

Financial Statements

With the best products and services which create added value for clients and shareholders.

Net revenue in CHF mio.

Others

9%

Fastweb

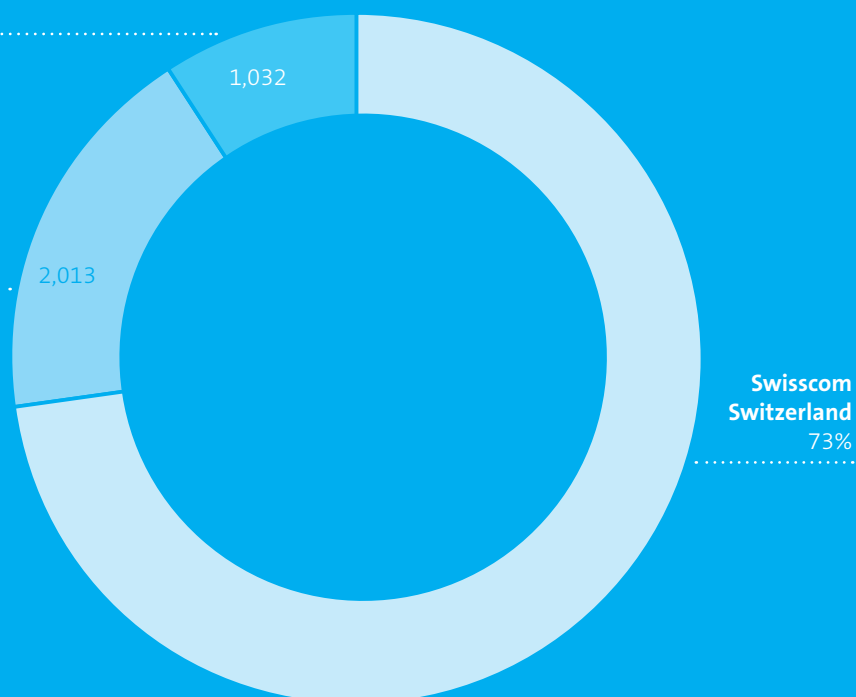
18%

2,013

1,032

**Swisscom
Switzerland**

73%



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Consolidated financial statements

Consolidated income statement

In CHF million, except for per share amounts	Note	2013	2012 restated ¹
Net revenue	6, 7	11,434	11,384
Goods and services purchased	8	(2,338)	(2,399)
Personnel expense	9, 10, 11	(2,706)	(2,485)
Other operating expense	12	(2,476)	(2,396)
Capitalised self-constructed assets and other income	13	388	373
Operating income before depreciation, amortisation and impairment losses (EBITDA)		4,302	4,477
Depreciation, amortisation and impairment losses on tangible and intangible assets	23, 24	(2,044)	(1,950)
Operating income (EBIT)		2,258	2,527
Financial income	14	81	29
Financial expense	14	(340)	(355)
Share of results of associates	25	30	32
Income before income taxes		2,029	2,233
Income tax expense	15	(334)	(418)
Net income		1,695	1,815
Share of net income attributable to equity holders of Swisscom Ltd		1,685	1,808
Share of net income attributable to non-controlling interests		10	7
Basic and diluted earnings per share (in CHF)	16	32.53	34.90

¹ See Note 3.23, New and amended Standards and Interpretations.

Consolidated statement of comprehensive income

In CHF million	Note	2013	2012 restated ¹
Net income		1,695	1,815
Other comprehensive income			
Actuarial gains and losses from defined benefit pension plans	10, 31	847	(769)
Income tax expense	15, 31	(169)	151
Items that will not be reclassified to income statement, net of tax		678	(618)
Foreign currency translation adjustments of foreign subsidiaries	31	63	(26)
Change in fair value of available-for-sale financial assets	31	1	–
Gains and losses from available-for-sale financial assets transferred to income statement	31	–	5
Change in fair value of cash flow hedges	31	7	(5)
Gains and losses from cash flow hedges transferred to income statement	31	6	8
Income tax expense	15, 31	(15)	6
Items that are or may be reclassified subsequently to income statement, net of tax		62	(12)
Other comprehensive income		740	(630)
Comprehensive income		2,435	1,185
Share of comprehensive income attributable to equity holders of Swisscom Ltd		2,423	1,181
Share of comprehensive income attributable to non-controlling interests		12	4

¹ See Note 3.23, New and amended Standards and Interpretations.

Consolidated balance sheet

In CHF million	Note	31.12.2013	31.12.2012 restated ¹	1.1.2012, restated ¹
Assets				
Cash and cash equivalents	17	723	538	314
Trade and other receivables	18	2,516	2,658	2,745
Other financial assets	19	160	40	73
Inventories	20	152	160	144
Current income tax assets	15	22	55	45
Other non-financial assets	21	210	220	334
Non-current assets held for sale	22	13	1	1
Total current assets		3,796	3,672	3,656
Property, plant and equipment	23	9,156	8,549	8,222
Goodwill	24	4,809	4,662	4,664
Other intangible assets	24	2,053	2,121	1,879
Investments in associates	25	153	268	233
Other financial assets	19	193	197	196
Deferred tax assets	15	279	285	223
Other non-financial assets	21	57	42	56
Total non-current assets		16,700	16,124	15,473
Total assets		20,496	19,796	19,129
Liabilities and equity				
Financial liabilities	26	1,656	1,053	804
Trade and other payables	27	1,870	1,993	1,957
Current income tax liabilities	15	184	189	37
Provisions	28	132	154	148
Other non-financial liabilities	30	759	643	676
Total current liabilities		4,601	4,032	3,622
Financial liabilities	26	7,167	7,730	8,027
Defined benefit obligations	10	1,293	2,108	1,489
Provisions	28	667	686	755
Deferred tax liabilities	15	456	236	247
Other non-financial liabilities	30	310	287	296
Total non-current liabilities		9,893	11,047	10,814
Total liabilities		14,494	15,079	14,436
Share capital	31	52	52	52
Capital reserves		136	136	136
Retained earnings		7,356	6,135	6,098
Other reserves	31	(1,571)	(1,633)	(1,620)
Share of equity attributable to equity holders of Swisscom Ltd		5,973	4,690	4,666
Share of equity attributable to non-controlling interests		29	27	27
Total equity		6,002	4,717	4,693
Total liabilities and equity		20,496	19,796	19,129

¹ See Note 3.23, New and amended Standards and Interpretations.

Consolidated statement of cash flows

In CHF million	Note	2013	2012 restated ¹
Net income		1,695	1,815
Share of results of associates	25	(30)	(32)
Income tax expense	15	334	418
Depreciation, amortisation and impairment losses	23, 24	2,044	1,950
Expense for share-based payments	11	6	6
Gain on sale of property, plant and equipment	13	(16)	(16)
Loss on disposal of property, plant and equipment	12	13	7
Financial income	14	(81)	(29)
Financial expense	14	340	355
Change in net operating assets and liabilities	34	104	(39)
Income taxes paid	15	(278)	(190)
Cash flow provided by operating activities		4,131	4,245
Capital expenditure for tangible and other intangible assets	23, 24, 34	(2,445)	(2,561)
Proceeds from sale of tangible and other intangible assets		23	13
Proceeds from sale of non-current assets held for sale	22	5	12
Acquisition of subsidiaries, net of cash and cash equivalents acquired	5	(60)	(17)
Investments in associates	25	(1)	(48)
Purchase of other financial assets		(158)	(12)
Proceeds from other financial assets		24	37
Interest received		10	14
Dividends received	25	43	38
Cash flow used in investing activities		(2,559)	(2,524)
Issuance of financial liabilities	26	993	651
Repayment of financial liabilities	26	(956)	(726)
Interest paid		(253)	(250)
Dividends paid to equity holders of Swisscom Ltd	32	(1,140)	(1,140)
Dividends paid to non-controlling interests		(14)	(14)
Purchase of treasury shares for share-based payments	11, 31	(6)	(6)
Other cash flows from financing activities	34	(12)	(12)
Cash flow used in financing activities		(1,388)	(1,497)
Net increase in cash and cash equivalents		184	224
Cash and cash equivalents at 1 January		538	314
Foreign currency translation adjustments in respect of cash and cash equivalents		1	–
Cash and cash equivalents at 31 December		723	538

¹ See Note 3.23, New and amended Standards and Interpretations.

Consolidated statement of changes in equity

In CHF million	Share capital	Capital reserves	Retained earnings	Treasury shares	Other reserves	Equity attributable to equity holders of Swisscom	Non-controlling interests	Total equity
Balance at 31 December 2011, reported	52	136	5,704	–	(1,620)	4,272	24	4,296
Change in accounting policies ^{3,23}	–	–	394	–	–	394	3	397
Balance at 1 January 2012, restated	52	136	6,098	–	(1,620)	4,666	27	4,693
Net income	–	–	1,808	–	–	1,808	7	1,815
Other comprehensive income	–	–	(614)	–	(13)	(627)	(3)	(630)
Comprehensive income	–	–	1,194	–	(13)	1,181	4	1,185
Dividends paid ³²	–	–	(1,140)	–	–	(1,140)	(14)	(1,154)
Transactions with non-controlling interests	–	–	(10)	–	–	(10)	10	–
Share of equity transactions of associates ²⁵	–	–	(7)	–	–	(7)	–	(7)
Purchase of treasury shares for share-based payments ³¹	–	–	–	(6)	–	(6)	–	(6)
Allocation of treasury shares for share-based payments ^{11,31}	–	–	–	6	–	6	–	6
Balance at 31 December 2012, restated	52	136	6,135	–	(1,633)	4,690	27	4,717
Net income	–	–	1,685	–	–	1,685	10	1,695
Other comprehensive income	–	–	676	–	62	738	2	740
Comprehensive income	–	–	2,361	–	62	2,423	12	2,435
Dividends paid ³²	–	–	(1,140)	–	–	(1,140)	(14)	(1,154)
Additions from acquisition of subsidiaries ⁵	–	–	–	–	–	–	19	19
Transactions with non-controlling interests	–	–	–	–	–	–	(15)	(15)
Purchase of treasury shares for share-based payments ³¹	–	–	–	(6)	–	(6)	–	(6)
Allocation of treasury shares for share-based payments ^{11,31}	–	–	–	6	–	6	–	6
Balance at 31 December 2013	52	136	7,356	–	(1,571)	5,973	29	6,002

Reference numbers relate to the notes to the consolidated financial statements.

Notes to the consolidated financial statements

This financial report is a translation from the original German version. In case of any inconsistency the German version shall prevail.

1 General information

The Swisscom Group (hereinafter referred to as “Swisscom”) provides telecommunication services and is active primarily in Switzerland and Italy. A more detailed description of Swisscom’s business activities is to be found in Notes 3.16 and 6. The consolidated financial statements as of and for the year ended 31 December 2013 comprise Swisscom Ltd, the parent company, and its subsidiaries. A table of the Group subsidiaries is set out in Note 41. Swisscom Ltd is a limited-liability company incorporated in Switzerland under a private statute and has its registered office in Ittigen (Berne). Its address is: Swisscom Ltd, Alte Tiefenastrasse 6, 3048 Worblaufen. Swisscom Ltd is listed on the SIX Swiss Exchange. As of 31 December 2013, the Swiss Confederation (“Confederation”), as majority shareholder, held 51.2% of the voting rights and issued capital of Swisscom Ltd. The Confederation is obligated by current law to hold the majority of the capital and voting rights. The Board of Directors of Swisscom has approved the issuance of these consolidated financial statements on 5 February 2014. The consolidated financial statements must be approved at the Annual General Meeting of Shareholders of Swisscom Ltd to be held on 7 April 2014.

2 Basis of preparation

The consolidated financial statements of Swisscom have been prepared in accordance with International Financial Reporting Standards (IFRS) and in compliance with the provisions of Swiss law. The reporting period covers twelve months. The consolidated financial statements are presented in Swiss francs (CHF). Unless otherwise indicated, all amounts are stated in millions of Swiss francs. The balance sheet is classified according to maturities. Assets and liabilities due within one year are classified as current. The income statement is classified based upon the nature of the income/expense. The consolidated financial statements have been prepared on the historical cost basis, unless a Standard or Interpretation prescribes another measurement basis for a particular caption in the consolidated financial statements.

3 Summary of significant accounting policies

3.1 Consolidation

Subsidiaries

Subsidiaries are all companies over which Swisscom Ltd has the effective ability of controlling their financial and business policies. Control is generally presumed where Swisscom Ltd directly or indirectly holds the majority of the voting rights or potential voting rights of the company. Subsidiaries are included in consolidation from the date on which they are acquired and deconsolidated from the date they are disposed of. Intercompany balances and transactions, income and expenses, shareholdings and dividends as well as unrealised gains and losses are fully eliminated. Unrealised losses on an asset which has been transferred within the Group may be an indication of an impairment in value and triggers an impairment test. Non-controlling interests in subsidiary companies are reported within equity separately from that attributable to the shareholders of Swisscom Ltd. The non-controlling interests in net income or loss are shown in the consolidated income statement as a component of the consolidated net income or loss. Movements in shareholdings of subsidiary companies are reported as transactions within equity insofar as control existed previously and continues to exist. Written put options to owners of non-controlling interests are disclosed as financial liabilities. The balance sheet date for all consolidated subsidiaries is 31 December. There are no material restrictions on the transfer of funds from the subsidiaries to the parent company.

Investments in associates

Shareholdings in associates over which Swisscom exercises significant influence but does not have control are accounted for using the equity method. A significant influence is generally assumed to exist whenever between 20% and 50% of the voting rights are held. Under the equity method, investments in associates are initially recognised at their purchase cost at the date of acquisition. Purchase cost comprises the share of net assets acquired and any applicable goodwill arising. In subsequent accounting periods, the carrying amount of the investment is adjusted by the share of current profits and losses together with the share of movements in other equity captions, less the share of dividends distributed. Unrealised gains and losses from transactions with associates are eliminated on a pro-rata basis.

3.2 Foreign currency translation

Foreign currency transactions which are not denominated in the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary items as of the balance sheet date are translated into the functional currency at the exchange rate prevailing at the balance sheet date and non-monetary items are translated using the exchange rate on the date of the transaction. Translation differences are recognised in the income statement. The consolidated financial statements are presented in Swiss francs. Assets and liabilities of subsidiaries and associates reporting in a different functional currency are translated at the exchange rates prevailing on the balance sheet date whereas the income statement and the cash flow statement are translated at average exchange rates. Translation differences arising from the translation of net assets and income statements are not taken to income but recorded directly in equity as part of other comprehensive income. Upon sale of a foreign Group company, the cumulative foreign exchange differences previously included in the foreign currency translation reserve under equity are taken to income as part of the gain or loss on disposal.

For the consolidated financial statements, the most significant foreign currencies during the reporting years were translated at the following exchange rates:

Currency	Closing rate			Average rate	
	31.12.2013	31.12.2012	31.12.2011	2013	2012
1 EUR	1.228	1.207	1.216	1.229	1.204
1 USD	0.890	0.915	0.939	0.924	0.932

3.3 Cash and cash equivalents

Cash and cash equivalents include cash on hand, sight balances and time deposits with financial institutions with a maximum term of three months from the acquisition date. This definition is equally applied for the cash flow statement. Cash and cash equivalents are accounted for at amortised cost.

3.4 Trade and other receivables

Trade and other receivables are measured at amortised cost less impairment losses. Any impairment losses are recorded through the use of valuation allowance accounts. All realised losses lead to the derecognition of the related receivable.

Receivables and payables are netted whenever Swisscom has a legal right of set-off as of the balance-sheet date and intends to either settle on a net basis or realise the asset and settle the liability simultaneously. The right of set-off must exist as of the balance-sheet date and it shall be legally enforceable both in the ordinary course of business as well as in the case of the insolvency of the contracting party.

3.5 Other financial assets

Other financial assets are classified either as “at fair value through profit or loss”, “loans and receivables”, “held-to-maturity” or “available-for-sale”. The classification depends on the purpose for which the financial asset was acquired. Management determines the classification of financial assets at the time of acquisition and reviews the classification as of each balance sheet date. Trade date accounting is applied for routine purchases and sales of financial assets. Financial assets are initially recognised at their fair values, including directly related transaction costs. Transaction costs relating to financial assets at fair value through profit or loss are not capitalised on acquisition but expensed immediately as incurred. Financial assets are partially or fully derecognised if Swisscom’s rights to the cash flows arising therefrom have either elapsed or were transferred and Swisscom is neither exposed to any risks arising from these assets nor has any entitlement to income from them.

Financial assets at fair value through profit or loss

Financial assets valued at fair value through profit or loss are either held for trading purposes or are classified as such upon initial recording. They are measured at their fair value. Any gains or losses resulting from subsequent measurement are taken to income. Swisscom classifies only derivative financial instruments in this category.

Financial assets held to maturity

Held-to-maturity financial assets are fixed-term financial assets for which Swisscom has the ability and intention to hold to maturity. After their initial recognition at amortised cost, financial assets are accounted for using the effective interest method less provisions for impairment. Foreign exchange gains and losses are taken to income. Swisscom has not classified any financial assets in this category.

Loans and receivables

After their initial recognition at amortised cost, loans and receivables are measured using the effective interest method. Foreign exchange gains and losses are taken to income. The caption loans and receivables primarily reflects term deposits with original maturities exceeding three months which Swisscom places directly, or through an agent, with the borrower.

Available-for-sale financial assets

All other financial assets are classified as available-for-sale financial assets. Available-for-sale financial assets are accounted for at fair value and all unrealised changes in fair value are recorded in equity. Foreign exchange gains and losses on available-for-sale debt instruments are recognised in the income statement. When available-for-sale financial assets are sold, impaired or otherwise disposed of, the cumulative gains and losses since acquisition that had been recognised in equity are reclassified from equity and recorded as financial income or expense. If the fair value of an unlisted equity instrument cannot be reliably determined, the instruments are accounted for at cost less provisions for impairment.

3.6 Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories includes all costs of acquisition and manufacture as well as other costs incurred in order to bring the inventories to their present location and condition as intended by management. The cost of inventories is determined using the weighted average cost method. Write-downs are raised for inventories that are difficult to sell. Unsalable inventories are fully written off.

3.7 Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated depreciation and impairment losses. In addition to the purchase cost and the costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, purchase or manufacturing cost also includes the estimated costs for dismantling and restoration of the site. The construction costs of self-constructed assets include directly attributable costs as well as indirect costs of material, manufacture and administration. Borrowing costs are capitalised insofar as they can be allocated directly to the acquisition or production of a qualifying asset. Costs of replacement, renewal or renovation of property, plant and equipment are capitalised as replacement investments if a future inflow of economic benefits is probable and the purchase or manufacturing costs can be measured reliably. The carrying amount of the parts replaced is de-recognised. Maintenance costs and repairs which are not capable of being capitalised are expensed. Systematic depreciation is calculated using the straight-line method with the exception of land, which is not depreciated. The estimated useful lives for the main categories of property, plant and equipment are:

Category	Years
Buildings and leasehold improvements	10 to 40
Cables ¹	30
Ducts ¹	40
Transmission and switching equipment ¹	4 to 15
Other technical installations ¹	3 to 15
Other installations	3 to 15

¹ Technical installations.

When significant parts of an item of property, plant and equipment comprise individual components with differing useful lives, each component is depreciated separately. The estimated useful lives and residual values are reviewed at least annually as of the balance sheet date and, if necessary, adjusted. Leasehold improvements and installations in leased premises are amortised on a straight-line basis over the shorter of their estimated useful lives and the remaining minimum lease term. The carrying amount of an item of property, plant and equipment is written off on disposal or whenever no future economic benefits are expected from its use. Gains and losses arising on the disposal of property, plant and equipment are calculated as the difference between the disposal proceeds and the carrying amount of the item of property, plant and equipment. They are taken to income and recorded as other income or other operating expenses.

3.8 Business combinations and goodwill

Business combinations are accounted for using the acquisition method. As of the date of acquisition, the consideration transferred in a business combination is recognised at fair value. The consideration includes the amount of cash paid as well as the fair value of the assets ceded, liabilities incurred or assumed as well as own equity instruments ceded. Liabilities depending on future events based upon contractual agreements are recognised at fair value. At the time of acquisition, all identifiable assets and liabilities that satisfy the recognition criteria are recognised at their fair values. The difference between the cost of acquisition and the fair value of the identifiable assets and liabilities acquired or assumed is accounted for as goodwill after taking account of any non-controlling interests. Any negative difference, after further review, is expensed directly. Goodwill acquired in connection with a business combination is recognised under intangible assets. The goodwill is not amortised but reviewed for impairment at least annually. When an entity is disposed of, the carrying amount of the goodwill is derecognised and recorded as a component of the gain or loss on disposal.

3.9 Other intangible assets

Research and development costs

Research costs are not capitalised but expensed as incurred. Development costs are capitalised under intangible assets only if they can be identified as an intangible asset which will generate future economic benefits and the costs of this asset can be determined reliably.

Other intangible assets

Mobile phone licenses, self-developed software as well as other intangible assets are recorded at purchase or manufacturing cost less accumulated amortisation. Intangible assets resulting from business combinations, such as brands and customer relationships, are recorded at acquisition cost corresponding to fair value as of the date of acquisition, less accumulated amortisation. Systematic amortisation of mobile phone licenses is based on the term of the contract. It begins as soon as the related network is operational, unless other information is at hand which would suggest the need to modify the useful life.

Useful lives of other intangible assets

Systematic amortisation is computed using the straight-line method based on the following estimated useful lives:

Category	Years
Software internally generated and purchased	3 to 7
Customer relationships	7 to 11
Brands	5 to 10
Other intangible assets	3 to 16

The estimated useful lives are reviewed at least once annually as of the balance sheet date and, where necessary, adjusted.

3.10 Non-current assets held for sale

A non-current asset or a disposal group is classified as being held for sale if its carrying amount will be recovered mainly as a result of a sales transaction and not through continued use. Non-current assets or disposal groups that are held for sale are reported in the balance sheet separately under current assets and liabilities. The assets or asset groups are valued at the lower of their carrying amount and fair value less costs of disposal and any applicable impairment losses resulting from the initial classification are recorded in the income statement. Assets classified as held for sale and disposal groups are no longer depreciated and amortised.

3.11 Impairment losses

Impairment of financial assets

As of each balance sheet date, the carrying amounts of those financial assets for which changes in fair value are not recognised in the income statement are reviewed for any objective indications of impairment in value. An impairment loss is recognised where there is objective evidence of impairment, such as where the borrower is in bankruptcy, in default or other significant financial difficulties. The impairment of a financial asset which is recorded at amortised cost is calculated as the difference between its carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective interest rate. Available-for-sale financial assets whose fair value is less than their acquisition cost for a prolonged period or to a significant degree are considered to be value impaired. In the event of impairment, the losses are reclassified out of equity and recognised as financial expense. As of each balance sheet date, significant financial assets are individually reviewed for impairment. The recording of impairment losses on trade and other receivables varies as a function of the nature of the underlying transaction either in the form of specific valuation allowances or as portfolio-based lump-sum valuation allowances which cover the anticipated default risk. As regards portfolio-based lump-sum valuation allowances, financial assets are regrouped on the basis of similar credit risk characteristics and reviewed on a collective basis for impairment in value; where applicable, an allowance is raised. In determining the anticipated future cash flows of the portfolio, historic default rates are taken into account in addition to the contractually agreed payment conditions. Impairment losses on trade and other receivables are recognised as other operating expenses. Impairment losses on other financial assets are recorded as financial expense.

Impairment of goodwill

For the purposes of the impairment test, goodwill is allocated to cash-generating units. The impairment test is performed in the fourth quarter after completion of business planning. If there is any indication during the year that goodwill may be impaired, the cash-generating unit is tested for impairment at that time. An impairment loss is recognised if the recoverable amount of a cash-generating unit is lower than its carrying amount. The recoverable amount is the greater of the fair value less costs to sell and the value in use. The method used to test impairment is described in Note 24. Any impairment loss on goodwill recognised in prior periods may not be reversed in subsequent periods.

Impairment of property, plant and equipment and other intangible assets

If indications exist that the value of an asset may be impaired, the recoverable amount of the asset is determined. If the recoverable amount of the asset, which is the greater of the fair value less cost to sell and the value in use, is less than its carrying amount, the carrying amount is reduced to the recoverable amount.

3.12 Leases

Finance leases

A lease is recorded as a finance lease when substantially all of the risks and rewards incidental to ownership of an asset are transferred. The asset is initially recorded at the lower of its fair value and the present value of the minimum lease payments and is amortised over the lesser of the asset's useful life and the lease term. The interest component of the lease payments is recognised as interest expense over the lease term using the effective interest method. Leases for land and buildings are recorded separately if the lease payments can be reliably allocated. Gains on sale-and-leaseback transactions are deferred and released on a straight-line basis over the lease term as other income. Losses on sale-and-leaseback transactions are recognised immediately.

Operating leases

Lease arrangements which do not transfer all the significant risks and rewards of ownership are classified as operating leases. Payments are recorded as other operating expense using the straight-line method over the lease period. Gains and losses on sale-and-leaseback transactions are recorded directly in the income statement.

3.13 Financial liabilities

Financial liabilities are initially measured at fair value less direct transaction costs. In subsequent accounting periods, they are re-measured at amortised cost using the effective interest method.

3.14 Trade and other payables

Trade and other payables are recorded at amortised cost.

3.15 Provisions

Provisions for termination benefits

Costs relating to the implementation of personnel downsizing programmes are expensed in the period when management commits itself to a downsizing plan, it is probable that a liability has been incurred, the amount thereof can be reliably estimated and if the implementation of the programme has begun or the individuals involved have been advised in sufficient detail as to the main terms of the downsizing programme. A public announcement and/or communication to personnel organisations are deemed to be equivalent to commencing the implementation of the programme.

Provisions for dismantling and restoration costs

Swisscom is legally obligated to dismantle transmitter stations and telecommunication installations located on land belonging to third parties following decommissioning and to restore the property owned by third parties in the locations where these installations are located to its original state. The costs of dismantling are capitalised as part of the acquisition cost of the installations and are amortised over the useful lives of the installations. The provisions are recorded at the present value of the aggregate future costs and are reported under long-term provisions. Whenever the provision is remeasured, the present value of the changes in the liability are either added to or deducted from the cost of the related capitalised asset. The amount deducted from the cost of the related capitalised asset shall not exceed its carrying amount. Any excess is taken directly to the income statement.

Other provisions

Provisions are raised whenever a legal or de facto liability exists as a result of an occurrence in the past, an outflow of resources to settle the liability is probable and the amount of the liability can be estimated reliably. Provisions are discounted if the effect is material.

3.16 Segmentation and revenue recognition

General

Net revenue is measured at the fair value of the consideration received less value-added taxes, price reductions, volume rebates and other reductions in sales proceeds. Revenues are recognised when it is probable that a future benefit from the transaction will accrue to Swisscom and the amount can be reliably estimated. When Swisscom acts as principal, revenues are recorded gross. However, when, from an economic point of view, Swisscom acts only as a broker or agent, revenues are reported net of related costs. In multi-component contracts, revenue is determined and reported separately for each identifiable component part. Total consideration for a multi-component contract is distributed over the various component parts at fair value on a pro-rata basis.

Services by segments

Residential Customers

The segment Residential Customers comprises mainly connection fees for broadband services, fixed-network and mobile phone subscriptions as well as national and international telephone and data traffic for residential customers. The segment also includes value-added services, TV offerings, the sale of terminal equipment and the operation of a directories database.

Small and Medium-Sized Enterprises

The segment Small and Medium-Sized Enterprises primarily comprises connection fees for broadband services, fixed-network and mobile phone subscriptions as well as national and international telephone and data traffic for small and medium-sized enterprises.

Enterprise Customers

The Enterprise Customer segment focuses on complete communication solutions for large business customers. The product offerings in the field of business ICT infrastructure cover everything from individual products through to complete solutions.

Wholesale

Wholesale comprises mainly the use of Swisscom fixed and mobile networks by other telecommunication service providers and the use of third-party networks by Swisscom. It also consists of roaming with foreign operators whose customers use Swisscom's mobile networks, as well as broadband services and regulated products as a result of the unbundling of the local loop for other telecommunication service providers.

Network & IT

Network & IT encompasses primarily the planning, operation and maintenance of Swisscom's network infrastructure and related IT systems, both for fixed and mobile phone networks. Network & IT also includes support functions for Swisscom Switzerland in the fields of finance, human resources, and strategy.

Fastweb

Fastweb is one of the largest providers of broadband services in Italy. Its product portfolio comprises voice, data, Internet and IP-TV services as well as video-on-demand for residential and corporate customers. In addition, Fastweb offers mobile phone services on the basis of an MVNO contract (as a virtual network operator). It also provides comprehensive network services and customised solutions.

Other Operating Segments

Other Operating Segments mainly comprise Swisscom IT Services, Group Related Businesses, Swisscom Real Estate and Swisscom Hospitality Services. Swisscom IT Services is a provider of information technology services. Its core business consists of the integration and operation of complex IT infrastructures. In addition, Swisscom IT Services provides comprehensive services to the financial industry in the area of system integration and business process outsourcing. Furthermore, Swisscom IT Services offers a full range of SAP services. Group Related Businesses is sub-divided into the areas Participations and Health and Connected Living. To this purpose, Group Related Businesses maintains a portfolio of small- and medium-size companies whose activities to a large degree closely follow or support the core business of Swisscom. In addition, it offers solutions in the fields of eHealth and Connected Living. Group Related Businesses comprises mainly Alphapay Ltd, Billag Ltd, Business Fleet Management Ltd, cablex Ltd, Datasport Ltd, Swisscom Broadcast Ltd as well as the Sicap Group. Alphapay Ltd is active as a debt collection agent and is specialised in receivables management for third parties. Billag Ltd collects radio and TV license fees on behalf of the Swiss Confederation. Business Fleet Management Ltd offers mobility services. cablex Ltd operates in the field of construction and maintenance of wired and wireless networks in Switzerland, primarily in the field of telecommunication. Datasport Ltd is a service provider for recreational and mass sporting events. The Sicap Group develops and operates applications for mobile phone operators. Swisscom Broadcast Ltd is the leading provider in Switzerland of radio services, of cross-platform services for clients in the media field and of securitised radio transmissions. Swisscom Hospitality Services offers Internet-based services to guests and customers in the hotel and congress sector in Europe and North America.

Revenue generated from services

Fixed networks

Fixed network services encompass primarily connection fees to residential and corporate customers, national and international telephony traffic for residential and business customers, leased lines, the use of Swisscom's fixed network by other telecommunication service providers, payphone services, operator services as well as prepaid calling cards and the sale of terminal equipment. Installation and connection fees are deferred and released to income over the minimum term of the contract on a straight-line basis. If no minimum contract term has been agreed, the revenue is

recorded on the date of installation or connection. Revenue from telephony services is recorded at the time the calls are made. Revenue from the sale of prepaid call cards is deferred and released to income as and when actual minutes are used or when the cards expire. Revenue from leased lines is recorded on a straight-line basis over the duration of the contract. Revenue arising from the sale of equipment is recorded at the time of delivery.

Mobile

Mobile-phone services encompass mainly basic subscription charges, domestic and international mobile phone traffic for calls made by Swisscom customers in Switzerland or abroad and roaming by foreign operators whose customers use Swisscom's networks. Mobile services also include value-added services, data traffic as well as the sale of mobile handsets. Revenue from mobile telephony is recorded on the basis of the actual minutes used. In part, subscriptions with a fixed monthly flat-rate fee are offered, the revenue from which is recognised on a straight-line basis over the term of the contract. Connection fees are deferred and released to income over the minimum term of the contract on a straight-line basis. If no minimum contract term has been agreed, revenue is recognised on the date of connection. Roaming services are recorded as revenue on the basis of the minutes used or the agreed contractual rates at the time the service is provided. Revenue from roaming services with other telecommunication service providers is recorded gross. Value-added services as well as text or multimedia news and the sale of mobile handsets are recognised as revenue at the time the service is provided.

Broadband

Internet services include the range of broadband access lines offered to residential and corporate customers as well as broadband access lines for wholesale customers. Revenues in connection with the provision of these services are deferred and released to income over the minimum contract term on a straight-line basis. If no minimum contract term has been agreed, the revenue is recognised on the date of installation or connection.

Digital TV

In the TV sector, revenue is generated from the range of digital TV services and video-on-demand offered for residential and corporate customers. Revenue from TV services contains non-recurring installation and connection charges and recurring subscription fees. Installation and connection fees related to installation are deferred and released to income over the minimum contract term on a straight-line basis. If no minimum contract term has been agreed upon, the revenue is recorded on the date of installation or connection.

Communication and IT solutions

Services in the field of communication and IT solutions primarily include consultancy services as well as the implementation and maintenance and operation of communication infrastructures. Furthermore, they include applications and services as well as the integration, operation and maintenance of data networks and outsourcing services. Revenues from customer-specific construction contracts are accounted for using the percentage-of-completion method which is based on the ratio of costs incurred to-date to the estimated total costs. Revenue for long-term outsourcing contracts is recorded based on the volume of services provided to the customer. Start-up costs and integration of new outsourcing transactions are capitalised as other assets and amortised over the duration of the contract. Revenue from maintenance is recorded evenly over the term of the maintenance contracts.

3.17 Subscriber acquisition and loyalty-programme costs

Swisscom pays commissions to dealers for the acquisition and retention of Swisscom customers. The commission payable is dependent on the type of subscription. Subscriber acquisition and loyalty-programme costs are expensed immediately, since these costs do not meet the criteria for the definition of an intangible asset.

3.18 Post-employment benefits

Defined benefit obligations and the related pension expense are determined on an actuarial basis using the projected unit credit method. This reflects the number of years of service completed by employees through the date of measurement and the assumptions made concerning future salary growth. The latest actuarial valuation was undertaken using data as at 31 October 2013 with a roll-forward of plan assets to 31 December 2013. Current pension entitlements are charged to income in the period in which they arise. Actuarial gains and losses are recorded in full under other comprehensive income in the reporting period in which they arise.

3.19 Share-based payments

The cost of shares issued to employees, members of the Group Executive Board and of the Board of Directors is equal to the excess of the fair value of the shares at the date of issuance over the issue price. The related costs are recorded as personnel expense in the period in which the entitlement arose.

3.20 Income taxes

Income taxes include all current and deferred taxes which are based on income. Taxes which are not based on income, such as taxes on real estate and on capital are recorded as other operating expenses. Deferred taxes are computed using the balance sheet liability method whereby deferred tax is recognised in principle on all temporary differences. Temporary differences arise between the value of an asset or liability reported for tax purposes and its carrying amount in the financial statements and which will reverse in future periods. Deferred tax assets and liabilities are determined using the tax rates that are expected to apply when the temporary difference reverses and based on the tax rates which are in force or announced as of the balance sheet date. Deferred tax assets are only recognised as assets to the extent that it is probable that they can be offset against future taxable income. Income tax liabilities on undistributed profits of Group companies are only recorded if the distribution of profits is to be made in the foreseeable future. Current and deferred tax assets and liabilities are offset when they relate to the same taxing authority and taxable entity.

3.21 Derivative financial instruments

Derivative financial instruments are initially recorded at fair value and subsequently measured at fair value. The method of recording the fluctuations in fair value is dependent on the underlying transaction and the intention with regards thereto upon purchase or issuance of this underlying transaction. On the date a derivative contract is entered into, management designates the purpose of the hedging relationship: hedge of the fair value of an asset or liability ("fair value hedge") or a hedge of future cash flows in the case of future transactions ("cash flow hedge"). Changes in the fair value of derivative financial instruments that were designated as hedging instruments for "fair value hedges" are recognised in the income statement. Changes in the fair value of derivative financial instruments that were designated as "cash flow hedges" are recognised in the hedging reserve as part of equity. If the recognition of a non-financial asset or non-financial liability results from an anticipated future transaction, the cumulative revaluation gains and losses are reclassified from equity and included in the acquisition cost of the asset or liability. If a hedge of a future transaction later results in the recording of a financial asset or financial liability, the amount included in equity is transferred to the income statement in the same period in which the financial asset or financial liability impacts the result. Otherwise, the amounts recorded in equity are recognised in the income statement as income or expense in the same period the cash flows of the intended or agreed future transaction occur. Changes in the fair value of derivative financial instruments that are not designated as hedging instruments are taken immediately to income.

3.22 Fair value

The fair value is defined as the amount for which an asset could be exchanged, or a liability or financial instrument settled, between knowledgeable, willing and unrelated business partners. The fair value is determined based on stock exchange quotations or by using recognised valuation techniques such as the discounting of estimated future cash flows. If the notes to the consolidated financial statements do not specify otherwise, the fair values at the time of recording correspond approximately to the carrying amounts reported in the balance sheet.

3.23 New and amended Standards and Interpretations

Amended International Financial Reporting Standards and Interpretations which are to be applied for the first time in the accounting period

As from 1 January 2013 onwards, Swisscom adopted various amendments to existing International Financial Reporting Standards (IFRS) and Interpretations, which – with the exception of the amendments described below – have no material impact on the results or financial position of the Group.

Standard	Name
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine
Amendments to IAS 1	Presentation of Financial Statements
Amendments to IAS 19	Employee Benefits
Amendments to IAS 27	Separate Financial Statements
Amendments to IAS 28	Investments in Associates and Joint Ventures
Amendments to IFRS 7	Financial Instruments Disclosures: Offsetting Financial Assets and Financial Liabilities
Amendments to IFRS 10, IFRS 11 and IFRS 12	Transition Guidance Amendments
Various	Improvements to IFRS 2009–2011

As a result of the amendments contained in IAS 19 “Employee Benefits”, actuarial gains and losses are to be reported directly in other comprehensive income. The previous accounting option to either record them immediately in the income statement or under other comprehensive income or defer recording them in accordance with the so-called corridor method is eliminated. Until now, Swisscom already recorded actuarial gains and losses under other comprehensive income. Furthermore, the amendments of IAS 19 provide that management shall no longer estimate the return on the pension fund’s assets in accordance with anticipated income interest on the basis of the allocation of assets, but the expected interest income on the pension fund assets may only be recorded to the extent of the discount rate. As regards disability benefits, Swisscom now takes into account actual disability cases and not as previously the anticipated number in accordance with technical bases (BVG 2010). Furthermore, Swisscom now takes into account future employee contributions (risk sharing) for IAS 19 computations. In addition, the amended IAS 19 requires more extensive note disclosures. Entities must henceforth provide disclosures as to the financing strategy of their pension plans and not only describe but also quantify the financing risks inherent in their pension plans. Amongst other things, a sensitivity analysis is required showing to what degree pension obligations fluctuate depending on changes in significant measurement assumptions. In future, the average remaining duration of employment benefit obligations must also be disclosed. Swisscom has implemented the amendments retroactively.

The impact on the consolidated balance sheet, the consolidated income statement and the consolidated statement of comprehensive income may be analysed 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 31 December 2012			
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 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
Statement of comprehensive income 2012			
Net income	1,762	53	1,815
Actuarial gains and losses from defined benefit pension plans	(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

Early Application of International Financial Reporting Standards and Interpretations, whose application is not yet mandatory

Swisscom has made early application of the amendments of IAS 32 “Rules concerning the Offsetting of Financial Assets and Financial Liabilities” as from 2013. The amendments in principle leave the offset rules contained in IAS 32 untouched. Accordingly, financial assets and financial liabilities are only to be offset whenever a company has a legally enforceable right of offset as of the balance-sheet date and intends to either settle on a net basis or realise the asset and settle the liability simultaneously. The amendments clarify the situation that the right of set-off must exist as of the balance-sheet date i.e. it shall not depend on a future event. Furthermore, it shall be legally enforceable for both contracting parties both in the ordinary course of business as well as in the case of the insolvency of one of the contracting parties. As a consequence of the amendments, Swisscom has revised its assessment of its contracts in the field of roaming charges and has concluded that the former fulfil the concrete criteria for set-off and a large part of the related balances may be offset. The effect of offsetting other assets and liabilities as of 1 January 2012 and 31 December 2012 was CHF 233 million and CHF 166 million, respectively.

In addition, Swisscom has also made early application of the amendments to IAS 36 “Impairment of Assets: Disclosures regarding Recoverable Amount for Non-Financial Assets” as from the 2013 accounting period onwards. As a result of the amendment, the obligation to disclose the recoverable amount of each cash-generating unit as part of the goodwill impairment test is dropped.

Amended International Financial Reporting Standards and Interpretations, whose application is not yet mandatory

The following Standards and Interpretations published up to the end of 2013 are mandatory for accounting periods beginning on or after 1 January 2014:

Standard	Name	Effective from
Amendments to IFRS 10	Consolidated Financial Statements: Investment Property	1 January 2014
Amendments to IFRS 12	Disclosure of Interests in Other Entities: Investment Property	1 January 2014
Amendments to IAS 27	Separate Financial Statements: Investment Entities	1 January 2014
Amendments to IAS 39	Financial Instruments: Recognition and Measurement Novation of Derivatives and Continuing Designation for Hedge Accounting	1 January 2014
IFRIC 21	Levies	1 January 2014
Amendments to IAS 19	Employee Benefits: Employee Contributions	1 January 2015
IFRS 9	Financial instruments	no earlier than 1 January 2017
Amendments to IFRS 9, IFRS 7 and IAS 39	Financial Instruments: Hedge Accounting	no earlier than 1 January 2017
Various	Improvements to IFRS 2010–2012	1 January 2015
Various	Improvements to IFRS 2011–2013	1 January 2015

Swisscom will review its financial reporting for the new and amended Standards which take effect on or following 1 January 2014 and for which Swisscom did not make voluntary early application. At present, Swisscom anticipates no material impact on consolidated financial reporting.

4 Significant accounting judgments, estimates and assumptions in applying accounting policies

The preparation of consolidated financial statements is dependent upon estimates and assumptions being made in applying the accounting policies for which management can exercise a certain degree of judgment. In applying the relevant accounting policies to the consolidated financial statements, certain assumptions and estimates must be made about the future that may have a critical influence on the amount and presentation of assets and liabilities, revenues and expenses as well as the disclosures in the Notes. The estimates used in drawing up the consolidated financial statements and valuations are based on empirical values and other factors which are deemed appropriate in the given circumstances. The following estimates used and assumptions made in applying the accounting policies have a critical influence on the consolidated financial statements.

Goodwill

As of 31 December 2013, the carrying amount of goodwill from acquisitions totalled CHF 4,809 million. The recoverability of goodwill is tested for impairment annually during the fourth quarter. In addition, an extraordinary review is undertaken if there are indications that impairment has occurred. The value of goodwill is primarily dependent upon projected cash flows, the discount rate (WACC) and long-term growth rate. The significant assumptions are disclosed in Note 24. Changes to these assumptions may result in an impairment loss in the following year.

Post-employment benefits

Defined benefit obligations are calculated on the basis of various financial and demographic assumptions. The key assumptions for valuing the retirement-benefit obligations are the discount rate, future salary and pension increases, interest on pension plan savings as well as life expect-

tancy. As of 31 December 2013, the funding deficit amounted to CHF 1,293 million which was recognised as a liability in the consolidated balance sheet. Changes in estimates can impact recorded defined benefit obligations. See Note 10.

Provisions for dismantling and restoration costs

Provisions are raised for costs incurred in connection with dismantling and restoring telecommunication installations and transmitter stations. As of 31 December 2013, the carrying amount of these provisions totalled CHF 481 million. The level of the provisions is primarily determined by estimates of future costs for dismantling and restoration and the timing of the dismantling. An increase in the estimated costs by 10% would result in an increase in the provision of CHF 45 million. A postponement of the date of dismantling by ten years would lead to a decrease in the provisions of CHF 71 million. See Note 28.

Provisions for regulatory proceedings

Various proceedings are in course in connection with the setting of prices for regulated access services. Swisscom has raised provisions on the basis of its own estimate of the expected financial outcome thereof. As of 31 December 2013, the provisions for regulatory proceedings aggregated CHF 118 million. Further developments in the proceedings or a decision by the competent court may result in a revised assessment of the financial outcome in subsequent years, thereby leading to an increase or decrease of the recorded provisions. See Note 28.

Proceedings conducted by the Competition Commission

The Competition Commission (ComCo) is conducting an investigation into ADSL prices against Swisscom. The proceeding is described in Note 29. In the event that Swisscom is deemed to have violated Antitrust Law, ComCo is entitled to impose sanctions. On the basis of a legal opinion, Swisscom considers it unlikely that ComCo will impose direct sanctions. Accordingly, no provisions were recognised in the 2013 consolidated financial statements in connection with these proceedings. Further developments in the proceeding may result in a revised assessment of the financial outcome in subsequent years and lead to the need to record provisions.

Allowances for doubtful receivables

Allowances for doubtful receivables are recorded in order to cover foreseeable losses arising from a customer's inability to pay. As of 31 December 2013, the carrying value of allowances for trade and other receivables totalled CHF 180 million. In determining the appropriateness of the allowance, several factors are considered. These include the ageing of receivables, the current financial solvency of the customer and the historical experience with receivable losses. The actual level of receivable losses may be higher than the amount recognised if the actual financial situation of the customers is worse than originally expected. See Note 18.

Deferred taxes

The recognition of deferred tax assets and liabilities is based on the judgment of management. Deferred tax assets on tax loss carry-forwards are only recognised if it is probable that they can be used. Whether or not they can be used depends on whether taxable profits can be achieved which can be offset against the available tax loss carry-forwards. In order to assess the probability of their future use, estimates must be made of various factors such as future profitability. If the actual amounts differ from the estimates, this can lead to a change in the assessment of recoverability of the deferred tax assets. On 31 December 2013, recognised deferred tax assets amounted to CHF 619 million. See Note 15.

Useful lives of property, plant and equipment

As of 31 December 2013, the carrying amount of property, plant and equipment totalled CHF 9,156 million. In assessing the useful life of an item of property, plant and equipment, the expected use of the asset by the company, expected physical wear and tear, technological developments as well as past experience with comparable assets are considered. The assessment of useful lives is based upon the judgment of management. A change in the useful lives may impact the future level of depreciation and amortisation recorded. See Notes 3.7 and 23.

5 Business combinations

Business combinations in 2013

Payments totalling CHF 60 million were made in 2013 for the acquisition of Group companies. Of this amount, CHF 3 million relates to deferred consideration for business combinations in prior years and CHF 57 million for businesses acquired in 2013. The newly acquired companies in 2013 are viewed individually as non-significant business combinations and are thus reported on an aggregate basis. In February 2013, Hospitality Services acquired the operating business of Deuromedia. Deuromedia provides IP-based infotainment solutions for the hospitality market.

At the end of March 2013, Datasport Ltd acquired the entire share capital of Abavent GmbH. Abavent GmbH is a German provider of sporting events. In April 2013, Swisscom IT Services acquired the business platform from Entris Banking and in doing so, the entire capital of Entris Integrator AG. Using the business platform of Entris Integrator AG, banks execute their banking activities such as the processing of payment transactions, credit and security settlements or e-banking. Following acquisition, the investee changed its name to Swisscom Banking Provider Ltd. In addition, in June 2013, Swisscom IT Services Ltd acquired the entire share capital of Entris Operations AG. Entris Operations AG processes primarily the cash and securities settlement operations for some 50 banks. Following acquisition, Entris Operations AG was merged into Swisscom Banking Provider Ltd.

Furthermore, Swisscom increased its shareholding in CT Cinetrade AG (Cinetrade) from 49% to 75% in April 2013. Cinetrade offers TV-related services, pay TV, transmissions of sporting events and video-on-demand. Cinetrade additionally operates one of leading cinema chains in Switzerland.

In December, Swisscom Switzerland acquired a 67% equity holding in DL-Groupe GMG AG, which provides services in the field of IP-based managed unified communication and collaboration.

The aggregate allocation of acquisition costs to the net assets may be analysed as follows:

In CHF million	2013
Cash and cash equivalents	55
Property, plant and equipment	32
Other intangible assets	66
Other current and non-current assets	43
Deferred tax liabilities	(15)
Other current and non-current liabilities	(84)
Identifiable assets and liabilities	97
Share of identifiable net assets attributable to non-controlling interests	(19)
Goodwill	159
Purchase consideration	237
Cash and cash equivalents acquired	(55)
Investments in associates. See Note 25.	(105)
Option from business combinations. See Note 33.	(20)
Cash outflow from business combinations of the current year	57
Cash outflow from business combinations of prior years	3
Total cash outflow from business combinations	60

The main reasons for the recognition of goodwill are the future anticipated synergies and additional market shares as well as the qualified workforce. In the 2013 consolidated financial statements, additional net revenues of CHF 172 million and net income of CHF 17 million were generated from these business combinations. Assuming that the subsidiary companies acquired in 2013 had been included in the consolidated financial statements as from 1 January 2013, there would have resulted consolidated pro-forma net revenues of CHF 11,529 million and a consolidated pro-forma net income of CHF 1,700 million.

Business combinations in 2012

Payments totalling CHF 17 million were made in 2012 for the acquisition of Group companies. Of this amount, CHF 5 million relates to deferred consideration for business combinations in prior years and CHF 12 million for businesses acquired in 2012. The newly acquired companies in 2012 are viewed each as non-significant business combinations and are thus reported on an aggregate basis. On 1 March 2012, Swisscom Broadcast Ltd acquired the entire share capital of Datasport Ltd. Datasport Ltd is a service provider for popular and mass sporting events. On 26 June 2012, Swisscom Ltd acquired 100% of the capital of Treufida Treuhand & Beratungs GmbH. Treufida provides trustee, bookkeeping and advisory services for service providers in the field of healthcare. Following acquisition, Treufida changed its name to Curabill Treuhand GmbH. On 21 June 2012, Swisscom Directories Ltd purchased the entire share capital of localina Ltd. localina sells an iPad-based reservation system for restaurant and catering operations. Following acquisition, localina Ltd was merged with local.ch Ltd.

The aggregate allocation of acquisition costs to the net assets may be analysed as follows:

In CHF million	2012
Cash and cash equivalents	3
Property, plant and equipment	6
Other intangible assets	12
Deferred tax liabilities	(2)
Other current and non-current liabilities	(2)
Identifiable assets and liabilities	17
Goodwill	3
Purchase costs	20
Cash and cash equivalents acquired	(3)
Deferred payment of purchase price	(5)
Cash outflow from business combinations of the current year	12
Cash outflow from business combinations of prior years	5
Total cash outflow from business combinations	17

The main reasons for the recognition of goodwill are the additional market shares expected in future and the qualified workforce. In the 2012 consolidated financial statements, additional net revenues of CHF 8 million and a net income of CHF 3 million arose from these business combinations. Assuming that the subsidiary companies acquired in 2012 had been included in the consolidated financial statements as from 1 January 2012, there would have resulted consolidated pro-forma net revenues of CHF 11,385 million and a consolidated pro-forma net income of CHF 1,762 million.

6 Segment information

Operating segments requiring to be reported are determined on the basis of a management approach. Accordingly, external segment reporting reflects the internal organisational and management structure used within the Group as well as internal financial reporting to the Chief Operating Decision Maker. The segment information disclosed is in line with that of the internal reporting systems. Reporting is divided into the segments "Residential Customers", "Small and

Medium-Sized Enterprises”, “Enterprise Customers”, “Wholesale”, and “Network & IT” which are grouped under Swisscom Switzerland, “Fastweb”, and “Other Operating Segments”. In addition, unallocated costs are reported separately under “Group Headquarters”.

In segment reporting, the business divisions of Swisscom Switzerland are reported as individual segments. The support functions of finance, human resources and strategy of Swisscom Switzerland are embedded in the division Network & IT. No network costs are recharged for the financial management of customer segments. The results of the customer segments Residential Customers, Small and Medium-Sized Enterprises, Enterprise Customers and the segment Wholesale thus report their contribution margins prior to network costs. Network costs are planned, monitored and controlled by the business division Network & IT. The business division Network & IT is managed as a cost centre. For this reason, no revenue is credited to the Network & IT division within segment reporting. The segment results of Network & IT consist of operating expenses and depreciation and amortisation less capitalised self-constructed assets and other income. The sum of the segment results of Swisscom Switzerland corresponds in aggregate to the operating results (EBIT) of Swisscom Switzerland. Fastweb is one of the largest fixed-network operator and a leading provider of IP-based services in Italy. It is reported in the consolidated financial statements as a separate segment. Other Operating Segments principally comprise Swisscom IT Services, Group Related Businesses, Swisscom Real Estate Ltd and Swisscom Hospitality Services. Group Headquarters which includes unallocated costs, comprises mainly the Group central divisions of Swisscom, Swisscom Re Ltd and the employment company Worklink AG.

The services offered by each operating segment are described in Note 3.16. The segment results of the segments Fastweb and Other Operating Segments correspond to the operating result (EBIT) of these units. The latter reflects the net revenues from external customers and other segments less segment expenses and depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets. Segment expenses include the costs of materials and services, personnel costs and other operating costs less capitalised self-constructed assets and other income. Swisscom has amended its disclosure of retirement-benefit expense retrospectively. The segment expense includes ordinary employer contributions as retirement-benefit expense. The difference between the ordinary employer contributions and the retirement-benefit expense as provided for under IAS 19 is reported in the column “Eliminations”. In 2013, costs of CHF 17 million are included in the column “Eliminations” as a reconciling item to retirement-benefit expense in accordance with IAS 19 (prior year: gain of CHF 179 million).

Group Headquarters charges no management fees to other segments for its financial management services; similarly, the segment Network & IT recharges no network costs. Other inter-segment services are recharged at market prices. Unrealised gains and losses may arise as a result of recharging services and sales of assets between the segments. These are eliminated and are reported in the segment information in the column “Eliminations”. Capital expenditures by segment include additions to property, plant and equipment and other intangible assets.

As of 1 January 2013, Swisscom simplified its management structure, thereby striving to strengthen the management of its Swiss business and enhance efficiency within the Group. Accordingly, as of 1 January 2013, several organisation units were transferred between the segments. The prior year’s comparative figures were restated accordingly.

Segment information 2013 of Swisscom is to be analysed as follows:

2013, in CHF million	Swisscom Switzerland	Fastweb	Other operating segments	Group Head-quarters	Elimination	Total
Net revenue from external customers	8,389	2,013	1,032	–	–	11,434
Net revenue with other segments	60	5	787	1	(853)	–
Net revenue	8,449	2,018	1,819	1	(853)	11,434
Segment result	2,443	(120)	108	(135)	(38)	2,258
Financial income and financial expense, net						(259)
Share of results of associates						30
Income before income taxes						2,029
Income tax expense						(334)
Net income						1,695
Associates	93	49	11	–	–	153
Assets held for sale	–	–	13	–	–	13
Capital expenditure in property, plant and equipment and other intangible assets	1,516	695	244	–	(10)	2,445
Depreciation, amortisation and impairment losses	1,104	740	195	8	(3)	2,044
Gain (loss) on disposal of property, plant and equipment, net	(10)	–	13	–	–	3
Share of results of associates	30	–	–	–	–	30

Segment information 2013 of Swisscom Switzerland is to be analysed as follows:

2013, in CHF million	Residential Customers	Small and Medium-Sized Enterprises	Corporate Business	Wholesale	Network & IT	Elimination	Total Swisscom Switzerland
Net revenue from external customers	4,985	1,128	1,688	588	–	–	8,389
Net revenue with other segments	160	23	99	378	–	(600)	60
Net revenue	5,145	1,151	1,787	966	–	(600)	8,449
Segment result	2,790	859	832	384	(2,423)	1	2,443
Associates	29	–	–	63	1	–	93
Capital expenditure in property, plant and equipment and other intangible assets	199	17	92	–	1,208	–	1,516
Depreciation, amortisation and impairment losses	108	5	75	–	917	(1)	1,104
Gain (loss) on disposal of property, plant and equipment, net	–	–	(1)	–	(9)	–	(10)
Share of results of associates	9	–	–	21	–	–	30

Segment information 2012 of Swisscom is to be analysed as follows:

2012, in CHF million restated	Swisscom Switzerland	Fastweb	Other operating segments	Group Head- quarters	Elimi- nation	Total
Net revenue from external customers	8,407	2,040	936	1	–	11,384
Net revenue with other segments	54	8	792	1	(855)	–
Net revenue	8,461	2,048	1,728	2	(855)	11,384
Segment result	2,504	(113)	97	(122)	161	2,527
Financial income and financial expense, net						(326)
Share of results of associates						32
Income before income taxes						2,233
Income tax expense						(418)
Net income						1,815
Associates	207	50	11	–	–	268
Assets held for sale	–	–	1	–	–	1
Capital expenditure in property, plant and equipment and other intangible assets	1,852	531	199	1	(22)	2,561
Depreciation, amortisation and impairment losses	1,053	715	177	12	(7)	1,950
Gain (loss) on disposal of property, plant and equipment, net	(2)	–	11	–	–	9
Share of results of associates	33	–	–	(1)	–	32

Segment information 2012 of Swisscom Switzerland is to be analysed as follows:

2012, in CHF million restated	Residential Customers	Small and Medium- Sized Enterprises	Corporate Business	Whole- sale	Network & IT	Elimi- nation	Total Swisscom Switzer- land
Net revenue from external customers	4,939	1,135	1,739	594	–	–	8,407
Net revenue with other segments	174	26	96	372	–	(614)	54
Net revenue	5,113	1,161	1,835	966	–	(614)	8,461
Segment result	2,794	878	875	367	(2,409)	(1)	2,504
Associates	141	–	–	66	–	–	207
Capital expenditure in property, plant and equipment and other intangible assets	162	17	88	–	1,585	–	1,852
Depreciation, amortisation and impairment losses	92	4	70	–	886	1	1,053
Gain (loss) on disposal of property, plant and equipment, net	–	–	–	–	(2)	–	(2)
Share of results of associates	15	–	–	18	–	–	33

Disclosures by geographical regions

Swisscom's operations are conducted mainly in Switzerland where it provides a comprehensive range of telecommunication services. Business activities abroad mainly relate to Fastweb and Swisscom Hospitality Services. Fastweb primarily provides fixed-network and IP-based products in Italy. Swisscom Hospitality Services is a provider of broadband and Internet-based solutions for hotel guests in virtually all of Europe, the United States and Asia. Net revenues and assets are allocated to regions. Net revenues and assets are allocated according to the registered office of the related Group company.

In CHF million	2013		2012	
	Net revenue	Non-current assets	Net revenue	Non-current assets
Switzerland	9,358	12,726	9,268	12,053
Italy	2,020	3,414	2,049	3,391
Other countries in Europe	48	87	58	189
Other countries outside Europe	8	1	8	9
Not allocated/reconciliation	–	472	1	482
Total	11,434	16,700	11,384	16,124

Disclosures by products and services

In CHF million	2013	2012
Mobile access lines single subscriptions	2,874	3,027
Fixed access lines single subscriptions	4,027	4,337
Bundles	1,576	1,172
Other	2,956	2,847
Not allocated	1	1
Total net revenue	11,434	11,384

The products and services offered by each operating segment are described in Note 3.16.

Significant customers

Swisscom has a large number of customers. No individual customers accounted for more than 10% of segment revenue in 2012 and 2013.

7 Net revenue

In CHF million	2013	2012
Net revenue from services	10,556	10,493
Net revenue from sale of merchandise	875	888
Net revenue from the right of use of intangible assets	3	3
Total net revenue	11,434	11,384

Further information on Swisscom's business activities is set out in Notes 3.16 and 6.

8 Goods and services purchased

In CHF million	2013	2012
Raw materials and supplies	24	25
Services purchased	502	451
Customer premises equipment and merchandise	1,022	1,036
National traffic fees	180	171
International traffic fees	265	279
Traffic fees of foreign subsidiaries	345	437
Total goods and services purchased	2,338	2,399

9 Personnel expense

In CHF million	2013	2012 restated
Salary and wage costs	2,132	2,058
Social security expenses	224	222
Expense of defined benefit plans. See Note 10.	258	50
Expense of defined contribution plans. See Note 10.	11	12
Expense of share-based payments. See Note 11.	6	6
Salary and wage costs of the employment company Worklink	2	4
Termination benefits	6	68
Other personnel expense	67	65
Total personnel expense	2,706	2,485

Termination benefit programmes

Swisscom supports employees affected by downsizing through a social plan. Depending on the relevant social plan as well as age and length of service, certain employees affected by downsizing may transfer to the employment company Worklink AG. The employment company Worklink AG hires out participating employees to third parties on a temporary basis.

In 2013, Swisscom recognised expenses for personnel downsizing measures aggregating CHF 6 million (prior year: CHF 68 million). On 31 October 2012 as a result of an efficiency programme, Swisscom announced a redundancy programme involving some 400 positions with the objective of securing the Group's long-term competitiveness. The costs of this redundancy programme were estimated at CHF 50 million which were recognised in the fourth quarter of 2012. For further information see Note 28.

10 Post-employment benefits

Defined benefit plans

Swisscom maintains several pension plans for employees in Switzerland and Italy. Expenses of defined benefit plans totalled CHF 295 million in 2013 (prior year: CHF 80 million). Of this amount, CHF 258 million (prior year: CHF 50 million) was recorded as personnel expense and CHF 37 million (prior year: CHF 30 million) as finance expense.

comPlan

The majority of Swisscom's employees are insured for the risks of old age, death and disability by the independent pension plan, comPlan. The benefits of comPlan exceed the minimum laid down in the Federal Law on Occupational Retirement, Survivors' and Disability Insurance ("BVG"). The ordinary employer contributions encompass risk contributions of 3.35% and contributions varying with age of 5-13% of the insured salary to be credited to the individual retirement savings' accounts. The standard retirement age is 65. Employees qualify for early retirement at the earliest on their 58th birthday, whereby the rate of conversion is reduced in line with the longer expected duration of pension payments. Furthermore, employees may choose to take their entire pension or part thereof in the form of a capital payment. The amount of the pension paid results from the conversion rate which is applied to the accumulated savings of the individuals concerned in the case of retirement. For individuals retiring at the age of 65, the rate of conversion is 6.4% up to the end of 2013. From 2014 onwards, the conversion rate was reduced to 6.11%. The accumulated savings result from employee and employer contributions which are paid into the individual savings account of each individual insured person as well as the interest accruing on the accumulated savings. The interest rate to be applied to the accumulated pension savings is laid down annually by the Foundation Council of comPlan. The legal form of comPlan is that of a foundation. The Foundation Council, which is constituted by an equal number of representatives of the employer and

employees, is responsible for the management of the Foundation. The duties of the Foundation Council are laid down in the BVG and the Pension Fund Rules. In accordance with BVG, a temporary funding deficit is permitted. The Foundation Council must take appropriate measures in order to rectify the funding deficit within a reasonable time. Pursuant to BVG, additional employer and employee contributions may be incurred whenever a significant funding deficit in accordance with BVG arises. In such cases, the risk is split between the employer and employees and the employer is not legally obligated to assume more than 50% of the additional contributions. As of 31 December 2013, the funding ratio as defined by BVG of comPlan was approx. 106% (prior year: 103.4%). The Investment Commission is the central management, coordination and monitoring body for the management of the pension plan assets. The pension plan assets are administered using mandated, independent financial service providers. Monitoring is assumed by an external investment controller. The Foundation Council determines the investment strategy within the framework of the legal provisions. Within its terms of reference, the Investment Commission may undertake the asset allocation.

In 2012, the Foundation Council resolved to make various amendments to the pension plan which are designed to ensure long-term financial stability considering the low interest rates and growing life expectancy. The amendments will take effect in 2014 and encompass measures affecting pension benefits. In particular, the rate of conversion and thus the level of future retirement benefits for new pensioners was lowered. The amendments to the pension plan led to a reduction in defined benefit obligations of CHF 157 million which was taken to income in the fourth quarter of 2012.

Other pension plans

In addition to various smaller pension plans in Switzerland, other plans include the pension plan for Fastweb employees. Employees of the Italian subsidiary Fastweb have acquired a title in future pension benefits up to the end of 2006. These benefits are recorded in the balance sheet as defined benefit obligations.

Pension cost

In CHF million	comPlan	Other plans	2013	comPlan	Other plans	2012 restated
Current service cost	244	7	251	200	2	202
Plan amendments	–	(3)	(3)	(157)	–	(157)
Administration expense	3	1	4	3	1	4
Employment termination benefits	6	–	6	1	–	1
Total recognised in personnel expense	253	5	258	47	3	50
Interest cost on net defined benefit obligations	37	–	37	29	1	30
Total recognised in financial expense	37	–	37	29	1	30
Total expense of defined benefit plans recognised in income statement	290	5	295	76	4	80

In addition, other comprehensive income includes an actuarial gain of CHF 847 million (prior year: actuarial loss of CHF 769 million) which is recorded as a gain. This may be analysed as follows:

In CHF million	comPlan	Other plans	2013	comPlan	Other plans	2012 restated
Actuarial gains and losses from:						
Change of the demographic estimates	–	–	–	533	7	540
Change of the financial estimates	(384)	(24)	(408)	521	1	522
Experience adjustments to defined benefit obligations	(165)	2	(163)	140	1	141
Return on plan assets excluding the recognised part of financial result	(272)	(4)	(276)	(432)	(2)	(434)
Total (income) expense of defined benefit plans recognised in other comprehensive income	(821)	(26)	(847)	762	7	769

Expenses in 2013 for defined contribution plans aggregated CHF 11 million (prior year: CHF 12 million).

Status of pension plans

In CHF million	comPlan	Other plans	2013	comPlan	Other plans	2012 restated
Defined benefit obligations						
Balance at 1 January	9,823	107	9,930	8,559	120	8,679
Current service cost	244	7	251	200	2	202
Interest cost on defined benefit obligations	188	2	190	197	2	199
Employee contributions	152	2	154	144	1	145
Benefits paid	(331)	(6)	(337)	(335)	(7)	(342)
Actuarial (gains) losses	(549)	(22)	(571)	1,194	9	1,203
Additions from acquisition of subsidiaries	–	85	85	–	–	–
Plan amendments	–	(13)	(13)	(157)	–	(157)
Employment termination benefits	6	–	6	1	–	1
Transfer of pension plans to comPlan	–	–	–	20	(20)	–
Balance at 31 December	9,533	162	9,695	9,823	107	9,930
Plan assets						
Balance at 1 January	7,772	50	7,822	7,129	61	7,190
Interest income on plan assets	151	2	153	168	1	169
Employer contributions	273	3	276	224	4	228
Employee contributions	152	2	154	144	1	145
Benefits paid	(331)	(4)	(335)	(335)	(5)	(340)
Return on plan assets excluding the recognised part of financial result	272	4	276	432	2	434
Additions from acquisition of subsidiaries	–	70	70	–	–	–
Plan amendments	–	(10)	(10)	–	–	–
Administration expense	(3)	(1)	(4)	(3)	(1)	(4)
Transfer of pension plans to comPlan	–	–	–	13	(13)	–
Balance at 31 December	8,286	116	8,402	7,772	50	7,822
Net defined benefit obligations						
Net defined benefit obligations recognised at 31 December	1,247	46	1,293	2,051	57	2,108

Movements in recognised defined benefit obligations are to be analysed as follows:

In CHF million	comPlan	Other plans	2013	comPlan	Other plans	2012 restated
Balance at 1 January	2,051	57	2,108	1,430	59	1,489
Pension cost, net	290	5	295	76	4	80
Employer contributions and benefits paid	(273)	(5)	(278)	(224)	(6)	(230)
Additions from acquisition of subsidiaries	–	15	15	–	–	–
(Income) expense of defined benefit plans, recognised in other comprehensive income	(821)	(26)	(847)	762	7	769
Transfer of pension plans to comPlan	–	–	–	7	(7)	–
Balance at 31 December	1,247	46	1,293	2,051	57	2,108

The weighted average duration of the net present value of the recorded pension obligations is 16.9 years.

Breakdown of pension plan assets

The breakdown of the comPlan's pension assets by the various investment categories and investment strategy is as follows:

Category	Investment strategy	31.12.2013			31.12.2012		
		Quoted	Not quoted	Total	Quoted	Not quoted	Total
Government bonds Switzerland	10.0%	10.7%	8.3%	19.0%	12.3%	9.0%	21.3%
Corporate bonds Switzerland	8.0%	11.1%	–	11.1%	12.2%	–	12.2%
Government bonds World-developed markets	11.0%	10.1%	–	10.1%	10.7%	–	10.7%
Corporate bonds World-developed markets	8.0%	1.2%	–	1.2%	–	–	–
Government bonds World-emerging markets	6.0%	5.4%	–	5.4%	5.8%	–	5.8%
Third-party debt instruments	43.0%	38.5%	8.3%	46.8%	41.0%	9.0%	50.0%
Equity shares Switzerland	5.0%	7.9%	–	7.9%	8.2%	–	8.2%
Equity shares foreign developed markets	12.0%	14.2%	–	14.2%	13.9%	–	13.9%
Equity shares foreign emerging markets	8.0%	5.9%	–	5.9%	5.9%	–	5.9%
Equity instruments	25.0%	28.0%	–	28.0%	28.0%	–	28.0%
Real estate Switzerland	11.0%	6.6%	1.0%	7.6%	7.1%	–	7.1%
Real estate World	4.0%	3.7%	–	3.7%	4.6%	–	4.6%
Real estate	15.0%	10.3%	1.0%	11.3%	11.7%	–	11.7%
Commodities	4.0%	3.0%	–	3.0%	2.8%	–	2.8%
Private markets	5.0%	1.3%	3.5%	4.8%	1.8%	2.7%	4.5%
Hedge Funds	7.0%	0.6%	–	0.6%	–	2.4%	2.4%
Cash and cash equivalents and other investments	1.0%	–	5.5%	5.5%	–	0.6%	0.6%
Cash and cash equivalents and alternative investments	17.0%	4.9%	9.0%	13.9%	4.6%	5.7%	10.3%
Total plan assets	100.0%	81.7%	18.3%	100.0%	85.3%	14.7%	100.0%

The investment strategy pursues the goal of achieving the highest possible return on assets within the framework of its risk tolerance and thus of generating income on a long-term basis in order to meet all financial obligations. This is done through a broad diversification of risks over various investment categories, markets, currencies and industry segments in both developed and emerging markets. The interest-rate duration of interest-bearing investments is 4.74 years (prior year: 4.97 years) and the average rating of these investments is A+. Within the overall portfolio, all foreign-currency positions are hedged against the Swiss franc following a currency strategy to the extent necessary to meet a pre-determined ratio. Illiquid investments constitute a low percentage of total plan assets. Following this investment strategy, comPlan anticipates a target value for the value fluctuation reserve of 15.7% (basis: 2013 financial year).

Plan assets include 2,013 shares of Swisscom Ltd with a fair value of CHF 6 million (prior year: CHF 6 million). The effective return on plan assets in 2013 amounted to CHF 429 million (prior year: CHF 604 million).

In 2014, Swisscom expects to make payments to the pension funds for ordinary employee contributions totalling CHF 231 million (excluding payments for early retirements and changes to the pension plan).

Actuarial assumptions

Assumptions	2013		2012	
	comPlan	Other plans	comPlan	Other plans
Discount rate at 31 December	2.30%	2.85%	1.94%	2.44%
Expected rate of salary increases	2.24%	2.19%	2.24%	2.06%
Expected rate of pension increases	0.10%	0.10%	0.10%	0.10%
Interest on old age savings accounts	2.30%	2.30%	1.50%	1.50%
Longevity at age of 65 – men (number of years)	21.29	21.29	21.18	21.18
Longevity at age of 65 – women (number of years)	23.76	23.76	23.66	23.66

The discount rate is based upon CHF-denominated corporate bonds with a AA rating issued by domestic and foreign issuers and quoted on the Swiss Exchange. Future growth factors for salaries corresponds to a long-term historical average value which is specific to Swisscom. Growth in pensions reflects comPlan's ability to meet future pension increases based on the assumptions made. Interest accruing on the retirement savings equates the discount rate. From 2012 on, Swisscom applies the BVG2010 generation tables for life-expectancy assumptions. The change from period tables to generation tables resulted in an actuarial loss of CHF 534 million in 2012.

Sensitivity analysis

In CHF million	Defined benefit obligations		Current service cost ¹	
	Increase Assumption	Decrease Assumption	Increase Assumption	Decrease Assumption
Discount rate (change +/-0.5%)	(654)	752	(26)	31
Expected rate of salary increases (changes +/- 0.5%)	55	(51)	5	(5)
Expected rate of pension increases (change +0.5%; -0.1%)	577	(109)	19	(3)
Interest on old age savings accounts (change +/- 0.5%)	98	(89)	7	(6)
Longevity at age of 65 – (change +/-1 year)	111	(113)	3	(3)

¹ The sensitivity refers to the current service cost recorded in personnel expense.

The sensitivity analysis takes into consideration the movement in pension-fund obligations as well as current service costs in adjusting the actuarial assumptions by half a percentage point and a year, respectively. In the process, only one of the assumptions is adjusted each time, the remaining parameters remaining unchanged. In the sensitivity analysis in view of a negative movement in pension increases, only a change of -0.1% was made as the reduction in pension benefits is not possible.

11 Share-based payments

In CHF million	2013	2012
Share-based payments Management Incentive Plan	2	2
Other share-based payments	4	4
Total expense of share-based payments	6	6

Management Incentive Plan

The Management Incentive Plan is an equity-share plan for members of the Group Executive Board and Board of Directors. A part of the remuneration and of the variable earnings-related compensation of the members of the Board of Directors as well as the Group Executive Board, respectively, is settled in the form of Swisscom shares. The shares are allocated based on their tax values. The level of the earnings-related compensation and the number of shares allocated are determined in the

subsequent business year once the financial statements are finalised. The shares allocated to the members of the Group Executive Board are based on the variable earnings-related compensation of the prior year as reported. The tax value per share amounts to CHF 371 (prior year: CHF 310). The shares are subject to a retention period of three years from the grant date. The shares are vested immediately upon delivery.

The allocation and cost of share-based payments to the members of the Board of Directors and of the Group Executive Board may be analysed as follows:

Allocation 2013	Number of allocated shares	Market price in CHF	Expense in CHF million
Members of the Board of Directors	1,667	442	0.7
Members of the Group Executive Board ¹	2,707	442	1.2
Total 2013	4,374	442	1.9

¹ Allocation for the financial year 2012.

Allocation 2012	Number of allocated shares	Market price in CHF	Expense in CHF million
Members of the Board of Directors	1,927	361	0.7
Members of the Group Executive Board ¹	2,844	361	1.0
Total 2012	4,771	361	1.7

¹ Allocation for the financial year 2011.

Other share-based payments plans

As recognition for exceptional services rendered during the financial year, equity share premiums may be awarded to a maximum of 10% of managerial employees and those employees covered by the collective employment agreement. In 2013, 10,270 shares with a market price of CHF 442 per share were issued gratuitously and an expense of CHF 4 million was recorded. In the prior year, 10,692 shares with a market price of CHF 361 were issued gratuitously for exceptional services rendered and an expense of CHF 4 million was recorded.

12 Other operating expense

In CHF million	2013	2012
Rental expense	334	307
Maintenance expense	312	288
Loss on disposal of property, plant and equipment	13	7
Energy costs	102	111
Information technology cost	221	213
Advertising and selling expenses	215	248
Dealer commissions	364	365
Consultancy expenses and freelance employees	201	205
Allowances for receivables	83	70
Administration expense	161	170
Miscellaneous operating expenses	470	412
Total other operating expense	2,476	2,396

13 Capitalised costs of self-constructed assets and other income

In CHF million	2013	2012
Capitalised self-constructed assets	256	265
Gain on sale of property, plant and equipment	16	16
Income from employment company Worklink (personnel hire)	4	4
Miscellaneous income	112	88
Total capitalised self-constructed assets and other income	388	373

Capitalised costs of self-constructed assets include personnel costs for the production of technical installations, the construction of network infrastructures and the development of software for internal use.

14 Financial income and financial expense

In CHF million	2013	2012 restated
Interest income on financial assets	8	14
Change in fair value of interest hedging instruments	30	–
Capitalised borrowing costs	15	14
Adjustment to dismantlement and restoration costs. See note 28.	21	–
Foreign exchange gains	5	–
Other financial income	2	1
Total financial income	81	29
Interest expense on financial liabilities	(259)	(263)
Change in fair value of interest hedging instruments	–	(4)
Interest expense on defined benefit obligations. See note 10.	(37)	(30)
Present-value adjustments on provisions	(15)	(15)
Foreign exchange losses	–	(11)
Other financial expense	(29)	(32)
Total financial expense	(340)	(355)
Financial income and financial expense, net	(259)	(326)

The net interest expense on financial assets and financial liabilities is to be analysed as follows:

In CHF million	2013	2012
Interest income on cash and cash equivalents	1	1
Interest income on other financial assets	7	13
Total interest income on financial assets	8	14
Interest expense on bank loans, debenture bonds and private placements	(214)	(220)
Interest expense on finance lease liabilities	(41)	(42)
Interest expense on other financial liabilities	(4)	(1)
Total interest expense on financial liabilities	(259)	(263)
Total financial income and financial expense, net	(251)	(249)

15 Income taxes

Income tax expense

In CHF million	2013	2012 restated
Current income tax expense	322	318
Adjustments recognised for current tax of prior periods	(20)	19
Deferred tax expense	32	81
Total income tax expense recognised in income statement	334	418
Thereof Switzerland	354	431
Thereof foreign countries	(20)	(13)

In addition, other comprehensive income reflects income taxes of CHF 184 million (prior year: gain of CHF 157 million) which may be analysed as follows:

In CHF million	2013	2012 restated
Foreign currency translation adjustments of foreign subsidiaries	(14)	6
Actuarial gains and losses from defined benefit pension plans	(169)	151
Change in fair value of cash flow hedges	–	1
Gains and losses from cash flow hedges transferred to income statement	(1)	(1)
Total income tax expense recognised in other comprehensive income	(184)	157
Thereof Switzerland	(184)	157
Thereof foreign countries	–	–

In prior years, valuation allowances on investments were recognised in the separate financial statements of Group subsidiaries and were deducted for tax purposes. The 2013 impairment tests led to valuation results in excess of the net carrying amount of investments. In order for these results to be reflected in taxable profits, these recoveries in value must be sustainable. This is not the case shortly after recognition of an impairment loss as a longer period is required in order that a recovery in value can be corroborated. For this reason, no tax effects were recognised on the difference between the valuation results and the net carrying amount of the investments in the separate financial statements for 2013. Should the recoveries in value be classified as sustainable at some point in the future, this could result in a cash outflow of up to CHF 260 million.

Analysis of income taxes

The applicable income tax rate for the purposes of the following analysis of income tax expense is the weighted average income tax rate calculated on the basis of the operating companies of the Group in Switzerland. The applicable income tax rate amounts to an unchanged 20.6%.

In CHF million	2013	2012 restated
Income before income taxes in Switzerland	2,149	2,364
Income before income taxes foreign countries	(120)	(131)
Income before income taxes	2,029	2,233
Applicable income tax rate	20.6%	20.6%
Income tax expense at the applicable income tax rate	418	460
Reconciliation to reported income tax expense		
Effect of share of results of associates	(6)	(7)
Effect of tax rate changes on deferred taxes	(2)	1
Effect of use of different income tax rates in Switzerland	(7)	(7)
Effect of use of different income tax rates in foreign countries	(12)	(16)
Effect of non-recognition of tax loss carry-forwards	9	17
Effect of recognition and offset of tax loss carry-forwards not recognised in prior years	(47)	(21)
Effect of deferred tax assets written off	4	–
Effect of impairment losses on goodwill	5	–
Effect of exclusively tax-deductible expenses and income	(20)	(27)
Effect of non-taxable income and non-deductible expenses	8	(1)
Effect of income tax of prior periods	(16)	19
Total income tax expense	334	418
Effective income tax rate	16.5%	18.7%

In 2012 and 2013, previously unrecognised tax loss carry-forwards arising from mergers of Group companies were claimed for tax purposes. The positive impact on income-tax expense in 2013 amounted to CHF 21 million (prior year: CHF 19 million).

Deferred tax assets and liabilities

Movements in current tax assets and liabilities are to be analysed as follows:

In CHF million	2013	2012
Current income (tax assets) tax liabilities at 1 January, net	134	(8)
Recognised in income statement	302	337
Recognised in other comprehensive income	3	–
Income taxes paid in Switzerland	(307)	(145)
Income taxes paid in foreign countries	29	(45)
Additions from acquisition of subsidiaries	1	–
Interest on arrears	–	(5)
Current income tax liabilities (income tax assets) at 31 December, net	162	134
Thereof current income tax assets	(22)	(55)
Thereof current income tax liabilities	184	189
Thereof Switzerland	168	163
Thereof foreign country	(6)	(29)

Recognised deferred tax assets and liabilities are to be analysed as follows:

In CHF million	31.12.2013			31.12.2012 restated		
	Assets	Liabilities	Net amount	Assets	Liabilities	Net amount
Trade and other receivables	22	(23)	(1)	43	(22)	21
Property, plant and equipment	41	(342)	(301)	45	(288)	(243)
Intangible assets	–	(364)	(364)	–	(380)	(380)
Defined benefit obligations	268	–	268	419	–	419
Tax loss carry-forwards	203	–	203	165	–	165
Other	85	(67)	18	100	(33)	67
Total tax assets (tax liabilities)	619	(796)	(177)	772	(723)	49
Thereof deferred tax assets			279			285
Thereof deferred tax liabilities			(456)			(236)
Thereof Switzerland			(328)			(46)
Thereof foreign countries			151			95

Deferred tax assets and liabilities have changed as follows:

In CHF million	Balance at	Recognised	Recognised	Change	Foreign	Balance at
	31.12.2012 restated	in income statement	in other compre- hensive income	in scope of consoli- dation	currency translation adjustments	31.12.2013
Trade and other receivables	21	(22)	–	–	–	(1)
Property, plant and equipment	(243)	(57)	–	(4)	3	(301)
Intangible assets	(380)	32	–	(13)	(3)	(364)
Defined benefit obligations	419	16	(169)	2	–	268
Tax loss carry-forwards	165	36	–	–	2	203
Other	67	(37)	(12)	–	–	18
Total	49	(32)	(181)	(15)	2	(177)

In CHF million	Balance at	Recognised	Recognised	Change	Foreign	Balance at
	31.12.2011 restated	in income statement	in other compre- hensive income	in scope of consoli- dation	currency translation adjustments	31.12.2012 restated
Trade and other receivables	31	(10)	–	–	–	21
Property, plant and equipment	(167)	(76)	–	–	–	(243)
Intangible assets	(407)	27	–	(2)	2	(380)
Defined benefit obligations	301	(32)	151	–	(1)	419
Tax loss carry-forwards	139	27	–	–	(1)	165
Other	79	(17)	6	–	(1)	67
Total	(24)	(81)	157	(2)	(1)	49

Deferred tax assets relating to unused tax loss carry-forwards and to deductible temporary differences are recognised if it is probable that they can be offset against future taxable profits or existing temporary differences. At as 31 December 2013, various subsidiaries recognised deferred tax assets on tax loss carry-forwards and other temporary differences totalling CHF 619 million (prior year: CHF 772 million) since it was foreseeable that tax loss carry-forwards could be offset against future taxable profits. Of this amount, tax loss carry-forwards and other temporary differences of CHF 247 million (prior year: CHF 301 million) were recognised by subsidiaries reporting a loss in 2012 or 2013. On the basis of the approved business plans of these subsidiaries, Swisscom considers it probable that the tax loss carry-forwards and temporary differences can be offset against future taxable profits.

Tax loss carry-forwards and other temporary differences for which no deferred tax assets were recorded, expire as follows:

In CHF million	31.12.2013	31.12.2012
Expiring within 1 year	1	2
Expiring within 1 to 2 years	1	9
Expiring within 2 to 3 years	–	38
Expiring within 3 to 4 years	–	5
Expiring within 4 to 5 years	8	14
Expiring within 5 to 6 years	8	27
Expiring within 6 to 7 years	23	43
No expiration	134	220
Total unrecognised tax loss carry-forwards	175	358
Thereof Switzerland	23	125
Thereof foreign country	152	233

Deferred tax liabilities of CHF 6 million (prior year: CHF none) were recognised on the undistributed earnings of subsidiaries as of 31 December 2013. Temporary differences of subsidiary and associated companies, on which no deferred income taxes were recognised as of 31 December 2013, amounted to CHF 1,264 million (prior year: CHF 534 million).

16 Earnings per share

Undiluted earnings per share are calculated by dividing net income attributable to shareholders of Swisscom Ltd by the weighted average number of shares outstanding. Treasury shares are not counted in the number of outstanding shares.

In CHF million, except where indicated	2013	2012 restated
Share of net income attributable to equity holders of Swisscom Ltd	1,685	1,808
Weighted average number of shares outstanding (number)	51,800,666	51,800,729
Basic and diluted earnings per share (in CHF)	32.53	34.90

Swisscom has no share options and share subscription rights outstanding which could lead to a dilution of earnings per share.

17 Cash and cash equivalents

In CHF million	31.12.2013	31.12.2012
Cash and sight balances	723	538
Total cash and cash equivalents	723	538

As in the prior year, Swisscom had no term deposits outstanding in 2013.

18 Trade and other receivables

In CHF million	31.12.2013	31.12.2012 restated
Billed revenue	2,321	2,483
Accrued revenue	206	186
Allowances	(164)	(209)
Total trade receivables, net	2,363	2,460
Accruals from international roaming traffic	91	140
Receivables from collection activities	26	24
Receivables from construction contracts	30	30
Other receivables	22	19
Allowances	(16)	(15)
Total other receivables, net	153	198
Total trade and other payables	2,516	2,658

All trade and other receivables are due within one year. Trade receivables are the object of active credit risk management which focuses on the assessment of country risks, on-going review of credit risks and the monitoring of the receivables. Credit-risk concentrations in Swisscom are minimised due to the large number of customers and their geographical spread. Risks are monitored by country.

The geographical distribution of trade receivables is as follows:

In CHF million	31.12.2013	31.12.2012
Switzerland	1,701	1,635
Italy	809	1,017
Other countries	17	17
Total billed and accrued revenue	2,527	2,669
Switzerland	(45)	(45)
Italy	(118)	(164)
Other countries	(1)	–
Total allowance for receivables	(164)	(209)
Total trade receivables, net	2,363	2,460

Analysis of maturity and allowances

The due dates of trade receivables as well as the related allowances are to be analysed as follows:

In CHF million	31.12.2013		31.12.2012	
	Gross amount	Allowance	Gross amount	Allowance
Not overdue	1,733	(8)	1,683	(7)
Past due up to 3 months	400	(6)	427	(5)
Past due 4 to 6 months	80	(4)	84	(3)
Past due 7 to 12 months	92	(15)	180	(18)
Past due over 1 year	222	(131)	295	(176)
Total	2,527	(164)	2,669	(209)

The table below presents the changes in allowances for trade and other receivables.

In CHF million	Trade receivables	Other receivables
Balance at 31 December 2011	249	12
Additions to allowances	78	3
Write-off of irrecoverable receivables subject to allowance	(107)	–
Release of unused allowances	(9)	–
Foreign currency translation adjustments	(2)	–
Balance at 31 December 2012	209	15
Additions to allowances	88	1
Write-off of irrecoverable receivables subject to allowance	(131)	–
Release of unused allowances	(5)	–
Foreign currency translation adjustments	3	–
Balance at 31 December 2013	164	16

Construction contracts

Information on uncompleted construction contracts as of the balance sheet date is as follows:

In CHF million	2013	2012
Contract costs of current projects	108	117
Recognised gains less losses	3	8
Contract costs including share of gains and losses, net	111	125
Less progress billings	(84)	(100)
Total net receivables from construction contracts	27	25
Thereof receivables from construction contracts	29	30
Thereof liabilities from construction contracts	(2)	(5)
Advance payments received	61	41

In 2013, construction contracts generated net revenues of CHF 295 million (prior year: CHF 290 million).

19 Other financial assets

In CHF million	Loans and receivables	Available-for-sale	Derivative financial instruments	Total
Balance at 31 December 2011	210	31	28	269
Additions	5	11	–	16
Disposals	(38)	(1)	–	(39)
Change in fair value recognised in income statement	–	–	(5)	(5)
Foreign currency translation adjustments recognised in income statement	(4)	–	–	(4)
Balance at 31 December 2012	173	41	23	237
Additions	161	4	–	165
Disposals	(25)	(3)	(20)	(48)
Change in fair value recognised in income statement	–	–	3	3
Change in fair value recognised in equity	–	1	–	1
Foreign currency translation adjustments recognised in income statement	(4)	(1)	–	(5)
Balance at 31 December 2013	305	42	6	353
Thereof other current financial assets	156	4	–	160
Thereof other non-current financial assets	149	38	6	193

Loans and receivables

As of 31 December 2013, term deposits totalled CHF 156 million (prior year: CHF 6 million). As of 31 December 2013, financial assets in the amount of CHF 135 million were not freely available. These assets serve as security for bank loans.

Available-for-sale financial assets

Available-for-sale financial assets primarily include financial investments in equity instruments. As a general rule, shares not quoted on stock exchanges are recorded at cost since their fair value cannot be reliably determined. As of 31 December 2013, the carrying amount of investments in shares recorded at cost totalled CHF 21 million (prior year: CHF 20 million).

Derivative financial instruments

As at 31 December 2013, derivative financial instruments with a positive market value of CHF 6 million were recognised (prior year: CHF 23 million). Derivative financial instruments include foreign-currency swaps and interest-rate swaps. In the prior year, options relating to company acquisitions with a fair value of CHF 23 million were recorded. See Note 33.

20 Inventories

In CHF million	31.12.2013	31.12.2012
Raw material and supplies	6	5
Customer premises equipment and merchandise	147	157
Finished and semi-finished goods	6	4
Total inventories, gross	159	166
Allowances on inventories	(7)	(6)
Total inventories, net	152	160

In 2013, inventory-related costs amounting to CHF 1,046 million (prior year: CHF 1,061 million) were recorded under the cost of goods and services purchased.

21 Other non-financial assets

In CHF million	31.12.2013	31.12.2012
Prepaid expenses	148	119
Value-added taxes receivable	14	48
Advance payments made	29	28
Other assets	19	25
Total other current non-financial assets	210	220
Prepaid expenses	12	3
Other assets	45	39
Total other non-current non-financial assets	57	42

22 Non-current assets held for sale

Non-current assets held for sale include real estate from the segment Other Operating Segments in an amount of CHF 13 million (prior year: CHF 1 million). Disposal is anticipated within the next twelve months. In 2013, non-current assets held for sale were sold for a total of CHF 5 million (prior year: CHF 12 million). A gain on disposal of CHF 4 million (prior year: CHF 9 million) was recorded as other income.

23 Property, plant and equipment

In CHF million	Land, buildings and leasehold improvements	Technical installations	Other assets	Advances made and assets under construction	Total
Acquisition costs					
Balance at 31 December 2011	2,974	23,547	3,216	590	30,327
Additions	6	1,091	223	382	1,702
Disposals	(101)	(235)	(195)	–	(531)
Additions from acquisition of subsidiaries	5	–	1	–	6
Adjustment to dismantlement and restoration costs	–	(45)	3	–	(42)
Reclassifications to non-current assets held for sale	(19)	–	–	–	(19)
Other reclassifications	8	237	72	(323)	(6)
Foreign currency translation adjustments	(1)	(23)	–	–	(24)
Balance at 31 December 2012	2,872	24,572	3,320	649	31,413
Additions	11	1,318	219	379	1,927
Disposals	(26)	(816)	(288)	–	(1,130)
Additions from acquisition of subsidiaries	2	–	30	–	32
Adjustment to dismantlement and restoration costs	–	(32)	13	–	(19)
Reclassifications to non-current assets held for sale	(39)	–	–	–	(39)
Other reclassifications	12	135	109	(257)	(1)
Foreign currency translation adjustments	–	58	–	–	58
Balance at 31 December 2013	2,832	25,235	3,403	771	32,241
Accumulated depreciation and impairment losses					
Balance at 31 December 2011	2,131	17,746	2,228	–	22,105
Depreciation	29	1,016	259	–	1,304
Disposals	(98)	(232)	(188)	–	(518)
Reclassifications to non-current assets held for sale	(16)	–	–	–	(16)
Other reclassifications	–	(2)	(2)	–	(4)
Foreign currency translation adjustments	–	(7)	–	–	(7)
Balance at 31 December 2012	2,046	18,521	2,297	–	22,864
Depreciation	29	1,047	263	–	1,339
Disposals	(21)	(815)	(281)	–	(1,117)
Reclassifications to non-current assets held for sale	(26)	–	–	–	(26)
Foreign currency translation adjustments	–	25	–	–	25
Balance at 31 December 2013	2,028	18,778	2,279	–	23,085
Net carrying amount					
Net carrying amount at 31 December 2013	804	6,457	1,124	771	9,156
Net carrying amount at 31 December 2012	826	6,051	1,023	649	8,549
Net carrying amount at 31 December 2011	843	5,801	988	590	8,222

In 2013, borrowing costs amounting to CHF 15 million were capitalised (prior year: CHF 14 million). The average interest rate used for the capitalisation of borrowing costs was 2.5% (prior year: 2.5%). As of 31 December 2013, the carrying amount of property, plant and equipment acquired under finance leases amounted to CHF 524 million (prior year: CHF 542 million). See Note 28 for further information on the adjustments to the costs of dismantling and restoration.

24 Goodwill and other intangible assets

In CHF million	Goodwill	Internally generated software	Purchased software	Customer relationships	Brands	Other intangible assets	Total
Acquisition costs							
Balance at 31 December 2011	6,227	1,167	1,544	1,095	268	473	10,774
Additions	–	88	167	–	–	626	881
Disposals	–	(107)	(60)	(7)	–	(12)	(186)
Reclassifications	–	69	46	–	–	(109)	6
Additions from acquisition of subsidiaries	3	3	–	9	–	–	15
Foreign-currency translation adjustments	(20)	(2)	(4)	(8)	(2)	–	(36)
Balance at 31 December 2012	6,210	1,218	1,693	1,089	266	978	11,454
Additions	–	127	196	–	–	220	543
Disposals	–	(349)	(143)	(21)	–	(55)	(568)
Reclassifications	–	137	52	–	–	(188)	1
Additions from acquisition of subsidiaries	159	2	–	51	7	6	225
Foreign-currency translation adjustments	38	2	15	18	5	1	79
Balance at 31 December 2013	6,407	1,137	1,813	1,137	278	962	11,734
Accumulated amortisation and impairment losses							
Balance at 31 December 2011	1,563	769	1,044	583	123	149	4,231
Amortisation	–	175	260	125	26	60	646
Disposals	–	(107)	(60)	(7)	–	(12)	(186)
Reclassifications	–	2	2	–	–	–	4
Foreign-currency translation adjustments	(15)	(1)	(3)	(4)	(1)	–	(24)
Balance at 31 December 2012	1,548	838	1,243	697	148	197	4,671
Amortisation	–	202	230	130	28	88	678
Impairment losses	23	1	1	–	–	2	27
Disposals	–	(347)	(142)	(21)	–	(49)	(559)
Foreign-currency translation adjustments	27	2	11	11	3	1	55
Balance at 31 December 2013	1,598	696	1,343	817	179	239	4,872
Net carrying amount							
Net carrying amount at 31 December 2013	4,809	441	470	320	99	723	6,862
Net carrying amount at 31 December 2012	4,662	380	450	392	118	781	6,783
Net carrying amount at 31 December 2011	4,664	398	500	512	145	324	6,543

As of 31 December 2013, other intangible assets included advance payments and uncompleted development projects of CHF 190 million (prior year: CHF 223 million). Apart from goodwill, there are no intangible assets with indefinite useful lives. As of 31 December 2013, accumulated impairment losses on goodwill of CHF 1,598 million were recorded. Goodwill arising from investments in associates is classified as part of the investments in associates.

Auctioning of mobile phone frequencies

The GSM and UMTS licences of Swisscom Switzerland expire at the end of 2013 and 2016, respectively. In November 2010, the Federal Communication Committee (ComCom) delegated to the Federal Office for Communication (Bakom) the task of granting all currently available licenses as well as those which have or will become available at the end of 2013 and 2016, respectively. In the first quarter of 2012, as part of the licence granting process, all mobile phone frequencies were auctioned off with a uniform duration ending in 2028. Swisscom successfully participated in the auction and acquired thereby mobile phone frequencies for a total value of CHF 360 million which were recognised as other intangible assets. Settlement was made in the third quarter of 2012.

Goodwill impairment testing

Goodwill is allocated to the cash-generating units of Swisscom according to their business activities. Goodwill acquired in a business combination is allocated to each cash-generating unit expected to benefit from the synergies of the business combination. The allocation of the goodwill to the cash-generating units is as follows:

In CHF million	31.12.2013	31.12.2012
Residential Customers	2,630	2,495
Small and Medium-Sized Enterprises	656	656
Corporate Business	734	734
Wholesale	45	45
Cash-generating units of Swisscom Switzerland	4,065	3,930
Fastweb	604	594
Other cash-generating units	140	138
Total goodwill	4,809	4,662

Goodwill was tested for impairment in the fourth quarter of 2013 after the business planning had been completed. The recoverable amount of a cash-generating unit is determined based on its value in use, using the discounted cash flow (DCF) method. The projected cash flows are estimated on the basis of the business plans approved by management in general covering a three-year period. A planning horizon of five years is used for the impairment test of Fastweb. For the free cash flows extending beyond the detailed planning period, a terminal value was computed by capitalising the normalised cash flows using a constant growth rate. The growth rates applied are those customarily assumed for the country or market. The key assumptions underlying the calculations are as follows:

Disclosures in %	2013			2012		
	WACC pre-tax	WACC post-tax	Long-term growth rate	WACC pre-tax	WACC post-tax	Long-term growth rate
Residential Customers	7.56	5.09	0	7.33	4.63	(1.0)
Small and Medium-Sized Enterprises	7.44	5.09	0	7.32	4.63	(1.1)
Corporate Business	7.78	5.09	0	7.47	4.63	(0.9)
Wholesale	7.35	5.09	0	7.31	4.63	(1.2)
Fastweb	10.90	8.00	1.0	10.34	7.60	1.0
Other cash-generating units	6.3–11.9	5.2–9.7	0–1.5	6.9–11.8	5.7–9.7	0–1.5

The application of pre- or post-tax discount rates (WACC pre-tax and WACC post-tax) results in the same value in use. The discount rates used take into consideration the specific risks relating to the cash-generating unit being considered. The projected cash flows and management assumptions are corroborated by external sources of information. The approach taken and assumptions made for the impairment tests of Swisscom Switzerland and Fastweb are presented below.

Swisscom Switzerland

The cash-generating units of Swisscom Switzerland are the operating segments Residential Customers, Small- and Medium-Sized Enterprises, Corporate Business and Wholesale. The impairment test of goodwill is conducted on these cash-generating units. The recoverable amount was determined based on the value in use using the discounted cash flow (DCF) method. The forecast of future cash flows is based upon the three-year business plan approved by management. For the free cash flows extending beyond the detailed planning period, a long-term growth of zero was assumed (prior year: -1.2% to -0.9%). The change from the prior year is a result of structural changes in the telecommunications sector leading to improved growth prospects. As of the measurement date, the recoverable amount at all cash-generating units, based on their value in use, was higher

than the carrying amount relevant for the impairment test. Swisscom is of the opinion that none of the anticipated changes in key assumptions which can be reasonably expected would cause the carrying amount of the cash-generating units to exceed the recoverable amount.

Fastweb

The impairment test in Fastweb was undertaken in the fourth quarter of 2013. The recoverable amount was determined on the basis of the value in use using the discounted cash flow method. The basis for projecting future cash flows is the business plan prepared by management for the five years 2014 to 2018. This plan takes into consideration historical empirical values and management's expectations regarding the future development of the relevant market. The impairment test took into account the following assumptions:

Assumptions	Description
Average annual growth in revenue during the detailed planning period	In the business plan, an average annual growth in revenue of 4.1% is expected for the detailed planning period up to 2018. In the prior year, an average annual growth in revenue of 3.6% had been expected for the detailed planning period 2013–2017.
Projected EBITDA margin (EBITDA as % of net revenue)	The projected EBITDA margin in 2018 is 41%. In the previous year, an EBITDA margin of 36% was assumed.
Projected capital expenditure rate (capex as % of net revenue)	In the period up to 2018, it is anticipated that capital expenditure in relation to net Revenue will decline to less than 17% (prior year: 16%) as a high Level of capital expenditure in the Network infrastructure has already been made.
Post-tax discount rate	The post-tax discount rate is 8.00% (prior year: 7.60%) and the related pre-tax discount rate is 10.90% (prior year: 10.34%). The discount rate is calculated using the Capital Asset Pricing Model (CAPM). This latter comprises the weighted cost of own equity and of external borrowing costs. The risk free interest rate on which the discount rate is based on, is derived from ten-year bonds issued by the German government with a Zero interest rate. A premium for the country risk of Italy is then added.
Long-term growth rate	The normalised free cash flows in the terminal value were capitalised with a constant growth rate of 1.0% as in the prior year. The growth rate employed corresponds to that customarily used for the Country and market based upon experience values as well as future projections and which are corroborated by external information sources. The growth rate employed does not exceed the long-term average growth rate customarily used for the country and market.

As of the date of the impairment test, no impairment of goodwill resulted. The recoverable amount exceeded the carrying amount by EUR 1,176 million (CHF 1,446 million). The following changes in material assumptions lead to a situation where the value in use equals the carrying amount:

	Assumptions	Sensitivity
Average annual growth rate through 2018 with the same EBITDA margin as in the business plan	4.1%	0.4%
Projected EBITDA margin 2018	41%	33%
Capital expenditure rate 2018	17%	23%
Post-tax discount rate	8.00%	10.53%
Long-term growth rate	1.0%	-2.5%

25 Investments in associates

In CHF million	2013	2012
Balance at 1 January	268	233
Additions	1	49
Disposals	(105)	–
Dividends	(43)	(38)
Share of net results	30	32
Share of equity transactions	–	(7)
Foreign currency translation adjustments	2	(1)
Balance at 31 December	153	268

The most significant participations classified as associates are LTV Yellow Pages, Cinetrade and Belgacom International Carrier Services. Dividends received totalling CHF 43 million (prior year: CHF 38 million) are attributable mainly to the dividends paid by LTV Yellow Pages, Cinetrade and Belgacom International Carrier Services.

In 2013, Swisscom increased its shareholding in Cinetrade from 49% to 75%. As of the acquisition date, there was a difference between the carrying value of Cinetrade and the fair value of the net assets acquired of CHF 2 million, which was recognised as other financial income. On 21 March 2012, Swisscom acquired an 11.1% minority shareholding in the Italian company Metroweb for a purchase price of EUR 37 million (CHF 45 million). Metroweb is the operator of the largest glass fibre network in Milan and Lombardy. Through its representation on the Board of Directors of the company, inter alia, Swisscom can exercise a significant influence over Metroweb. For this reason, Metroweb is reflected in the consolidated financial statements of Swisscom as an associated company.

The following table provides selected summarised key financial data of the associates:

In CHF million	2013	2012
Income statement		
Net revenue	2,328	2,354
Operating expense	(2,174)	(2,170)
Operating income	154	184
Net income	119	153
Balance sheet at 31 December		
Current assets	972	993
Non-current assets	988	382
Current liabilities	(876)	(858)
Non-current liabilities	(352)	(48)
Equity	732	469

26 Financial liabilities

In CHF million	31.12.2013	31.12.2012
Bank loans	8	196
Debenture bonds	1,324	631
Private placements	206	131
Finance lease liabilities	13	7
Other interest-bearing financial liabilities	2	8
Derivative financial instruments. See Note 33.	76	75
Other non-interest-bearing financial liabilities	27	5
Total current financial liabilities	1,656	1,053
Bank loans	1,345	973
Debenture bonds	4,184	4,824
Private placements	920	1,121
Finance lease liabilities	642	632
Other interest-bearing financial liabilities	2	3
Derivative financial instruments. See Note 33.	51	161
Other non-interest-bearing financial liabilities	23	16
Total non-current financial liabilities	7,167	7,730
Total financial liabilities	8,823	8,783

Bank loans and credit limit

In CHF million	Due within	Par value in CHF	Carrying amount	
			31.12.2013	31.12.2012
Bank loans in CHF variable interest-bearing	2013	150	–	150
Bank loans in CHF variable interest-bearing	2016	300	300	300
Bank loans in CHF variable interest-bearing	2017	130	130	130
Bank loans in EUR variable interest-bearing	2015	430	430	422
Bank loans in EUR variable interest-bearing	2020	368	368	–
Bank loans in USD fixed interest-bearing	2013	38	–	38
Bank loans in USD fixed interest-bearing	2028	85	125	129
Total			1,353	1,169

In 2013, Swisscom took up bank loans in EUR. The newly taken up bank loan of EUR 300 million (CHF 368 million) carries variable interest rates and has a seven-year term. The EUR 300 million financing was designated for hedge accounting of net investments in foreign operations. During the financial year, Swisscom repaid maturing bank loans amounting to CHF 150 million. As of 31 December 2013, no transaction costs were recognised in connection with the bank loans, as in the prior year. The effective interest rate of the CHF denominated bank loans is 0.63%. For the bank loans in USD and EUR, the rate is 4.62% and 0.53%, respectively. A portion of the EUR-denominated bank loans totalling EUR 350 million was swapped into variable CHF financing through foreign-currency swaps. The bank loans may become due for immediate repayment if the shareholding of the Swiss Confederation in the capital of Swisscom falls below one third or if another shareholder can exercise control over Swisscom.

Swisscom has a confirmed bank line of credit amounting to CHF 100 million maturing in 2016 and a further confirmed line of credit of CHF 2,000 million from banks maturing in 2018. As of 31 December 2013, these lines of credit had not been drawn down, as in the prior year.

Debenture bonds

In CHF million	Maturity years	Par value in CHF	Nominal interest rate	Carrying amount	
				31.12.2013	31.12.2012
Debenture bond in CHF	2007–2013	550	3.50%	–	560
Debenture bond in CHF	2007–2017	600	3.75%	610	611
Debenture bond in CHF	2008–2015	500	4.00%	505	504
Debenture bond in CHF	2009–2014	1,250	3.50%	1,282	1,280
Debenture bond in CHF	2009–2018	1,500	3.25%	1,502	1,500
Debenture bond in CHF	2010–2022	500	2.63%	497	497
Debenture bond in CHF	2012–2024	500	1.75%	503	503
Debenture bond in EUR	2013–2020	614	2.00%	609	–
Total				5,508	5,455

In 2013, Swisscom took up a debenture bond in an amount of EUR 500 million (CHF 614 million). The coupon rate was 2.00% with a term of seven years. The debenture bond was issued by Lunar Funding V, an independent Irish multi purpose vehicle. It is secured by a loan note from Lunar V to Swisscom in the same amount. The amount taken up was applied to refinance existing financial loans. The EUR 500 million financing was designated for hedge accounting of net investments in foreign operations. During the current financial year, Swisscom repaid a debenture bond totalling CHF 550 million upon maturity. In the prior year, Swisscom took up a debenture bond totalling CHF 500 million and redeemed a debenture bond totalling CHF 250 million upon maturity. The effective interest rate on the Swiss-franc denominated debenture bonds is 3.22% and 2.15% for those denominated in EUR. The investors are entitled to sell the debentures back to Swisscom and/or Lunar V if a shareholder other than the Swiss Confederation gains a majority share in Swisscom and at the same time, the company's rating falls below BBB–/Baa3.

Private placements

In CHF million	Due within	Par value in CHF	Carrying amount	
			31.12.2013	31.12.2012
Private placements in CHF domestic	2016	350	350	350
Private placements in CHF abroad	2017	250	243	242
Private placements in CHF abroad	2018	72	68	67
Private placements in CHF abroad	2019	278	260	258
Private placements in EUR abroad	2013	131	–	131
Private placements in EUR abroad	2014	205	205	204
Total			1,126	1,252

Swisscom repaid private placements amounting to EUR 108 million (CHF 133 million) in 2013 and in the prior year, a private placement totalling CHF 150 million. The interest rate risk of private placements maturing in 2016 is hedged with interest-rate swaps and was designated as cash flow hedges for hedge accounting purposes. The duration of the hedges is identical to the duration of the hedged private placements. The total EUR-denominated private placement was swapped to variable CHF financing using foreign currency swaps. The swap of fixed interest-bearing EUR financing into variable CHF financing was designated as a fair value hedge. As in the prior year, no transaction costs were recorded as of 31 December 2013 in connection with the private placements. The effective interest rate on the private placements in CHF is 1.67%. For the EUR-denominated private placements, the rate is 0.72%. The CHF private placements of CHF 600 million maturing in 2017 through 2019 may become due for immediate repayment if the shareholding of the Swiss Confederation in the capital of Swisscom falls below 35% or if another shareholder can exercise control over Swisscom. The investors in the remaining private placements are entitled to resell their investments to Swisscom should the Swiss Confederation permanently give up its majority shareholding in Swisscom.

Liabilities arising from finance leases

Swisscom concluded two agreements in 2001 for the sale of real estate. At the same time, Swisscom entered into long-term agreements to lease back part of the real estate sold which, in part, qualify as finance leases. The gain realised on real estate classified as finance leases was deferred. As of 31 December 2013, the deferred gains totalled CHF 183 million (prior year: CHF 187 million). The deferred gains are released to other income over the term of the individual leases. In 2013, CHF 4 million (prior year: CHF 4 million) of the deferred gains was released. The effective interest rate of the finance lease liabilities was 6.5%. The minimum lease payments and financial liabilities relating to these leaseback agreements are set out in the following table:

In CHF million	31.12.2013	31.12.2012
Within 1 year	54	48
Within 1 to 2 years	54	47
Within 2 to 3 years	53	47
Within 3 to 4 years	48	47
Within 4 to 5 years	48	47
After 5 years	1,564	1,611
Total future minimum lease payments	1,821	1,847
Less future financing costs	(1,166)	(1,208)
Total finance lease liabilities	655	639
Thereof current finance lease liabilities	13	7
Thereof non-current finance lease liabilities	642	632

The future payments of the liabilities arising under finance leases, expressed in terms of their present value, as of 31 December 2012 and 2013 were as follows:

In CHF million	31.12.2013	31.12.2012
Within 1 year	13	7
Within 1 to 2 years	14	6
Within 2 to 3 years	13	7
Within 3 to 4 years	9	7
Within 4 to 5 years	8	7
After 5 years	598	605
Total present value of finance lease liabilities	655	639

In addition, operating lease arrangements exist for miscellaneous real estate with terms of 1 to 25 years. See note 35. In 2013, conditional rental payments of CHF 4 million were recorded as rental expense (prior year: CHF 4 million).

27 Trade and other payables

In CHF million	31.12.2013	31.12.2012
Supplier invoices received	1,082	1,284
Goods and services received not yet invoiced	503	423
Total trade payables	1,585	1,707
Accruals from international roaming traffic	33	21
Liabilities from collection activities	23	22
Liabilities from construction contracts	2	5
Miscellaneous liabilities	227	238
Total other liabilities	285	286
Total trade and other payables	1,870	1,993

28 Provisions

In CHF million	Termination benefits	Dismantlement and restoration costs	Regulatory proceedings	Other	Total
Balance at 31 December 2011	10	549	131	213	903
Additions to provisions	74	4	22	33	133
Present-value adjustments	–	9	3	3	15
Release of unused provisions	(8)	(49)	(3)	(27)	(87)
Use of provisions	(10)	(1)	(49)	(63)	(123)
Foreign currency translation adjustments	–	–	–	(1)	(1)
Balance at 31 December 2012	66	512	104	158	840
Additions to provisions	31	57	13	46	147
Present-value adjustments	–	13	2	–	15
Release of unused provisions	(31)	(100)	–	(17)	(148)
Use of provisions	(21)	(1)	(1)	(32)	(55)
Balance at 31 December 2013	45	481	118	155	799
Thereof current provisions	40	–	22	70	132
Thereof non-current provisions	5	481	96	85	667

Provisions for termination benefits

In 2013, Swisscom recognised provisions of CHF 31 million for personnel reduction costs. This is primarily the result of the new organisation announced in November 2013 of the segments Enterprise Customers and Swisscom IT Services, which, as from 1 January 2014, were merged into a new business segment Enterprise Customers. On 31 October 2012, Swisscom announced a personnel reduction plan involving some 400 positions as part of an efficiency programme with the objective of securing the Group's competitiveness. The costs for this personnel reduction plan were estimated at CHF 50 million which was recognised in the fourth quarter of 2012. For further information see Note 9.

Provisions for dismantling and restoration costs

The provisions for dismantling and restoration costs relate to the dismantling of telecommunication installations and transmitter stations and the restoration to its original state of the land owned by third parties on which they are located. In 2013, as a result of new location and expansion strategies, the costs of dismantling and restoration were subjected to review as a result of which the provisions for dismantling and restoring telecommunication installations following reassessment were increased by CHF 57 million. As regards transmitter stations, the reassessment resulted in a decrease of provisions by CHF 79 million. The provisions are computed by reference to estimates of future dismantling costs and are discounted using an average interest rate of 2.79% (prior year: 1.63%). The effect of using different interest rates amounted to CHF 21 million (prior year: CHF 18 million). In 2013, adjustments in the total amount of CHF 19 million (prior year: CHF 42 million) were recorded under the dismantling costs capitalised as part of property, plant and equipment and CHF 23 million (prior year: CHF 4 million) was recognised in the income statement. The non-current portion of the provisions is expected to be settled after 2020.

Provisions for regulatory proceedings

In accordance with the revised Telecommunications Act, Swisscom provides interconnection services and other access services to other telecommunication service providers in Switzerland. In previous years, several telecommunication service providers demanded from the Federal Communications Commission (ComCom) a reduction in the prices charged to them by Swisscom. As a result of legal assessments, Swisscom raised provisions in prior years. The provisions recognised in 2012 consolidated financial statements have not changed materially during the current

financial year. As of 31 December 2013, the provisions relating to the proceedings for interconnection and other access services of Swisscom (Switzerland) Ltd amounted to CHF 118 million. Settlements made in 2013 amounted to CHF 1 million. Settlements of the remaining claims are dependent upon the date on which legally binding rulings and decisions are issued.

Other provisions

Other provisions include provisions for environmental, contractual and tax risks, as well as provisions for insurance claims. The non-current portion of the provisions will most likely be settled between 2015 and 2017.

29 Contingent liabilities

Proceedings conducted by the Competition Commission

The Competition Commission (ComCo) is currently investigating a number of companies in the Swisscom Group. The investigation into the relationship of ADSL wholesale prices to the ADSL retail prices is described below. If it is proven that Swisscom has infringed the rules of fair competition, ComCo is entitled to impose sanctions pursuant to the Anti-Trust Law. This sanction depends on the length and severity and nature of the violation and may amount to up to 10% of the revenue generated by the company in question in the relevant markets in Switzerland over the last three financial years.

On 20 October 2005, ComCo launched an investigation into Swisscom Ltd and Swisscom (Switzerland) Ltd into abuse of a dominant market position. The object of the investigation is the question whether Swisscom has set the prices for ADSL pre-services for Internet service providers at such a high level that no scope remains for these providers for an adequate profit margin in relation to the end-customer prices charged by Swisscom itself (price squeezing). Swisscom contests the allegation of market dominance and refutes the accusation of price squeezing. It is of the opinion that the prices for its ADSL pre-services leave its ADSL competitors enough room for a reasonable profit margin. With its decision of 5 November 2009, ComCo sanctioned Swisscom for abuse of a market-dominant position in the case of ADSL services and levied a fine of CHF 220 million. Swisscom appealed against the ruling at the Federal Administrative Court on 7 December 2009. On the basis of a legal opinion, Swisscom concludes that, from the present-day perspective, it is not probable that a court of final appeal will levy sanctions. It thus has raised no provisions in the consolidated financial statements as of 31 December 2012 and 2013. In the event of a legally binding decision on abuse, claims could be asserted against Swisscom under civil law. Swisscom considers it unlikely that such civil claims can be enforced.

Regulatory proceedings

Swisscom provides interconnection and other access services for other telecommunication service providers in Switzerland in accordance with the revised Swiss Federal Telecommunications Act (TCA). Other access proceedings in accordance with the revised TCA are pending with ComCom and the Federal Administrative Court.

Other contingent liabilities

In the second quarter of 2012, one competitor of Fastweb lodged a complaint against Fastweb in connection with the invitation to tender for large customer contracts. Based upon a legal opinion, Swisscom concluded that an outflow of resources as a result of the complaint is not probable. Accordingly, no provision was established. In the first quarter of 2013, an out-of-court settlement was reached and the complaint by the competitor of Fastweb was withdrawn.

30 Other non-financial liabilities

In CHF million	31.12.2013	31.12.2012
Deferred revenue	375	338
Value-added taxes payable	128	117
Advance payments received	126	56
Other current non-financial liabilities	130	132
Total other current non-financial liabilities	759	643
Deferred gain on sale and leaseback of real estate	183	187
Other non-current non-financial liabilities	127	100
Total other non-current non-financial liabilities	310	287

Deferred revenues mainly comprise deferred payments for prepaid cards and prepaid subscription fees. The release of the deferred gain from the sale and leaseback of real estate is recorded in the income statement under other income over the lease term. See Notes 13 and 26.

31 Additional information concerning equity

Share capital and treasury shares

As of 31 December 2013, the total number of shares issued remained unchanged from the prior year at 51,801,943 shares. All shares have a par value of CHF 1 and are fully paid up. Each share entitles the holder to one vote. Shares with a market value aggregating CHF 6 million (prior year: CHF 6 million) were allocated for share-based compensation plans. See Note 11. The holdings of treasury shares have changed as follows:

	Number	Average price in CHF	In CHF million
Balance at 31 December 2011	435	404	–
Purchases on the market	15,500	361	6
Allocated for share-based compensation	(15,489)	361	(6)
Balance at 31 December 2012	446	361	–
Purchases on the market	15,000	435	6
Allocated for share-based compensation	(14,644)	442	(6)
Balance at 31 December 2013	802	435	–

After deducting 802 treasury shares (prior year: 446 shares), the balance of shares outstanding as at 31 December 2013 totalled 51,801,141 (prior year: 51,801,497 shares).

Other reserves

In CHF million	Hedging reserve	Fair value reserve	Foreign currency translation adjustments	Total other reserves
Balance at 31 December 2011	(34)	2	(1,588)	(1,620)
Foreign currency translation adjustments of foreign subsidiaries	–	–	(26)	(26)
Gains and losses from available-for-sale financial assets transferred to income statement	–	5	–	5
Change in fair value of cash flow hedges	(5)	–	–	(5)
Fair value losses of cash flow hedges transferred to income statement	8	–	–	8
Income tax expense	–	(1)	6	5
Balance at 31 December 2012	(31)	6	(1,608)	(1,633)
Foreign currency translation adjustments of foreign subsidiaries	–	–	63	63
Change in fair value of available-for-sale financial assets	–	1	–	1
Change in fair value of cash flow hedges	7	–	–	7
Fair value losses of cash flow hedges transferred to income statement	6	–	–	6
Income tax expense	(1)	–	(14)	(15)
Balance at 31 December 2013	(19)	7	(1,559)	(1,571)

The hedging reserves comprise the changes in the fair value of hedging instruments which were designated as cash flow hedges. Changes in the fair value of available-for-sale financial assets are recognised in the fair value reserves. Reserves arising from foreign currency translation adjustments comprise the differences from the foreign currency translation of the financial statements of subsidiaries and associates from the functional currency into Swiss francs. In the third quarter of 2013, Swisscom took up a debenture bond and a long-term bank loan aggregating EUR 800 million (CHF 980 million), which were designated for hedge accounting in respect of net investments in foreign subsidiaries. On 31 December 2013, cumulative foreign currency translation losses at Fastweb amounted to CHF 1,917 million (prior year: CHF 1,978 million).

Other comprehensive income

Other comprehensive income in 2013 may be analysed as follows:

2013, in CHF million	Retained earnings	Hedging reserve	Fair value reserve	Foreign currency translation adjustments	Equity holders of Swisscom	Non-controlling interests	Total other comprehensive income
Actuarial gains and losses from defined benefit pension plans	845	–	–	–	845	2	847
Income tax expense	(169)	–	–	–	(169)	–	(169)
Items that will not be reclassified to income statement, net of tax							
Foreign currency translation adjustments of foreign subsidiaries	–	–	–	63	63	–	63
Gains and losses from available-for-sale financial assets transferred to income statement	–	–	1	–	1	–	1
Change in fair value of cash flow hedges	–	7	–	–	7	–	7
Fair value losses of cash flow hedges transferred to income statement	–	6	–	–	6	–	6
Income tax expense	–	(1)	–	(14)	(15)	–	(15)
Items that are or may be reclassified subsequently to income statement, net of tax							
Total other comprehensive income	676	12	1	49	738	2	740

Other comprehensive income in 2012 may be analysed as follows:

2012, in CHF million restated	Retained earnings	Hedging reserve	Fair value reserve	Foreign currency translation adjustments	Equity holders of Swisscom	Non- controlling interests	Total other compre- hensive income
Actuarial gains and losses from defined benefit pension plans	(769)	–	–	–	(769)	–	(769)
Income tax expense	151	–	–	–	151	–	151
Items that will not be reclassified to income statement, net of tax							
Foreign currency translation adjustments of foreign subsidiaries	–	–	–	(26)	(26)	–	(26)
Gains and losses from available-for-sale financial assets transferred to income statement	–	–	5	–	5	–	5
Change in fair value of cash flow hedges	–	(5)	–	–	(5)	–	(5)
Fair value losses of cash flow hedges transferred to income statement	–	8	–	–	8	–	8
Income tax expense	–	–	–	6	6	–	6
Items that are or may be reclassified subsequently to income statement, net of tax							
Total other comprehensive income restated	(618)	3	5	(20)	(630)	–	(630)

32 Dividends

Distributable reserves are determined on the basis of equity as reported in the statutory financial statements of the parent company, Swisscom Ltd, and not on the equity as reported in the consolidated financial statements. At 31 December 2013, Swisscom Ltd's distributable reserves amounted to CHF 4,180 million. The dividend is proposed by the Board of Directors and must be approved by the Annual General Meeting of Shareholders. The dividend proposed for the 2013 financial year is not recorded as a liability in these consolidated financial statements. Treasury shares are not entitled to a dividend.

Swisscom paid the following dividends in 2012 and 2013:

In CHF million, except where indicated	2013	2012
Number of registered shares eligible for dividend (in millions of shares)	51.801	51.801
Ordinary dividend per share (in CHF)	22.00	22.00
Dividends paid	1,140	1,140

The dividend payments for the 2011 and 2012 financial years were funded entirely from retained earnings. The Board of Directors proposes to the Annual Shareholders' Meeting to be held on 7 April 2014 the payment of an ordinary dividend of CHF 22 per share in respect of the 2013 financial year. This equates a total dividend distribution of CHF 1,140 million. The dividend payment is foreseen on 14 April 2014.

33 Financial risk management and supplementary disclosures regarding financial instruments

Swisscom is exposed to various financial risks resulting from its operating and financial activities. The most significant financial risks arise from changes in foreign exchange rates, interest rates as well as creditworthiness and the ability of counterparties to meet their payment obligations. A further risk arises from the ability to ensure adequate liquidity. Swisscom's financial risk management is conducted in accordance with established guidelines with the aim of limiting potential adverse effects on the financial situation of Swisscom. In particular, these guidelines contain risk limits for approved financial instruments and specify risk monitoring processes. Financial risk management, with the exception of the management of credit risks arising from business operations, is handled by the central Treasury Department. It identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. The implemented risk management process also requires routine reports on the development of financial risks.

Market price risks

Foreign exchange risks

Swisscom is exposed to foreign exchange risks; these can impact the Group's financial results and consolidated equity. Foreign exchange risks which have an impact on cash flows (transaction risks) are partially hedged by financial instruments and designated for hedge accounting. In addition, foreign exchange risks with an impact on equity (translation risks) are partially hedged through financial instruments and designated for hedge accounting. The aim of Swisscom's foreign exchange risk management policy is to limit the volatility of planned cash flows. Forward currency contracts, currency options and currency swaps may be employed to hedge transaction risks. These hedging measures concern principally the USD and EUR. EUR-denominated financing is employed in order to hedge the translation risk of positions in EUR.

The following currency risks and hedging contracts for foreign currencies existed as of 31 December 2013:

In CHF million	EUR	USD	Other
At 31 December 2013			
Cash and cash equivalents	60	3	–
Trade and other receivables	8	8	11
Other financial assets	3	142	–
Financial liabilities	(1,721)	(130)	–
Trade and other payables	(59)	(54)	(13)
Net exposure at carrying amounts	(1,709)	(31)	(2)
Net forecasted cash flows exposure in the next 12 months	(367)	(343)	–
Net exposure before hedges	(2,076)	(374)	(2)
Forward currency contracts	211	209	–
Foreign currency swaps	46	–	–
Currency swaps	635	–	–
Hedges	892	209	–
Net exposure	(1,184)	(165)	(2)

In 2013, Swisscom contracted financial liabilities totalling EUR 800 million (CHF 980 million) which were designated for hedge accounting for net investments in foreign shareholdings.

The currency risks and hedging contracts for foreign currencies as of 31 December 2012 are to be analysed as follows:

In CHF million	EUR	USD	Other
At 31 December 2012			
Cash and cash equivalents	59	2	–
Trade and other receivables	14	5	11
Other financial assets	2	146	–
Financial liabilities	(757)	(166)	–
Trade and other payables	(254)	(71)	(23)
Net exposure at carrying amounts	(936)	(84)	(12)
Net forecasted cash flows exposure in the next 12 months	(118)	(313)	–
Net exposure before hedges	(1,054)	(397)	(12)
Forward currency contracts	–	146	–
Foreign currency swaps	83	18	–
Currency swaps	755	–	–
Hedges	838	164	–
Net exposure	(216)	(233)	(12)

Sensitivity analysis

The following sensitivity analysis shows the impact on the income statement should the EUR/CHF and USD/CHF exchange rates change in line with their implicit volatility over the next twelve months. This analysis assumes that all other variables, in particular the interest rate level, remain constant.

In CHF million	31.12.2013	31.12.2012
Income impact on balance sheet items		
EUR volatility of 4.93% (previous year: 4.85%)	84	45
USD volatility of 9.58% (previous year: 8.94%)	3	8
Hedges for balance sheet items		
EUR volatility of 4.93% (previous year: 4.85%)	(31)	(37)
USD volatility of 9.58% (previous year: 8.94%)	–	(3)
Planned cash flows		
EUR volatility of 4.93% (previous year: 4.85%)	18	6
USD volatility of 9.58% (previous year: 8.94%)	33	28
Hedges for planned cash flows		
EUR volatility of 4.93% (previous year: 4.85%)	(13)	(4)
USD volatility of 9.58% (previous year: 8.94%)	(20)	(15)

The volatility of the balance sheet positions and planned cash flows is partially offset by the volatility of the related hedging contracts.

Interest rate risks

Interest rate risks arise from fluctuations in interest rates which could have a negative impact on the financial position of Swisscom. Fluctuations in interest rates lead to changes in interest income and expense. Furthermore, they may impact the market value of certain financial assets, liabilities, and hedging instruments. Swisscom actively manages interest rate risks. The main aim thereof is to limit the volatility of planned cash flows. Swisscom employs interest rate swaps and options to hedge its interest rate risk.

The structure of interest-bearing financial instruments at nominal values is as follows:

In CHF million	31.12.2013	31.12.2012
Fixed interest-bearing financial liabilities	6,498	6,472
Variable interest-bearing financial liabilities	2,094	1,985
Total interest-bearing financial liabilities	8,592	8,457
Fixed interest-bearing financial assets	(231)	(93)
Variable interest-bearing financial assets	(753)	(572)
Total interest-bearing financial assets	(984)	(665)
Total interest-bearing financial assets and liabilities, net	7,608	7,792
Variable interest-bearing	1,341	1,413
Fixed through interest rate swaps	(350)	(350)
Variable through interest rate swaps	42	57
Variable interest-bearing, net	1,033	1,120
Fixed interest-bearing	6,267	6,379
Fixed through interest rate swaps	350	350
Variable through interest rate swaps	(42)	(57)
Fixed interest-bearing, net	6,575	6,672
Total interest-bearing financial assets and liabilities, net	7,608	7,792

Sensitivity analysis

The following sensitivity analysis shows the effects on the income statement and equity if CHF interest rates move by 100 base points. In computing sensitivity in equity, negative interest rates are excluded.

In CHF million	Income statement		Equity	
	Increase 100 base points	Decrease 100 base points	Increase 100 base points	Decrease 100 base points
At 31 December 2013				
Variable financing	(13)	13	–	–
Interest rate swaps	3	(3)	9	(2)
Cash flow sensitivity, net	(10)	10	9	(2)
At 31 December 2012				
Variable financing	(14)	14	–	–
Interest rate swaps	3	(3)	12	(2)
Cash flow sensitivity, net	(11)	11	12	(2)

Credit risks

Credit risks from operating activities

Swisscom is exposed to credit risks arising from its operating activities. Swisscom has no significant concentrations of credit risk. The Group has policies in place to ensure that products and services are only sold to creditworthy customers. Furthermore, outstanding receivables are continually monitored as part of its operating activities. Swisscom recognises credit risks through individual and general lump-sum allowances. In addition, the danger of risk concentrations is minimised by the large number of customers. Given that the financial assets as of the balance sheet date are neither impaired nor in default, there are no indications that the debtors will not be capable of meeting their payment obligations. Further information on financial assets is set out in Notes 17, 18 and 19.

Credit risks from financial transactions

Swisscom is exposed to the risk of counterparty default through the use of derivative financial instruments and financial investments. In business rules governing derivative financial instruments and financial investments, requirements to be met by counterparties are defined. Furthermore, individual limits by counterparty have been set. These limits and counterparty credit assessments are reviewed regularly. Swisscom signs netting agreements as issued by ISDA (International Swaps and Derivatives Association) with the respective counterparties in order to control the risk inherent in derivative transactions. The carrying amount of financial assets corresponds to the credit risk and is to be analysed as follows:

In CHF million	Note	31.12.2013	31.12.2012
Cash and cash equivalents	17	723	538
Trade and other receivables	18	2,516	2,824
Loans and receivables	19	305	173
Derivative financial instruments	19	6	23
Total carrying amount of financial assets		3,550	3,558

The carrying amounts of cash and cash equivalents and other financial assets and the related Standard & Poor's ratings of the counterparties are to be summarised as follows:

In CHF million	31.12.2013	31.12.2012
AAA	422	28
AA+	149	–
AA–	135	139
A+	136	150
A	151	99
A–	3	9
BBB+	–	8
BBB	16	–
Without rating, with government guarantee	–	234
Without rating	22	67
Total	1,034	734

Liquidity risk

Prudent liquidity management includes the holding of adequate reserves of cash and cash equivalents and marketable securities as well as the provision of adequate financing. Swisscom has processes and policies in place that guarantee sufficient liquidity in order to settle current and future obligations. Swisscom has an confirmed line of credit of CHF 100 million maturing in 2016 from banks and a further confirmed line of credit of CHF 2,000 million from banks maturing in 2018. As of 31 December 2013, these lines of credit had not been drawn down, as in the prior year.

The contractual maturities of financial liabilities including estimated interest payments as of 31 December 2013 are as follows:

In CHF million	Carrying amount	Contractual payments	Due within 1 year	Due within 1 to 2 years	Due within 3 to 5 years	Due after 5 years
At 31 December 2013						
Non-derivative financial liabilities						
Bank loans	1,353	1,455	14	442	677	322
Debenture bonds	5,508	6,184	1,419	626	2,395	1,744
Private placements	1,126	1,192	217	7	687	281
Finance lease liabilities	655	1,821	54	54	149	1,564
Other interest-bearing financial liabilities	4	3	1	1	1	–
Other non-interest-bearing financial liabilities	50	50	27	8	–	15
Trade and other payables	1,870	1,870	1,870	–	–	–
Derivative financial liabilities						
Derivative financial instruments	127	180	81	44	10	45
Total	10,693	12,755	3,683	1,182	3,919	3,971

The contractual maturities of financial liabilities including estimated interest payments as of 31 December 2012 are as follows:

In CHF million	Carrying amount	Contractual payments	Due within 1 year	Due within 1 to 2 years	Due within 3 to 5 years	Due after 5 years
At 31 December 2012						
Non-derivative financial liabilities						
Bank loans	1,169	1,271	199	11	877	184
Debenture bonds	5,455	6,211	727	1,407	1,400	2,677
Private placements	1,252	1,338	145	214	622	357
Finance lease liabilities	639	1,847	48	47	141	1,611
Other interest-bearing financial liabilities	11	11	8	1	1	1
Other non-interest-bearing financial liabilities	21	21	5	16	–	–
Trade and other payables	1,993	1,993	1,993	–	–	–
Derivative financial liabilities						
Derivative financial instruments	236	313	81	83	65	84
Total	10,776	13,005	3,206	1,779	3,106	4,914

Estimation of fair values

The carrying amounts of trade receivables and payables as well as other receivables and payables are a reasonable estimate of their fair value because of their short-term maturities. The carrying amounts of cash and cash equivalents and current loans receivable correspond to the fair values. The fair value of available-for-sale financial investments is based on quoted stock exchange prices or equates their purchase cost. The fair values of other non-current financial assets are computed on the basis of the maturing future payments, discounted at market interest rates. The fair value of non-publicly traded interest-bearing financial liabilities is estimated on the basis of the maturing future payments discounted at market interest rates. The fair value of publicly traded interest-bearing liabilities is based upon stock-exchange quotations as at the balance-sheet date. The fair value of finance lease obligations is estimated on the basis of the maturing future payments, discounted at market interest rates. The fair value of publicly traded derivative financial instruments as well as investments held for trading or for sale is based on quoted stock exchange prices as of the balance sheet date. Interest rate swaps and currency swaps are discounted at market interest rates. Foreign-currency forward contracts and foreign-currency swaps are valued by reference to foreign exchange forward rates as of the balance sheet date.

Fair value hierarchy

The fair value hierarchy encompasses the following three levels:

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

Asset/liability valuation categories and fair value of financial instruments

The carrying values and fair values of financial assets and financial liabilities with their corresponding valuation categories are summarised in accordance with the following table. Not reflected therein is cash and cash equivalents, trade receivables and payables as well as miscellaneous receivables and payables whose carrying value corresponds to a reasonable estimation of their fair value.

In CHF million	Carrying amount				Fair Value		
	Loans and receivables	Available-for-sale	At fair value through profit or loss	Financial liabilities	Level 1	Level 2	Level 3
At 31 December 2013							
Derivative financial instruments	–	–	6	–	–	6	–
Available-for-sale financial assets	–	21	–	–	1	–	20
Financial assets measured at fair value	–	21	6	–	1	6	20
Other loans and receivables	305	–	–	–	–	308	–
Financial assets not measured at fair value	305	–	–	–	–	308	–
Derivative financial instruments	–	–	127	–	–	127	–
Financial liabilities measured at fair value	–	–	127	–	–	127	–
Bank loans	–	–	–	1,353	–	1,383	–
Debenture bonds	–	–	–	5,508	5,836	–	–
Private placements	–	–	–	1,126	–	1,147	–
Finance lease liabilities	–	–	–	655	–	1,194	–
Other interest-bearing financial liabilities	–	–	–	4	–	4	–
Other non-interest-bearing financial liabilities	–	–	–	50	–	50	–
Financial liabilities not measured at fair value	–	–	–	8,696	5,836	3,778	–

The carrying values and fair values of financial assets and financial liabilities with their corresponding valuation categories are as of 31 December 2012 are as follows:

In CHF million	Carrying amount				Fair Value		
	Loans and receivables	Available-for-sale	At fair value through profit or loss	Financial liabilities	Level 1	Level 2	Level 3
At 31 December 2012							
Derivative financial instruments	–	–	23	–	–	3	20
Available-for-sale financial assets	–	21	–	–	1	–	20
Financial assets measured at fair value	–	21	23	–	1	3	40
Other loans and receivables	173	–	–	–	–	191	–
Financial assets not measured at fair value	173	–	–	–	–	191	–
Derivative financial instruments	–	–	236	–	–	236	–
Financial liabilities measured at fair value	–	–	236	–	–	236	–
Bank loans	–	–	–	1,169	–	1,217	–
Debenture bonds	–	–	–	5,455	5,896	–	–
Private placements	–	–	–	1,252	–	1,284	–
Finance lease liabilities	–	–	–	639	–	1,344	–
Other interest-bearing financial liabilities	–	–	–	11	–	11	–
Other non-interest-bearing financial liabilities	–	–	–	21	–	21	–
Financial liabilities not measured at fair value	–	–	–	8,547	5,896	3,877	–

In addition, as of 31 December 2013, there were available-for-sale financial assets with a carrying value of CHF 21 million (prior year: CHF 20 million) which are valued at acquisition cost. Level 3 financial instruments developed as follows in 2012 and 2013:

In CHF million	Available-for-sale financial assets
Balance at 31 December 2011	16
Additions	1
Disposals	(1)
Change in fair value recognised in equity	5
Change in fair value recognised in income statement	(1)
Balance at 31 December 2012	20
Additions	1
Disposals	(1)
Change in fair value recognised in equity	1
Change in fair value recognised in income statement	(1)
Balance at 31 December 2013	20

The level-3 assets consist of investments in various investment funds and individual companies. The fair value was arrived at using a valuation model. In 2012 and 2013, there were no reclassifications between the various levels.

Asset/liability valuation categories and results of financial instruments

The results for each asset/liability valuation category are to be analysed as follows:

In CHF million	Loans and receivables	Available-for-sale	At fair value through profit or loss	Financial liabilities	Hedging transactions
2013					
Interest income (interest expense)	8	–	(4)	(250)	(5)
Change in fair value	–	–	30	–	–
Foreign currency translation adjustments	8	(1)	4	(8)	–
Gains and losses transferred from equity	–	–	–	–	(1)
Net result recognised in income statement	16	(1)	30	(258)	(6)
Change in fair value	–	1	–	–	7
Gains and losses transferred to income statement	–	–	–	–	6
Net result recognised in other comprehensive income	–	1	–	–	13
Total net result by asset/liability category	16	–	30	(258)	7

In CHF million	Loans and receivables	Available-for-sale	At fair value through profit or loss	Financial liabilities	Hedging transactions
2012					
Interest income (interest expense)	14	–	(4)	(258)	(5)
Foreign currency translation adjustments	(4)	–	(3)	6	–
Gains and losses transferred from equity	–	(5)	–	–	(3)
Net result recognised in income statement	10	(5)	(7)	(252)	(8)
Change in fair value	–	–	–	–	(5)
Gains and losses transferred to income statement	–	5	–	–	8
Net result recognised in other comprehensive income	–	5	–	–	3
Total net result by asset/liability category	10	–	(7)	(252)	(5)

In addition, in 2013, allowances for trade and other receivables amounting to CHF 83 million (prior year: CHF 70 million) were recorded under other operating expenses.

Derivative financial instruments

At 31 December 2012 and 2013, the following derivative financial instruments were recorded:

In CHF million	Contract value		Positive fair value		Negative fair value	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Fair value hedges	42	58	–	–	(13)	(18)
Cash flow hedges	728	533	–	–	(16)	(43)
Other derivative financial instruments	911	1,215	6	23	(98)	(175)
Total derivative financial instruments	1,681	1,806	6	23	(127)	(236)
Thereof current derivative financial instruments			–	23	(76)	(75)
Thereof non-current derivative financial instruments			6	–	(51)	(161)

Fair Value Hedges

In CHF million	Contract value		Positive fair value		Negative fair value	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Currency swaps in EUR	42	58	–	–	(13)	(18)
Total fair value hedges	42	58	–	–	(13)	(18)

In 2007, for the purpose of hedging the foreign currency and interest rate risks of financing in EUR, cross-currency swaps for EUR 48 million were entered into which were designated as fair value hedges for hedge accounting. Of this amount, EUR 13 million matured in 2013. As of 31 December 2013, the instruments designated for hedge accounting had negative fair values of CHF 13 million (prior year: CHF 18 million).

Cash Flow Hedges

In CHF million	Contract value		Positive fair value		Negative fair value	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Currency swaps in USD	–	37	–	–	–	(23)
Interest rate swaps in CHF	350	350	–	–	(13)	(17)
Forward currency contracts in USD	167	146	–	–	(2)	(3)
Forward currency contracts in EUR	211	–	–	–	(1)	–
Total cash flow hedges	728	533	–	–	(16)	(43)

As of 31 December 2012, derivative financial instruments included cross-currency swaps which matured at the end of 2013. The cross-currency swaps were entered into in order to hedge foreign exchange risks with respect to USD-denominated bank loans. These hedging instruments were designated for hedge accounting purposes and had a negative fair value of CHF 23 million at 31 December 2012. The hedging reserve as part of consolidated equity as of 31 December 2012 included an amount of CHF 2 million.

Swisscom entered into interest rate swaps with final maturities in 2016 in order to hedge interest rate risks of CHF 350 million of the variable CHF-denominated interest-bearing private placements. These hedges were designated as cash flow hedges for hedge accounting purposes. As of 31 December 2013, these interest rate swaps were recorded with a negative fair value of CHF 13 million (prior year: CHF 17 million). CHF 13 million was recognised in the hedging reserve within consolidated equity for these hedging instruments (prior year: CHF 18 million). In 2009, interest rate swaps designated for hedge accounting for the premature hedging of the interest rate risk for the intended issuance of debenture loans totalling CHF 500 million were closed out. The effective share of CHF 24 million was left in the other reserves and is being released to interest expense over the hedged duration of debenture bonds issued in 2009. As of 31 December 2013, a negative amount of CHF 5 million (prior year: CHF 10 million) is recognised in the hedging reserve as part of consolidated equity.

As of 31 December 2013, derivative financial instruments include forward currency contracts of USD 188 million and EUR 172 million which serve to hedge future purchases of goods and services in the respective currencies. The hedges were designated for hedge accounting purposes. The hedges disclose a negative fair value of CHF 3 million (prior year: negative market value of CHF 3 million). A negative amount of CHF 4 million was recorded in the hedging reserve within consolidated equity for these designated hedging instruments (prior year: negative amount of CHF 3 million).

Other derivative financial instruments

In CHF million	Contract value		Positive fair value		Negative fair value	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Currency swaps in EUR	592	697	–	–	(96)	(150)
Interest rate swaps in CHF	200	200	6	–	(1)	(25)
Currency swaps in USD	2	42	–	–	–	–
Currency swaps in EUR	75	226	–	–	–	–
Forward currency contracts in USD	42	–	–	–	(1)	–
Options related to business combinations	–	50	–	23	–	–
Total other derivative financial instruments	911	1,215	6	23	(98)	(175)

In 2010 and in order to hedge currency and interest rate risks arising in connection with EUR-denominated financing, interest rate swaps were entered into covering EUR 350 million with a duration of up to five years. These hedges were not designated for hedge accounting. Already in 2007, interest rate swaps for EUR 228 million had been entered into in order to hedge currency and interest rate risks arising in connection with EUR-denominated financing and which had not been designated for hedge accounting. Of this amount, EUR 95 million matured in 2013.

Furthermore, derivative financial instruments as at 31 December 2013 include interest rate swaps covering CHF 200 million with maturities ending in 2040 with a positive market value of CHF 6 million (prior year: zero) and a negative market value of CHF 1 million (prior year: CHF 25 million) which were not designated for hedge accounting.

In addition, foreign currency forward contracts and currency swaps for EUR and USD which serve to hedge future transactions in connection with Swisscom's operating activities and which were not designated for hedge accounting purposes are included in derivative financial instruments. In the prior year, derivative financial instruments also included options in connection with company acquisitions with a positive market value of CHF 23 million. In 2013, the related company was acquired and the market value of the option was recognised as part of the acquisition costs. See Note 5.

Cross-border lease agreements

Between 1996 until 2002, Swisscom entered into various cross-border lease agreements, under the terms of which parts of its fixed line and mobile phone networks were sold or leased on a long-term basis and leased back. Swisscom defeased a significant part of the lease obligations through the acquisition of investment-grade financial investments. The financial assets were irrevocably deposited with a trust. In accordance with Interpretation SIC 27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease", these financial assets and liabilities in the same amount are netted and not recorded in the balance sheet. As of 31 December 2013, the financial liabilities and assets, including accrued interest, which arose from cross-border lease agreements amounted to USD 63 million or CHF 56 million, which, in compliance with SIC 27, were not recognised in the balance sheet (prior year: USD 59 million or CHF 55 million).

Netting of financial instruments

In CHF million	Gross amount	Settlement	Net amount
At 31 December 2013			
Derivative financial instruments			
Interest rate swaps	6	–	6
Receivables from international roaming			
Billed revenue	37	(26)	11
Accruals	238	(147)	91
Financial assets	281	(173)	108
Derivative financial instruments			
Interest rate swaps	14	–	14
Currency swaps	109	–	109
Forward currency contracts	4	–	4
Liabilities from international roaming			
Supplier invoices received	41	(26)	15
Accruals	180	(147)	33
Financial liabilities	348	(173)	175
At 31 December 2012			
Receivables from international roaming			
Billed revenue	49	(37)	12
Accruals	306	(166)	140
Financial assets	355	(203)	152
Derivative financial instruments			
Interest rate swaps	42	–	42
Currency swaps	191	–	191
Forward currency contracts	3	–	3
Liabilities from international roaming			
Supplier invoices received	58	(37)	21
Accruals	187	(166)	21
Financial liabilities	481	(203)	278

Swisscom enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. The ISDA agreements do not meet the criteria for offsetting in the statement of financial position. This is because Swisscom does not have any currently legally enforceable right to offset recognised amounts, because the right to offset is enforceable only on the occurrence of future events such as a default or other credit events.

As per 31 December 31, 2013 the amount subject to such netting agreements was CHF 6 million. Considering the effect of these agreements the amount of derivative assets would reduce from CHF 6 million to 0, and the amount of derivative liabilities would reduce from CHF 127 million to CHF 121 million.

Charges for international roaming are settled over a clearing centre. Receivables and payables arising from roaming charges between the contracting parties are netted and settled on a net basis. Those receivables and payables for which Swisscom has a legal right of offset are netted in Swisscom's consolidated financial statements.

Management of equity resources

Managed capital is defined as equity including non-controlling interests. Swisscom seeks to maintain a robust equity basis. This basis enables it to guarantee the continuing existence of the Company as a going concern and to offer investors an appropriate return in relation to the risks entered into. Furthermore, Swisscom maintains funds to enable investments to be made which will bring future benefits to customers as well as generate further returns for investors. The managed capital is monitored through the equity ratio which is the ratio of consolidated equity to total assets. The following table illustrates the calculation of the equity ratio:

In CHF million	31.12.2013	31.12.2012 restated
Share of equity attributable to equity holders of Swisscom Ltd	5,973	4,690
Share of equity attributable to non-controlling interests	29	27
Total capital	6,002	4,717
Total assets	20,496	19,796
Equity ratio in %	29.3	23.8

In its strategic targets, the Federal Council has ruled that Swisscom's net indebtedness shall not exceed approximately 2.1 times the operating result before taxes, interest and depreciation and amortisation (EBITDA). Exceeding this limit temporarily is permitted. The net-debt-to-EBITDA ratio is as follows:

In CHF million	31.12.2013	31.12.2012 restated
Debenture bonds	5,508	5,455
Bank loans	1,353	1,169
Private placements	1,126	1,252
Finance lease liabilities	655	639
Other financial liabilities	181	268
Total financial liabilities	8,823	8,783
Cash and cash equivalents	(723)	(538)
Current financial assets	(160)	(40)
Non-current fixed interest-bearing deposits	(128)	(134)
Net debt	7,812	8,071
Operating income before depreciation and amortisation (EBITDA)	4,302	4,477
Ratio net debt/EBITDA	1.8	1.8

Net debt consists of total financial liabilities less cash and cash equivalents, current financial assets as well as non-current fixed interest-bearing financial investments.

34 Supplementary information on the statement of cash flows

Changes in operating assets and liabilities

In CHF million	2013	2012
Trade and other receivables	178	135
Inventories	8	(16)
Other non-financial assets	7	135
Trade and other payables	(172)	(31)
Provisions	(16)	(34)
Other non-financial liabilities	119	(48)
Defined benefit obligations	(20)	(180)
Total changes in operating assets and liabilities	104	(39)

Other cash flows from financing activities

In 2013, other cash flows from financing activities aggregated CHF 12 million (prior year: CHF 12 million). This relates mainly to payments in connection with hedging contracts and the commitment fee for the guaranteed credit limit.

Non-cash investing and financing transactions

Additions to property, plant and equipment include additions from finance leases amounting to CHF 10 million (prior year: CHF 8 million). As a result of changes in the assumptions made in estimating the provisions for dismantling and restoration costs, a reduction of CHF 19 million, net was recognised in property, plant and equipment (prior year: CHF 42 million). See Note 23.

35 Future commitments

Commitments for future capital expenditures

Firm contractual commitments for future investments in property, plant and equipment and other intangible assets as of 31 December 2013 aggregated CHF 862 million (prior year: CHF 868 million).

Operating leases

Operating leases relate primarily to the rental of real estate for business purposes. See Note 26. In 2013, payments for operating leases amounted to CHF 301 million (prior year: CHF 272 million). Future minimum lease payments in respect of operating lease contracts are as follows:

In CHF million	31.12.2013	31.12.2012
Within 1 year	104	118
Within 1 to 2 years	95	98
Within 2 to 3 years	76	87
Within 3 to 4 years	62	69
Within 4 to 5 years	50	54
After 5 years	240	269
Total future minimum lease payments	627	695

36 Research and development

Costs aggregating CHF 20 million for research and development were expensed in 2013 (prior year: CHF 28 million).

37 Related parties

Majority shareholder

Pursuant to the Swiss Federal Telecommunication Enterprises Act (“Telekommunikationsunternehmungsgesetz, TUG”), the Swiss Confederation (“the Confederation”) is obligated to hold a majority of the share capital and voting rights of Swisscom. On 31 December 2013, the Confederation as majority shareholder held 51.2% (prior year: 56.8%) of the issued shares of Swisscom Ltd. Any reduction of the Confederation’s holding below a majority would require a change in law which would need to be voted upon the Federal Assembly, which would also be subject to a facultative referendum by Swiss voters. As the majority shareholder, the Swiss Confederation has the power to control the decisions of the general meetings of shareholders which are taken by the absolute majority of effectively cast votes. This relates primarily to the approval of dividend distributions and the election of the members of the Board of Directors. Swisscom supplies telecommunication services to and in addition, procures services from the Confederation, the majority shareholder in Swisscom. The Confederation comprises the various departments and administrative bodies of the Confederation and the other companies controlled by the Confederation (primarily the Post, Swiss Federal Railways, RUAG as well as Skyguide). All transactions are conducted on the basis of normal relationships with customers and suppliers and on conditions applicable to unrelated third parties. In addition, financing transactions were entered into with the Swiss Post on normal commercial terms.

Associates

Services provided to/from associates are based upon market prices. The associates are listed in Note 41.

Minority shareholders

PubliGroupe and Swisscom Directories are the main related parties amongst minority shareholders. Services provided to/from these related parties are based upon market prices.

Post-employment benefits funds

Transactions between Swisscom and the various pension funds are detailed in Note 10.

Transactions and balances

Transactions and year-end balances with related parties in 2012 and 2013 are as follows:

In CHF million	Income	Expense	Receivables	Liabilities
Confederation	372	170	186	382
Associates	131	206	14	10
Other minority shareholders	8	–	1	–
Total 2013/Balance at 31 December 2013	511	376	201	392

In CHF million	Income	Expense	Receivables	Liabilities
Confederation	355	164	288	380
Associates	117	230	16	33
Other minority shareholders	9	1	1	–
Total 2012/Balance at 31 December 2012	481	395	305	413

Key management compensation

In CHF million	2013	2012
Current compensation	1.6	1.6
Share-based payments	0.8	0.7
Social security contributions	0.1	0.1
Total compensation to members of the Board of Directors	2.5	2.4
Current compensation	5.8	7.6
Share-based payments	0.9	1.2
Benefits paid following retirement from Group Executive Board	1.5	–
Pension contributions	0.7	1.1
Benefits paid to former Members of the Group Executive Board	–	0.1
Social security contributions	0.5	0.6
Total compensation to members of the Group Executive Board	9.4	10.6
Total compensation to members of the Board of Directors and of the Group Executive Board	11.9	13.0

Individuals in key positions of Swisscom are the members of the Board of Directors and the Group Executive Board of Swisscom Ltd. Compensation paid to members of the Board of Directors consists of basic emoluments plus functional allowances and meeting attendance fees. A third of the entire compensation of the Board of Directors (excluding meeting allowances) is paid in the form of shares. Compensation paid to the members of the Group Executive Board consists of a fixed basic salary component settled in cash, a variable performance-related portion settled in cash and in equity shares, services provided and non-cash benefits as well as retirement benefits. Apart from two members, 25% of the variable performance-related share of profits of the members of the Group Executive Board is paid out in shares. Two Board members receive additionally a certain portion of the variable performance-related part entirely in the form of equity shares and as a result, their equity share portion amounts in total to a minimum of 36% and a maximum of 57%. See Note 11. Remuneration and shareholdings are disclosed in the Notes to the annual financial statements of Swisscom Ltd pursuant to Swiss company law (Art. 663b^{bis} and 663c para. 3 of the Swiss Federal Code of Obligations).

38 Service concession agreements

On 21 June 2007 and in accordance with the Swiss Federal Telecommunications Act (TCA), ComCom granted Swisscom a basic-service license for 2008 to 2017. As licensee, Swisscom (Switzerland) Ltd is required to offer the entire range of the basic service to all sections of the Swiss population throughout the whole territory of Switzerland during the ten-year duration of the license. The license covers the whole territory of Switzerland. The basic service is to guarantee access to a minimum offering of telecommunication services. Within the framework of the basic service, everyone has the right to a connection which allows national and international telephone calls in real time, the transmission and reception of fax messages and access to the Internet. The basic service also provides for the maintenance of a prescribed number of public telephones per municipality (Publifon). The Federal Council periodically sets price ceilings for basic services.

39 Risk assessment process

Swisscom has a centralised risk management system in place that distinguishes between strategic and operative risks. All identified risks are quantified as a function of the probability of occurrence and possible impact and are set forth in a risk report. The risk report is discussed periodically by the Audit Committee. Management aims to monitor and control risks on an ongoing basis. A risk assessment is undertaken to identify the risks arising from the application of the accounting principles or from financial reporting. Control mechanisms are defined within the scope of the internal control system to minimise the risks connected with financial reporting. Residual risks are classified according to their possible impact and monitored accordingly. See Notes 4 and 33.

40 Events after the balance sheet date

Approval of the consolidated financial statements

The Board of Directors of Swisscom approved the release of these consolidated financial statements on 5 February 2014. As of this date, no significant post-balance sheet events occurred.

41 List of Group companies

Registered name	Registered office	Shareholding in %	Currency	Share capital in millions
Switzerland				
Alphapay Ltd	Zurich	100	CHF	0.5
Axept Ltd	Opfikon	100	CHF	0.2
BFM Business Fleet Management Ltd	Ittigen	100	CHF	1.0
Billag Ltd	Fribourg	100	CHF	0.1
cablex Ltd	Berne	100	CHF	5.0
CT Cinetrade Ltd	Zurich	75	CHF	0.5
Curabill Treuhand GmbH	St. Gallen	100	CHF	–
Datasport Ltd	Gerlafingen	100	CHF	0.2
DL-Groupe GMG AG	Geneva	67	CHF	0.1
kitag kino-theater Ltd	Zurich	75	CHF	1.0
local.ch Ltd	Berne	51	CHF	3.0
LTV Yellow Pages Ltd	Zurich	49	CHF	10.0
Medgate Holding Ltd	Zug	40	CHF	6.2
Mona Lisa Capital Ltd	Ittigen	99.5	CHF	5.0
MyStrom Ltd	Ittigen	80	CHF	0.1
Plazavista Entertainment AG	Zurich	75	CHF	0.1
Swisscom Banking Provider Ltd	Muri bei Bern	100	CHF	5.0
Swisscom Broadcast Ltd	Berne	100	CHF	25.0
Swisscom Directories Ltd	Berne	51	CHF	1.5
Swisscom Energy Solutions Ltd	Ittigen	50.1	CHF	4.0
Swisscom Event & Media Solutions Ltd	Ittigen	100	CHF	0.1
Swisscom Real Estate Ltd	Ittigen	100	CHF	100.0
Swisscom IT Services Ltd	Berne	100	CHF	150.0
Swisscom IT Services Finance Custom Solutions Ltd	Oltten	100	CHF	0.1
Swisscom IT Services Sourcing Ltd	Münchenstein	100	CHF	3.0
Swisscom Switzerland Ltd	Ittigen	100	CHF	1,000.0
Teleclub AG	Zurich	75	CHF	1.2
Teleclub Programm AG	Zurich	25	CHF	0.6
Transmedia Communications Ltd	Geneva	21.8	CHF	0.8
Wingo Ltd	Fribourg	100	CHF	3.0
Worklink AG	Berne	100	CHF	0.5
Belgium				
Belgacom International Carrier Services	Brussels	22.4	EUR	1.5
Hospitality Services Belgium SA	Brussels	100	EUR	0.6
Swisscom Belgium N.V.	Brussels	100	EUR	4,330.2
China				
Swisscom Hospitality Hong Kong Ltd	Hong Kong	100	HKD	–
Denmark				
Swisscom Hospitality Denmark A/S	Hellerup	100	DKK	0.6
Germany				
Abavent GmbH	Kempten	100	EUR	0.3
Hospitality Services Germany GmbH	Munich	100	EUR	0.1
Swisscom Telco GmbH	Eschborn	100	EUR	–
Finland				
Swisscom Hospitality Finland Oy	Helsinki	100	EUR	0.1
Vilant Systems Oy	Espoo	20	EUR	–

Registered name	Registered office	Shareholding in %	Currency	Share capital in millions
France				
Hospitality Services France SA	Paris	96	EUR	5.6
Sicap France SA	Lyon	100.0	EUR	0.5
Great Britain				
Hospitality Networks and Services UK Ltd	London	100	GBP	1.6
Italy				
Fastweb S.p.A.	Milan	100	EUR	41.3
Fastweb Wholesale S.r.l.	Milan	100	EUR	5.0
Hospitality Services Italia S.r.l.	Milan	100	EUR	0.1
Metroweb S.p.A. ¹	Milan	10.6	EUR	28.9
Swisscom Italia S.r.l.	Milan	100	EUR	2,502.6
Liechtenstein				
Swisscom Re Ltd	Vaduz	100	CHF	5.0
Luxembourg				
Hospitality Services Luxembourg SA	Luxembourg	100	EUR	–
Malaysia				
Sicap Malaysia SdnBhd	Kuala Lumpur	100	MYR	0.5
Netherlands				
HSIA Hospitality Services Netherlands B.V.	The Hague	100	EUR	–
NGT International B.V.	Capelle a/d IJssel	100	EUR	–
Norway				
Swisscom Hospitality Norway A/S	Stavanger	100	NOK	0.3
Austria				
Hospitality Services GmbH	Vienna	100	EUR	0.3
Swisscom IT Services Finance SE	Vienna	100	EUR	0.1
Philippinen				
Swisscom Hospitality Philippines, Inc.	Makaki City	100	PHP	8.2
Portugal				
HSIA Hospitality Services Portugal	Lisbon	100	EUR	1.1
Romania				
Deuromedia s.r.l.	Brasov	100	RON	0.2
Hospitality Services s.r.l.	Bucarest	100	RON	–
Spain				
Hospitality Networks and Services Espana SA	Madrid	100	EUR	0.1
Singapore				
Sicap Asia Pacific Pte Ltd	Singapore	100	SGD	0.1
Swisscom IT Services Finance Pte Ltd	Singapore	100	SGD	0.1
South Africa				
Sicap Africa Pty Ltd	Johannesburg	100	ZAR	0.1
USA				
Hospitality Services North America Corp.	Dulles	98	USD	1.6
Swisscom Cloud Lab Ltd	Wilmington	100	USD	0.3

¹ Investment is accounted for using the equity method. See Note 25.

Report of the Statutory Auditor

Report of the Statutory Auditor on the Consolidated Financial Statements to the General Meeting of Shareholders of Swisscom Ltd, Ittigen (Berne)

Report of the Statutory Auditor on the Consolidated Financial Statements

As statutory auditor, we have audited the accompanying consolidated financial statements on pages 151 to 221 of Swisscom Ltd, which comprise the income statement, statement of comprehensive income, balance sheet, statement of cash flows, statement of changes in equity and notes for the year ended 31 December 2013.

Board of Directors' Responsibility

The board of directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The board of directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards as well as International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2013 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the board of directors.

We recommend that the consolidated financial statements submitted to you be approved.

KPMG AG

Rolf Hauenstein
Licensed Audit Expert
Auditor in Charge

Daniel Haas
Licensed Audit Expert

Gümligen-Berne, 5 February 2014

Financial statements of Swisscom Ltd

Income statement

In CHF million	Note	2013	2012
Net revenue from sale of goods and services		235	241
Other income		40	45
Total net revenue and other income		275	286
Personnel expense		(89)	(82)
Other operating expense		(108)	(107)
Depreciation and amortisation		–	(1)
Total operating expenses		(197)	(190)
Operating income		78	96
Financial expense		(220)	(223)
Financial income		256	254
Income from participations		135	1,637
Income tax expense		(10)	(15)
Net income	12	239	1,749

Balance sheet

In CHF million	Note	31.12.2013	31.12.2012
Assets			
Cash and cash equivalents		571	398
Other financial assets		135	–
Receivables from Group companies		166	155
Dividends receivable from subsidiaries	9	89	1,600
Other receivables from third parties		2	3
Other assets		8	10
Total current assets		971	2,166
Participations	9	7,148	7,087
Loans to third parties	10	92	108
Loans to Group companies		7,573	7,572
Total non-current assets		14,813	14,767
Total assets		15,784	16,933
Liabilities and equity			
Financial liabilities to third parties	5	1,535	887
Financial liabilities to Group companies		2,996	3,299
Trade payables due to third parties		6	5
Other payables to third parties	4	139	144
Other payables to Group companies		17	16
Total current liabilities		4,693	4,351
Financial liabilities to third parties	5	6,552	7,124
Financial liabilities to Group companies		239	254
Provisions		57	60
Total non-current liabilities		6,848	7,438
Total liabilities		11,541	11,789
Share capital		52	52
Capital surplus reserves		21	21
Retained earnings		4,170	5,071
Total equity	7	4,243	5,144
Total liabilities and equity		15,784	16,933

Notes to the financial statements

1 General information

The financial statements of Swisscom Ltd, the parent company of the Swisscom Group, comply with Swiss law.

2 Contingent liabilities

At 31 December 2013, guarantees in favour of third parties for the account of Group companies amount to CHF 142 million (prior year: CHF 308 million).

3 Fire insurance values of property, plant and equipment

The fire insurance values of property, plant and equipment correspond generally to their replacement value or fair value.

4 Amounts payable to pension funds

As in the prior year, there were no amounts payable to pension funds as of 31 December 2013.

5 Debenture bonds issued

The amounts, interest rates and maturities of debenture bonds issued by Swisscom Ltd are as follows:

In CHF million	31.12.2013		31.12.2012	
	Par value	Nominal interest rate	Par value	Nominal interest rate
Debenture bond in CHF 2007–2013	–	–	550	3.50
Debenture bond in CHF 2007–2017	600	3.75	600	3.75
Debenture bond in CHF 2008–2015	500	4.00	500	4.00
Debenture bond in CHF 2009–2014	1,250	3.50	1,250	3.50
Debenture bond in CHF 2009–2018	1,500	3.25	1,500	3.25
Debenture bond in CHF 2010–2022	500	2.63	500	2.63
Debenture bond in CHF 2012–2024	500	1.75	500	1.75
Debenture bond in EUR 2013–2020	614	2.00	–	–

6 Treasury shares

Swisscom Ltd recognises treasury shares separately as assets and establishes a reserve for treasury shares in the same amount in equity. Treasury shares are measured at the lower of cost and market value. Details of the balance of and movements in treasury shares are set out in Note 31 to the consolidated financial statements.

7 Equity

Movements in the number of shares in circulation as well as the equity of Swisscom Ltd are as follows:

In CHF million	Number of shares	Share capital	Capital surplus reserves	Reserve for treasury shares	Retained earnings	Total equity
Balance at 1 January 2012	51,801,943	52	21	–	4,462	4,535
Net income	–	–	–	–	1,749	1,749
Dividends paid	–	–	–	–	(1,140)	(1,140)
Balance at 31 December 2012	51,801,943	52	21	–	5,071	5,144
Net income	–	–	–	–	239	239
Dividends paid	–	–	–	–	(1,140)	(1,140)
Balance at 31 December 2013	51,801,943	52	21	–	4,170	4,243

Swisscom Ltd is a holding company established under Swiss law. According to the provisions of law governing the appropriation of retained earnings by holding companies, the share capital and appropriations to the general legal reserve to the extent of 20% of share capital as well as the reserve for treasury shares may not be distributed. As of 31 December 2013, distributable reserves aggregated CHF 4,180 million. Any dividend distribution must be proposed by the Board of Directors and approved by the Annual General Meeting of Shareholders.

8 Significant shareholders

On 31 December 2013, the Swiss Confederation (Confederation), as majority shareholder, held 51.2% (prior year: 56.8%) of the issued share capital of Swisscom Ltd. The Federal Telecommunication Enterprises Act (TUG) stipulates that the Confederation must hold the majority of the capital and voting rights of Swisscom Ltd.

9 Participations and recording of dividends from subsidiaries

Participations are accounted for at acquisition cost less provisions for impairment, as required. Dividend income from subsidiary companies is accrued provided that the annual general meetings of the subsidiaries approve the payment of a dividend prior to approval of the annual financial statements of Swisscom Ltd by the Board of Directors. A list of direct and indirect shareholdings of Swisscom Ltd is provided in Note 41 to the consolidated financial statements.

10 Assets subject to restriction

As of 31 December 2013, financial assets totalling CHF 92 million were not freely available (prior year: CHF 93 million). These assets serve to secure commitments arising from bank loans. In the prior year, all assets were freely available.

11 Information on risk assessment process

Swisscom Ltd is fully integrated into the risk assessment process of Swisscom Group. This Group-wide risk assessment process also takes into consideration the nature and scope of business activities and the specific risks to which Swisscom Ltd is exposed. See Note 39 to the consolidated financial statements.

12 Net release of hidden reserves

In 2013, no hidden reserves were released to income (prior year: CHF 4 million).

13 Management compensation

Compensation for the members of the Board of Directors

2013, in CHF thousand	Base salary and functional allowances				Total 2013
	Cash compensation	Share-based payment	Meeting attendance fees	Employer contributions to social security	
Hansueli Loosli	330	195	43	30	598
Barbara Frei	104	61	28	11	204
Hugo Gerber ¹	104	61	30	11	206
Michel Gobet	104	61	28	11	204
Torsten G. Kreindl	127	75	33	13	248
Catherine Mühlemann	104	61	27	11	203
Richard Roy	144	85	33	15	277
Theophil Schlatter	152	90	31	16	289
Hans Werder	142	84	34	12	272
Total compensation to members of the Board of Directors	1,311	773	287	130	2,501

¹ In addition, a cash compensation (including meeting attendance fees) of CHF 9,000 was paid as member of the Board of Directors of Worklink AG.

2012, in CHF thousand	Base salary and functional allowances				Total 2012
	Cash compensation	Share-based payment	Meeting attendance fees	Employer contributions to social security	
Hansueli Loosli	330	195	38	30	593
Barbara Frei ¹	69	59	23	9	160
Hugo Gerber ²	104	61	24	11	200
Michel Gobet	104	61	26	11	202
Torsten G. Kreindl	128	75	32	13	248
Catherine Mühlemann	104	61	25	11	201
Richard Roy	144	85	26	14	269
Theophil Schlatter	136	61	31	13	241
Othmar Vock ³	50	4	7	3	64
Hans Werder	142	84	32	12	270
Total compensation to members of the Board of Directors	1,311	746	264	127	2,448

¹ Resigned as of 4 April 2012.

² In addition, a cash compensation (including meeting attendance fees) of CHF 9,500 was paid as member of the Board of Directors of Worklink AG.

³ Resigned as of 4 April 2012.

The system of compensation provides for basic emoluments as well as functional allowances and meeting attendance fees. No variable profit-related emoluments are paid. The basic emolument for the Chairman of the Board of Directors is CHF 385,000, net, and CHF 120,000, net, for the other Board members. Furthermore, additional fees are paid for specific duties (functional allowances). Accordingly, each member of the Finance and Audit Committees is entitled to an unchanged allowance of CHF 10,000, net. The members of the Compensation Committee also receive a functional allowance in the same amount. In addition, the Vice-Chairman and the Chairman of the Finance and Compensation Committees are each entitled to an allowance in an unchanged amount of CHF 20,000 net. The Chairman of the Audit Committee receives a net amount of CHF 50,000. The representative of the Swiss Confederation receives a net amount of CHF 40,000 for the special duties related to his function. The members of the ad-hoc committees do not receive a functional allowance, but meeting attendance fees. Furthermore, meeting attendance fees of CHF 1,250 are paid for each full day and CHF 750 for each half-day. Out-of-pocket expenses are reimbursed on the basis of actual costs incurred. No significant non-cash benefits are paid nor services rendered.

The members of the Board of Directors are obligated to draw 25% of their basic emoluments including functional allowances in the form of equity shares, whereby Swisscom augments the amount to be invested in shares by 50%. In this manner, the compensation (excluding meeting attendance fees) is made up of a two-thirds' cash portion and a one-third equity share portion. The amount of the share subscription obligation can vary in the case of members who join, leave, assume or give up a function during the year. The shares are allocated on the basis of their value accepted for tax purposes, rounded up to the next whole number of shares, and are subject to a three-year retention period. The shares which are allocated in April of each reporting year in respect of the reporting period are recorded at their market value as of the date of their allocation. In April 2013, a total of 1,667 shares were allocated to the members of the Board of Directors (prior year: 1,927 shares) for a tax value of CHF 371 per share (prior year: CHF 310). Their market value was CHF 442 (prior year: CHF 361) per share. From 2013 onwards, the members of the Board of Directors are obligated to hold a minimum number of equity shares equal to one year's annual remuneration (basic emolument plus functional allowances). The Board members have four years to build up the required shareholding.

With regards to the disclosure of services rendered and non-cash benefits, these are dealt with from a tax point of view. Accordingly, neither services rendered and non-cash benefits nor expenses are included in reported allowances. No compensation was paid to former members of the Board of Directors in connection with their earlier activities as a member of a governing body of the Company and/or which is not at arm's length. Swisscom bears all contributions paid for the members of the Board of Directors in respect of social security insurance, in particular for old-age and survivors' as well as for unemployment insurance. The disclosed compensation to the Members of the Board of Directors includes the employee's share of social security contributions. The employer's share of contributions is disclosed separately but included in total remuneration.

Compensation for the members of the Group Executive Board

In CHF thousand	Total Group Executive Board 2013	Total Group Executive Board 2012	Thereof Urs Schaeppi 2013	Thereof Carsten Schloter 2012
Fixed base salary paid in cash	3,183	4,353	622	830
Variable earnings-related compensation paid in cash	2,640	3,092	566	635
Service-related and non-cash benefits	45	108	16	8
Share-based payments fixed ¹	–	35	–	–
Share-based payments variable ²	853	1,191	298	252
Employer contributions to social security ³	488	645	105	122
Benefits paid following retirement from Group Executive Board ⁴	1,481	–	–	–
Retirement benefits ⁵	738	1,064	106	106
Benefits paid to former Members of the Group Executive Board ⁶	–	80	–	–
Severance payments	–	–	–	–
Total compensation to members of the Group Executive Board	9,428	10,568	1,713	1,953

¹ The shares are recorded at their market value and are blocked for three years.

² The shares are recorded at their market value and are blocked for three years.

³ As from 2013, employer contributions to social insurance (AHV, IV, EO and FAK including administrative costs, sick pay allowance and accident insurance) are now included as part of total remuneration.

⁴ This amount consists of employer social security contributions as well as retirement benefits for 2014 (for forfeited entitlements to share and option plans).

⁵ During 2012 and 2013 CHF 170,000 or 165,000, respectively was paid to one Group Executive Board member for retirement benefits as compensation for forfeited entitlements to share and option plans. He was awarded a total amount of CHF 500,000 spread over 2012-2014.

⁶ In 2012, CHF 80,000 was paid to one retired Group Executive Board member for advisory services in respect of support for the interim solution.

The compensation paid to the Group Executive Board consists of a basic salary settled in cash, a variable performance-related share of profits settled in cash and equity shares as well as non-cash benefits and additional benefits (primarily company car) as well as pension benefits. In addition, the Board of Directors may recognise exceptional individual performance by means of a discretionary premium settled in cash or shares. The variable performance-related share of profits is fixed in the subsequent year once the consolidated financial statements are available on the basis of the targets fixed in the year under review and is paid out in April of the same subsequent year. During the reporting period, the system of compensation payable to the Executive Board was amended. It

was further adjusted by the requirement to hold a minimum number of equity shares. In order to support this minimum shareholding requirement, members of the Executive Board have now the possibility to draw a higher portion than previously of their variable performance-related compensation in the form of equity shares. A minimum of 25% of the variable performance-related share of compensation must be paid out in Swisscom shares. The Executive Board members now have the option of increasing this share up to a maximum of 50%. The remaining portion of the performance-related compensation is settled in cash. The option with regard to the level of compensation to be drawn in the form of equity shares must be exercised before the end of the reporting period, at the latest in November following the publication of the third quarter's results. In addition, a ceiling of 130% (until now 200%) of the target performance-related share has been set for the payment of the variable performance-related compensation during the reporting period. Two members of the Executive Board receive additionally a certain part of their performance-related compensation fully in the form of equity shares, as a result of which their equity share amounts in total to a minimum of 34% and a maximum of 57%. During the period under review, Urs Schaeppi was awarded an extraordinary individual premium for additional services rendered by him in the function as CEO ad interim. The shares are allocated on the basis of their value accepted for tax purposes, rounded up to the next whole number of shares, and may not be sold during a three-year period. The share-based compensation for the reporting period is augmented by a factor of 1.19 in order to take account of the difference between the market value and the tax value. The market value is determined as of the date of allocation. Shares in respect of the current year are allocated in April 2014.

In April 2013, the Executive Board members in office in the prior year were allocated a total of 2,707 shares in respect of the 2012 financial year (2011: 3,170 shares) with a tax value of CHF 371 (2011: CHF 310) per share. The market value was CHF 442 (2011: CHF 361). With regards to the disclosure of service rendered and non-cash benefits as well as expenses, these are dealt with from a tax point of view. Of the services rendered and non-cash benefits reported, only a share of the use of a company car is thus included in the reported compensation. Out-of-pocket expenses are reimbursed on a lump-sum basis in accordance with expense reimbursement rules approved by the Tax Authorities and other expenses are reimbursed on an actual cost basis. They are not included in the reported remuneration. Reported pension benefits (amounts which give rise to or increase pension entitlements) encompass all savings, guarantee and risk contributions paid by the employer to the pension plan. Included therein is also the premium for complementary death benefit risk insurance contracted for executives in Switzerland.

All compensation was accrued in accordance with the International Financial Reporting Standards (IFRS). During the reporting period, two members left the Executive Board. The highest compensation during the current financial year was paid to Urs Schaeppi, CEO ad interim until his election as CEO in November and, in the prior year, to Carsten Schloter in his capacity as CEO Swisscom Ltd. Swisscom has granted no sureties, guarantees or pledges in favour of third parties or other collateral to any of the persons impacted by the disclosure requirement. During the current reporting period, no compensation was paid to former members of the Group Executive Board in connection with their earlier activities as a member of a governing body of the Company and/or which is not at arm's length.

Payments to related parties

Related parties are spouses and common-law spouses, close relatives who are financially dependent on the member of the governing body or live in the same household, other persons who are financially dependent on such individuals as well as partnerships or corporate entities that are controlled by the member of the governing body or over which the member of the governing body exercises a significant influence. Parents, siblings and children are also considered to be related parties. During the reporting period, no payments were made to individuals who are closely related to any member of the Board of Directors or the Group Executive Board which are not at arm's length.

Loans and credits granted

Swisscom has granted no sureties, loans, advances and credits to present or former members of the Board of Directors and the Group Executive Board as well as parties related thereto. It has not waived any rights to amounts due from such individuals.

Further information

Further information on compensation paid to management is set out in the Remuneration Report on page 137.

14 Shareholdings of the members of the Board of Directors and the Group Executive Board

The table below discloses the number of restricted and non-restricted shares held by the members of the Board of Directors and the Group Executive Board and as well as individuals related to them as of 31 December 2013 and 2012.

Number	31.12.2013	31.12.2012
Hansueli Loosli	1,335	915
Barbara Frei ¹	283	151
Hugo Gerber	1,020	888
Michel Gobet	1,387	1,255
Torsten G. Kreindl	1,061	899
Catherine Mühlemann	1,010	878
Richard Roy	1,269	1,087
Theophil Schlatter	711	518
Hans Werder	688	506
Total shares of the members of the Group Executive Board	8,764	7,097

¹ Resigned as of 4 April 2012.

Number	31.12.2013	31.12.2012
Urs Schaeppi (CEO) ¹	1,716	1,441
Mario Rossi ²	383	–
Hans C. Werner	257	49
Andreas König ³	170	–
Total shares of the members of the Board of Directors	2,526	1,490

¹ From 23 July to 6 November 2013 CEO ad interim and from 7 November 2013 CEO.

² Entered as of 1 January 2013.

³ Entered as of 1 October 2012.

No share of the voting rights of any person required to make disclosure thereof exceeds 0.1% of the share capital.

Proposed appropriation of retained earnings

Proposal of the Board of Directors

The Board of Directors proposes to the Annual General Meeting of Shareholders to be held on 7 April 2014 that the retained earnings of CHF 4,170 million as of 31 December 2013 shall be appropriated as follows:

In CHF million	31.12.2013
Appropriation of retained earnings	
Balance carried forward from prior year	3,931
Net income for the year	239
Total retained earnings	4,170
Ordinary dividend of CHF 22.00 per share to 51,801,141 shares in total ¹	(1,140)
Balance to be carried forward	3,030

¹ Excluding treasury shares.

In the event that the proposal is approved, a dividend per share will be paid to shareholders on 14 April 2014 as follows:

Per registered share	CHF
Ordinary dividend, gross	22.00
Less 35% withholding tax	(7.70)
Net dividend paid	14.30

Report of the Statutory Auditor

Report of the Statutory Auditor on the Financial Statements to the General Meeting of Shareholders of Swisscom Ltd, Ittigen (Berne)

Report of the Statutory Auditor on the Financial Statements

As statutory auditor, we have audited the accompanying financial statements on pages 224 to 233 of Swisscom Ltd, which comprise the income statement, balance sheet and notes for the year ended 31 December 2013.

Board of Directors' Responsibility

The board of directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The board of directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2013 comply with Swiss law and the company's articles of incorporation.

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the board of directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

KPMG AG

Rolf Hauenstein
Licensed Audit Expert
Auditor in Charge

Daniel Haas
Licensed Audit Expert

Gümligen-Berne, 5 February 2014