and is aimed at readers interested in both topics. References to additional content and information on sustainability issues are provided in the respective sections of the report. More details about Swisscom's sustainability commitment can be found in the GRI Appendix, which can be found on the Swisscom website.

> Introduction
> Management Commentary
> Corporate Responsibility
> Corporate Governance and Remuneration Report
> Financial Statements
> Further Information

Topics

Information on Swisscom's financial position, results of operations and cash flows complies with the requirements of the International Financial Reporting Standards (IFRS) and, where applicable, the provisions of Swiss law. Internal control mechanisms ensure the reliability of the information contained in this report.

Swisscom also provides a report for its stakeholder groups on the Group's economic, social and environmental performance. The scope and content of the sustainability report are based on the guidelines of the Global Reporting Initiative (GRI 3.1). GRI is the leading global standard for corporate sustainability reporting.

The GRI Index offers a standardised overview of sustainability reporting by subject area. The Index contains references to the relevant pages in the Annual Report or other information sources and can be called up on the Swisscom website.

> Global Reporting Initiative at www.globalreporting.org
> GRI Index and GRI Appendix to the 2013 Annual Report at www.swisscom.ch/gri-2013

External auditing and evaluation

Parts of the Swisscom report are audited by a third party. The audit company KPMG AG has audited and given unqualified opinions on the consolidated financial statements and the financial statements of Swisscom Ltd. The audit of the consolidated financial statements is based on the likewise audited financial statements of the Swisscom Group companies.

The Sustainability Report, prepared in accordance with GRI 3.1, was audited by SGS SA and certified with Level A+ of the Global Reporting Initiative.

> Reports of the Statutory Auditors pages 222 and 235
> GRI certified by SGS SA page 114
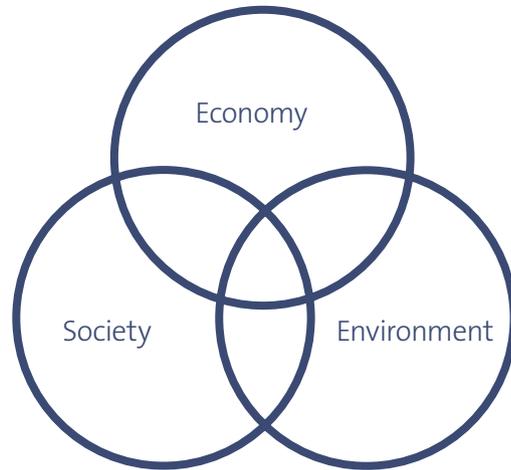
Triple bottom line

Swisscom reports about the ecological, economic and social aspects and factors that shape its business activities and its role as a corporate citizen.

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Facts & Figures

Economy

11,434 m

CHF net revenue in 2013,
which represents an increase of 0.4%.

Net revenue in CHF million

	2011	2012	2013
	11,467	**11,384**	**11,434**
Other countries	2,224	2,116	2,076
Switzerland	9,243	9,268	9,358
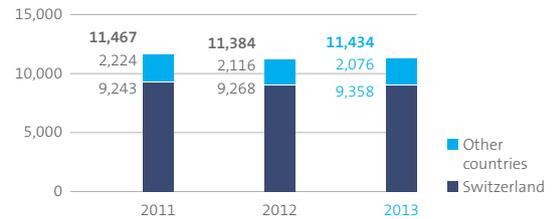
Environment

21 %

Swisscom increases the efficiency of its energy
usage in Switzerland since 1 January 2010.

Energy efficiency increase in Switzerland since 1 January 2010 in %

2011	2012	2013
9.7%	**15.1%**	**21.1%**
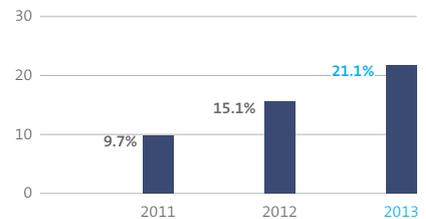
Society

20,108 FTE

is the headcount at Swisscom as of the end of 2013.
Swisscom's workforce includes 90 different nationalities.

Number of employees in full-time equivalent (FTE)

	2011	2012	2013
	20,061	**19,514**	**20,108**
Other countries	3,433	3,245	2,746
Switzerland	16,628	16,269	17,362
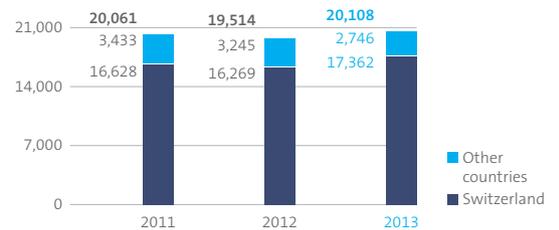
KPIs of Swisscom Group

In CHF million, except where indicated		2013	2012	Change
Economic performance				
Net revenue and results				
Net revenue		11,434	11,384	0.4%
Operating income before depreciation and amortisation (EBITDA)		4,302	4,477	−3.9%
EBITDA as % of net revenue	%	37.6	39.3	
Operating income (EBIT)		2,258	2,527	−10.6%
Net income		1,695	1,815	−6.6%
Earnings per share	CHF	32.53	34.90	−6.8%
Balance sheet and cash flows				
Equity at end of year		6,002	4,717	27.2%
Equity ratio at end of year	%	29.3	23.8	
Operating free cash flow		1,978	1,882	5.1%
Capital expenditure in property, plant and equipment and other intangible assets		2,396	2,529	−5.3%
Net debt at end of period		7,812	8,071	−3.2%
Operational data at end of period				
Fixed access lines in Switzerland	in thousand	2,879	3,013	−4.4%
Broadband access lines retail in Switzerland	in thousand	1,811	1,727	4.9%
Swisscom TV access lines in Switzerland	in thousand	1,000	791	26.4%
Mobile access lines in Switzerland	in thousand	6,407	6,217	3.1%
Unbundled fixed access lines in Switzerland	in thousand	256	300	−14.7%
Broadband access lines wholesale in Switzerland	in thousand	215	186	15.6%
Broadband access lines in Italy	in thousand	1,942	1,767	9.9%
Swisscom share				
Number of issued shares	in thousand	51,802	51,802	−
Closing price at end of period	CHF	470.90	393.80	19.6%
Market capitalisation at end of year		24,394	20,400	19.6%
Dividend per share	CHF	22.00 [1]	22.00	−

Ecological performance

		2013	2012	Change
Environmental key figures in Switzerland				
Energy consumption	GWh	503	511	−1.6%
Carbon dioxide CO_2	tons	25,260	24,662	2.4%
Average carbon dioxide CO_2 emission vehicle fleet	gram per km	123.0	131.0	−6.1%
Rate of return handy recycling	%	9.8	11.4	

Social performance

		2013	2012	Change
Employees				
Full-time equivalent employees at end of year	number	20,108	19,514	3.0%
Full-time equivalent employees in Switzerland at end of year	number	17,362	16,269	6.7%
Fluctuation rate headcount in Switzerland	%	10.7	10.1	
Days lost headcount in Switzerland	number	120,024	117,876	1.8%

[1] In accordance with the proposal of the Board of Directors to the Annual General Meeting.

Key Events 2013

Market

> Swisscom starts rolling out Fibre to the Street (FTTS) in 23 municipalities. In a pilot phase it connects in towns like Biel and Montreux, by rolling out Fibre to the Building (FTTB).

> Swisscom invests CHF 1.7 billion in its Swiss infrastructure.

> The expansion of the new 4G/LTE network proceeds at high speed. 85% of the Swiss population can already use Swisscom's latest-generation mobile network in 1,400 municipalities, including 140 towns and cities.

> Swisscom wins connect magazine's network test for the fifth year in a row, proving once again that it is Swiss market leader in mobile communications.

Products and services

> Swisscom customers benefit from an even faster mobile data network and can surf the Internet at a speed of up to 150 Megabits per second thanks to 4G/LTE.

> Virtually every third household watches TV with Swisscom: thanks to record growth over the past twelve months, the number of customers watching Swisscom TV surpasses the one million mark.

> Swisscom once again massively reduces the prices for mobile surfing when abroad, offering the lowest-cost service of any Swiss provider and remaining well below the regulated EU level.

> Swisscom launches iO – and is the first Swiss provider to offer a free app for telephony and messaging via the Internet. All of iO's functions can be used abroad, thereby making using a mobile abroad cheaper than ever before.

> Occasional mobile phone users can take advantage of two new subscription packages, Natel entry basic and Natel entry plus, featuring inclusive units and top Internet-browsing speed.

> Swisscom makes some adjustments to its successful packages, adding the entry-level Vivo Casa 1*, which allows customers to spend more time on the phone and surf at faster speeds for the same price.

> Swisscom invests in Switzerland's future: since November all customers with an optical-fibre connection have been able to browse the Internet on Swisscom's ultra-fast broadband network at speeds of up to 1 gigabit per second.

> Swisscom Energy Solutions launches BeSmart – a product which recovers balancing energy for the Swiss power network by flexibly controlling electric heat generating systems. BeSmart thus constitutes a basis upon which to expand the use of fluctuating energy sources such as wind and solar power.

Sustainability

> Thanks to Green ICT services from Swisscom, just 53 of our customers who have been awarded a Green ICT certificate save some 15,000 tons of CO_2, 8 gigawatt hours of electricity and a lot of travel time.

> Swisscom is strongly committed to promoting media skills. The courses it runs on the correct usage of media are attended by more than 13,000 secondary school pupils and more than 5,500 parents, as well as teachers in 2013. It also launches a new "media smart" platform for parents, dedicated to the use of digital media as part of family life.

> Working for the environment and society: Swisscom employees perform some 1,500 days of voluntary work as part of the Give & Grow Corporate Volunteering Programme in 2013.

> Swisscom mobile aid: Swisscom collects around 149,000 old mobile phones from the Swiss population. The proceeds from the resale of the devices go to the SOS Children's Village.

> Swisscom is awarded top ratings by rating agencies such as SAM, CDP, Vigéo, imug/EIRIS.

Swisscom in mourning for CEO Carsten Schloter

> Carsten Schloter (1963–2013) joined Swisscom in 2000, where he initially managed Swisscom Mobile. He recognised the future potential of mobile data traffic at an early stage and launched a world first with Mobile Unlimited. In 2006 Carsten was appointed CEO of Swisscom. He proceeded to organise the company along the lines of customer segments, firmly establishing customer orientation as an element of Swisscom's culture. He led the company into the new business area of Swisscom TV, where he met with major success. He recognised that the quality, performance and security of networks would assume increasing importance in the future. This prompted him to boldly pursue unconventional methods, which repeatedly caused a stir in the industry. One example of which was the introduction of the Infinity tariffs. When Fastweb entered into its most difficult phase in connection with a value-added-tax scandal, Carsten personally assumed the management of the subsidiary and steered the company back on course. None of these successes would have been possible had it not been for his immense energy – which he conveyed to the staff and always used to the benefit of customers. Carsten had a clear vision of Swisscom's future. As a result, throughout the years he steered the company with due strategic care into a new era. Nobody else could move, inspire and encourage people like he did. We will never forget Carsten.

Business review

> From July 2013 Urs Schaeppi takes over the management of the company as interim deputy CEO. He was appointed as CEO of Swisscom from 7 November 2013.
> Stefan Nünlist takes over as Head of Corporate Communications at Swisscom.
> Swisscom increases the strategic stake it has held in Cinetrade since 2005 to 75%.
> Swisscom acquires the business platform of Entris Banking and Entris Operations, thereby consolidating its expertise in the banking sector.
> The corporate business divisions of Swisscom Switzerland and Swisscom IT Services, which have traditionally managed corporate customer business, are merged with effect from 1 January 2014 to create the new Enterprise Customers division. Swisscom thereby laying the foundations upon which to offer cloud-based one-stop telecommunication an IT solutions and strengthens its competitive position. As a result of the reorientation, the Board of Directors decides to streamline the Group structure.

Business Overview

Swisscom's financial reporting is based on the three operating divisions: Swisscom Switzerland, Fastweb and Other operating segments.

Swisscom Switzerland

In CHF million, except where indicated	2011	2012	2013
Net revenue	8,449	8,461	8,449
Segment result before depreciation and amortisation	3,662	3,557	3,547
Margin as % of net revenue	43.3	42.0	42.0
Capital expenditure in property, plant and equipment and other intangible assets	1,400	1,852 [1]	1,516
Full-time equivalent employees at end of year	12,129	11,862	12,463

[1] Including expenses of CHF 360 million for mobile frequencies.

The Residential Customers, Small and Medium-Sized Enterprises, Corporate Business, Wholesale and Network & IT divisions are reported separately in the segment reporting.

Residential Customers
The Residential Customers segment is the contact partner for mobile and fixed-line customers. It provides Switzerland with broadband access lines, serves a growing number of Swisscom TV subscribers and operates Switzerland's one of the most frequently visited Internet portals www.bluewin.ch. The Residential Customers segment offers telephone, Internet and TV services – all from a single source – and is also responsible for handset sales and directories business.

Small and Medium-Sized Enterprises
The Small and Medium-Sized Enterprises segment offers a comprehensive range of products and services – from fixed-line and mobile telephony to Internet and data services to IT infrastructure maintenance and operation. Small and Medium-Sized Enterprises receive bespoke integrated solutions: suitable connections, secure access, professional services and intelligent networks.

Corporate Business
Whether voice or data, mobile or fixed network, individual products or integrated solutions, as a leading provider in the field of business communications, the Corporate Business segment supports customers with the planning, implementation and operation of their IT and communications infrastructure, including the provision of cost-efficient solutions and reliable services.

Wholesale
The Wholesale segment provides various services for other telecommunications providers, such as regulated access to the "last mile" as well as commercial voice, data and broadband products. The Wholesale segment also covers roaming with foreign providers.

Network & IT
The Network & IT segment builds, operates and maintains Swisscom's countrywide fixed network and mobile communications infrastructure. It is also responsible for the associated IT platforms, and is driving forward migration of the networks to an integrated IT- and IP-based platform (All IP). Network & IT also provides support functions for Swisscom Switzerland; expenses incurred are not charged to the individual segments. The Network & IT segment therefore only reports expenses but no revenue.

Fastweb

Fastweb is one of Italy's biggest broadband telecoms companies.

In EUR million, except where indicated	2011	2012	2013
Net revenue	1,746	1,700	1,642
Segment result before depreciation and amortisation	506	500	505
Margin as % of net revenue	29.0	29.4	30.8
Capital expenditure in property, plant and equipment and other intangible assets	448	441	565
Full-time equivalent employees at end of year	3,079	2,893	2,363

Fastweb provides products and services for voice, data, Internet and TV, as well as a full complement of VPN and mobile communication services. Fastweb offers its services in all large towns and cities in Italy and in all market segments. The services are provisioned directly via the company's own fibre-optic network or via unbundled fixed access lines and wholesale products of Telecom Italia.

Other operating Segments

Other operating segments mainly comprises Group Related Businesses and Swisscom IT Services, a leading provider of IT services in Switzerland.

In CHF million, except where indicated	2011	2012	2013
Net revenue	1,708	1,728	1,819
Segment result before depreciation and amortisation	300	274	303
Margin as % of net revenue	17.6	15.9	16.7
Capital expenditure in property, plant and equipment and other intangible assets	169	167	195
Full-time equivalent employees at end of year	4,514	4,419	4,964

Other operating segments mainly comprises Swisscom IT Services, Group Related Businesses and Swisscom Hospitality Services. Swisscom IT Services ranks as one of the leading providers specialising in the integration and operation of complex IT systems. Its core competencies are in the fields of IT outsourcing services, workplace services, SAP services and finance services. Group Related Businesses manages a portfolio of small and medium-sized enterprises, delivering services that are mainly related to or help support Swisscom's core business. Swisscom Hospitality Services supports the hotel industry worldwide with innovative network and communication solutions.

Group Headquarters

Group Headquarters chiefly comprises the Group divisions Group Business Steering, Group Strategy & Innovation, Group Communications & Responsibility, and Group Human Resources.

Shareholders' letter

Dear Shareholders

Swisscom can look back on a successful and eventful year with strong customer growth and stable core business. Customer growth was accelerated by innovations and investments in the market, particularly in the latest generation of ICT networks. Swisscom TV, along with offerings in mobile communications and from Fastweb, allowed us to win over a large number of new customers. A high volume of incoming orders at Swisscom IT Services and our customers switching to bundled offerings helped to deliver a solid performance. Continuing competition and price pressure, characterised by price erosion and further price reductions for roaming services, resulted in a drop in operating profit.

Marginal decline in operating income

In 2013 Swisscom's net revenue rose by CHF 50 million or 0.4% to CHF 11,434 million, while operating income before depreciation and amortisation (EBITDA) was CHF 175 million or 3.9% lower at CHF 4,302 million. Revenue and EBITDA performance was impacted by the euro exchange rate, company acquisitions and hubbing revenues (wholesale revenues from low-margin interconnection services) at Fastweb. Excluding these special factors, and at constant exchange rates, net revenue and EBITDA fell by 0.8% and 2.0% respectively. Net income declined by CHF 120 million or 6.6% to CHF 1,695 million. Besides lower EBITDA, the fall in net income was mainly attributable to higher depreciation and amortisation. Excluding expenses for the mobile frequencies acquired by auction in the previous year, capital expenditure increased by CHF 227 million or 10.5% to CHF 2,396 million.

Solid business performance in Switzerland

In its Swiss business, Swisscom generated net revenue of CHF 9,358 million (+1.0%) and EBITDA of CHF 3,685 million (−4.6%). Adjusted for one-off special factors, EBITDA was down 2.0% year-on-year. Price erosion and price reductions for roaming services totalling CHF 560 million were largely offset by CHF 480 million in customer and volume growth. Excluding the costs of CHF 360 million for the mobile frequencies acquired in 2012, capital expenditure in Switzerland rose by CHF 52 million or 3.2% to CHF 1,686 million. This was mainly attributable to broadband expansion and to upgrading mobile networks with the latest technologies. In Switzerland headcount increased by 1,093 full-time equivalents or 6.7% to 17,362 as a result of company acquisitions, the insourcing of external staff and the strengthening of customer service operations.

Fastweb on track

Fastweb is on track in Italy and its strategy remains unchanged. Excluding hubbing business, net revenue dipped slightly by EUR 16 million to EUR 1,597 million. Fastweb's broadband customer base increase to 175'000 with in a year and is growing faster than the broadband market in Italy. EBITDA increased by EUR 5 million or 1.0% to EUR 505 million year-on-year. Capital expenditure rose by CHF 124 million or 28.1% to EUR 565 million, due to spending on upgrading the fibre-optic network with the same technology as in Switzerland (notably Fibre to the Street) in order to significantly expand high-speed network access and geographical reach.

Swisscom share performance in 2013

The Swisscom share price rose by 19.6% in 2013, which is only slightly below the average price gain of 20.2% posted by the 20 leading Swiss companies on the Swiss Market Index (SMI). In terms of total shareholder return (share price movement and dividend payout) Swisscom outperformed the SMI due to the high dividend yield. Payment of an ordinary dividend of CHF 22 per share (prior year: CHF 22) will be proposed to the Annual General Meeting of shareholders. This is equivalent to a total dividend payout of CHF 1,140 million. Swisscom is thus upholding the principle of continuity in its dividend policy.

Keeping pace with the development of national markets into global markets

What were once domestic markets for telephony and data communication are now, thanks to digitalisation, a single global market: providers such as Google, Apple, etc. are now able to offer their communication services globally thanks to the Internet protocol. Many of these services are free-of-charge for users, because although these providers rely on our networks for the provision of their services, they do not have to invest in them.
To counteract this trend, Swisscom has further developed its business model. As a trusted partner in today's digital world, the company relies on having a secure and always-available network for its customers. The needs of its customers and a commitment to delivering outstanding quality of service is at the centre of its considerations and actions.

High investments

The increasing importance of the Internet for personal and professional use has resulted in a greater demand for high-performance, secure network access throughout Switzerland. In the high-investment network competition with cable network operators, mobile network operators and power utility companies, Swisscom wants to continue offering its customers the best network. As a result, Swisscom has this year invested CHF 1.7 billion in Switzerland, most of which on expanding the mobile network with 4G/LTE and on broadband expansion.

Modern fibre-optic technologies

At the end of 2013, some 750,000 homes and businesses were connected with FTTH (Fibre to the Home) and were able to take advantage of Internet-browsing speeds of up to 1 gigabit per second. This figure is set to rise to around a million or around a third of all households in Switzerland by the end of 2015. Swisscom has also rolled out new fibre-optic technologies such as FTTS (Fibre to the Street) and FTTB (Fibre to the Building). The work involved in expanding these technologies has already begun. Swisscom also intends to almost double the performance of the existing network from 2014 using vectoring technology, thus enabling the rapid and cost-effective nationwide rollout of ultra-fast broadband.

Fourth-generation mobile technology

In 2012, Swisscom became the first mobile provider in Switzerland to launch fourth-generation LTE technology on a commercial basis, with work being completed on the expansion this year. By the end of 2013, Swisscom had already extended 4G/LTE coverage to 85% of the Swiss population, and around one million Swisscom customers were regularly using the new high-speed LTE network.

Unlimited use of Swisscom services

In response to the growing trend among global providers in the global telephone and data communications market to offer services free of charge, Swisscom now also enables its customers to enjoy unlimited use of many communications services. The only differences in the offerings are the access speeds. The infinity mobile subscriptions launched in 2012 are popular. By the end of the year around 1.7 million customers were benefiting from such subscriptions. Occasional mobile phone users can also take advantage of two new subscription packages, featuring inclusive units and top Internet-browsing speeds. These offerings have enabled Swisscom to minimise the direct risks to which global Internet providers (OTT providers) are exposed. Swisscom also launched iO, a free telephony and messaging service which can be used worldwide. By the end of the year, around 400,000 users had installed the service.

New growth opportunities for Swisscom

In addition to optimising bundled offerings and developing new products and services, such as the expansion of the TV offering, Swisscom is coming up with further significant innovations in a dynamic market environment. In the Business Customers area, for example, Swisscom launched Mobile ID (a mobile phone-based authentication solution available as a managed service), Dynamic Computing Services (offering processing power and storage space from the cloud) and Storebox (a secure, highly available storage space for corporate data). Tapit – a platform for contactless services such as making payments or managing access control – and Docsafe – a platform for exchanging documents digitally – are just two of the numerous attractive products currently in pilot trials and therefore ready to be introduced onto the market.

In the Business Customers area, the focus is on migration from conventional solutions to voice-over-IP-based solutions. With ICT being used more and more, productivity in individual sectors is also improving in the long run. These new technical possibilities provide Swisscom with the opportunity for growth in areas outside of its traditional core business, primarily in the energy and healthcare markets. Consequently, Swisscom Energy Solutions has launched a product named BeSmart, which recovers balancing energy for the Swiss power network by flexibly controlling electric heat generators. There are further opportunities for Swisscom to launch new services in the machine-to-machine (M2M), security and cloud computing sectors, as well as in other communication and collaboration applications.

Change in the Group organisation – management changes

In July, we received the devastating news of the death of our CEO, Carsten Schloter. In Carsten, we lost someone whom we cared about deeply as well as an extraordinary CEO. He was a visionary and a strategist with an instinctive feeling for the market and the needs of customers and employees. Carsten transformed Swisscom into an exemplary company that has set standards in the industry and enjoys an excellent reputation well beyond the borders of Switzerland. Thanks to his efforts, Swisscom is now excellently positioned in the market and has a strong corporate culture and clear vision, which we continue to drive forward. We will always be grateful for everything that Carsten achieved.

Urs Schaeppi headed up the company ad interim from 23 July 2013 and was officially named as CEO from 7 November 2013. As the IT and telecommunication markets are increasingly converging, Swisscom has realigned its corporate customer business: the corporate business divisions of Swisscom Switzerland and Swisscom IT Services, which have traditionally managed corporate customer business, are being merged as of 1 January 2014 to create the new Enterprise Customers division. Swisscom is thereby laying the foundations upon which to offer customers convergent and cloud-based one-stop solutions and strengthen its competitive position. As a result of the reorientation, the Board of Directors has decided to streamline the Group structure. The Group Executive Board will comprise the following persons as of 1 January 2014: Urs Schaeppi (CEO), Marc Werner (Residential Customers), Roger Wüthrich-Hasenböhler (Small and Medium-Sized Enterprises), Andreas König (Enterprise Customers), Heinz Herren (IT, Network & Innovation), Mario Rossi (Group Business Steering) and Hans C. Werner (Group Human Resources). Stefan Nünlist (Group Communications & Responsibility), Martin Vögeli (Group Strategy & Board Services) and Roger Halbheer (Group Security) will also report directly to the CEO. Jürgen Galler (Chief Strategy Officer) left the Group Executive Board in November.

Sustainability as a key element in a long-term strategy

The Swisscom corporate strategy is geared towards longevity and sustainability. Swisscom has set itself the target of becoming an international forerunner in the field of corporate responsibility. Swisscom is currently one of the top five most-sustainable telecoms companies in Europe.

Swisscom promotes media skills through initiatives such as "Internet for Schools" and other media skills courses, enabling its customers to navigate the digital world securely and responsibly. Swisscom's sustainability efforts focus on the following areas: "Sustainable living and working", "Sustainable use of resources and responsibility in the supply chain", "Telecommunications for all" and "Responsible employer". Corporate responsibility is also an important driver of customer satisfaction.

Financial outlook for 2014

Swisscom expects moderate growth in revenue and EBITDA in 2014 and is targeting revenue of CHF 11.5 billion and EBITDA of CHF 4.35 billion. Network infrastructure expansion in both Switzerland and Italy will continue to call for high capital expenditure totalling an expected CHF 2.4 billion, of which CHF 1.75 billion in Switzerland. If all targets are met, Swisscom will once again propose a dividend of CHF 22 per share for the 2014 financial year to the 2015 Annual General Meeting.

Thank you

We can look back on an intensive and successful year. We owe our achievements in 2013 to the trust of our customers and the loyalty of our shareholders – we would like to say a huge thank you to you all. We would also like to particularly thank our employees, as their tireless dedication and work in these difficult times has helped ensure that Swisscom enjoys a solid footing and cultivates an excellent corporate culture.

Yours sincerely

Hansueli Loosli
Chairman of the Board of Directors
Swisscom Ltd

Urs Schaeppi
CEO Swisscom Ltd