Management Commentary

Offering the best in quality and service to our customers.

Reporting structure

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Environment, strategy and organisation

Swisscom is Switzerland's leading telecom provider and has built up a strong position in the Italian market through its subsidiary Fastweb. Swisscom is an aggressive player, operating in a dynamic marketplace and competing against an ever-increasing number of global service providers. It is totally committed to meeting customer needs and delivering quality and service, and is also investing heavily the networks of the future.

Business activities

Company profile

Swisscom is the Swiss market leader in the field of telecommunications. It is also one of the biggest stock-exchange-listed companies in Switzerland and is listed on the country's leading Swiss Market Index (SMI). Since acquiring Fastweb in 2007, Swisscom's international activities have been concentrated mainly in Italy. Fastweb is one of Italy's largest broadband telecoms companies. Swisscom's majority shareholder with a stake of 51.2% is the Swiss Confederation, which by law must hold a majority of the capital and voting rights. Swisscom's corporate strategy is focused on strengthening the company's core business, which relies on a high-performance, secure and always-available infrastructure. Swisscom is also looking to grow, by offering differentiated products and services and by increasing the use of ICT. Major investments in network infrastructure ensure that Swisscom will continue to satisfy customer needs well into the future. Sustainable management and long-term responsibility are firmly enshrined in the company's corporate culture. Swisscom owes its business success to the dedication and commitment of a 20,000-strong workforce, which continually strives to develop new solutions for customers and the information society. Swisscom continuously invests in staff training and development, and is training more than 900 apprentices in Switzerland.

See
www.swisscom.ch

Net revenue
Switzerland accounts for

82 % of net revenue

Operating income before depreciation and amortisation (EBITDA)
Switzerland accounts for

86 % of EBITDA

Swisscom generates over 80% of its net revenue and operating income before depreciation and amortisation (EBITDA) from business operations in Switzerland. The company offers a full portfolio of products and services for fixed-line telephony, broadband, mobile communications and digital television throughout Switzerland, and is mandated by the federal government to make basic telecoms services available to all sections of the population throughout Switzerland. Swisscom offers corporate customers a comprehensive range of communications solutions as well as individually tailored solutions. Swisscom is also a leading provider specialising in the integration and operation of IT systems in the fields of outsourcing, workplace, SAP and finance services. Customers can purchase their products and services via a range of sales channels. They can check out products and services first hand and receive comprehensive advice in Swisscom's own shops as well as in numerous partner outlets. They can also obtain product information and order products and services at anytime online via the Swisscom website. In the digital customer centre, which is also accessible via the Internet, customers can manage their personal details, subscriptions and bills on their own. Swisscom fosters close ties with all stakeholder groups: shareholders, investors, employees, suppliers, the general public, public authorities and, above all, its customers. It has long been committed to its Swiss roots and endeavours to ensure that all citizens benefit from leading-edge technologies. This is reflected in Swisscom's solution-oriented approach, which is geared to serving the common good as well as the interests of the company.

Swisscom brand

In Switzerland, all core-business products and services are offered under the Swisscom brand. Outside Switzerland, notably in Italy, Swisscom operates under the Fastweb brand. Swisscom also operates under a range of other brands in related business fields.

Swisscom Ltd

Swisscom Switzerland

Fastweb

Swisscom IT Services

Group Related Businesses

Others

Swisscom has consistently pursued a strategy of growing the Swisscom brand from a telecoms and IT brand to an integrated brand positioned more broadly to cover the entire spectrum of telecoms, IT, media and entertainment. The success of Swisscom TV in particular has confirmed the Swisscom brand's competence in the field of digital entertainment. New products such as the iO app have enabled Swisscom to further strengthen the innovative character of the brand, which is now firmly established as a trusted companion for customers in a rapidly changing digital world and conveys the company's strong competence in the field of ICT.
Customer surveys show that the Swisscom brand is among the most trustworthy of Swiss brands. It is perceived as authentic, reliable and of a high quality, is firmly anchored among consumers and scores by far the highest ratings in the "top of mind" survey, well ahead of the competition. The brand's strength was once again confirmed in the year under review in a comparison of leading Swiss brands. According to the Interbrand "Best Swiss Brands 2013" study, the value of the Swisscom brand has increased by some CHF 0.2 billion to CHF 5.0 billion, putting it in sixth place on the list of Switzerland's most valuable brands.
The traditional cornerstones of the Swisscom brand are quality, trust and service. Swisscom's daily contact with customers and its commitment to sustainability, which it honours continuously through numerous initiatives and activities, featured again as themes in the company's communications in 2013 and served to enrich the brand's image.

Swisscom's network infrastructure

Network infrastructure in Switzerland

Switzerland has one of the best IT and telecoms infrastructures in the world. According to an OECD study, Switzerland leads the world in terms of broadband penetration (43.4%), ahead of the Netherlands and Denmark (source: OECD Broadband Portal, July 2013). In mobile communications, broadband coverage now extends to practically the entire population, making Swisscom the biggest network operator in Switzerland by far, both in the fixed and mobile network.
The fixed network comprises two levels: an access network and a transport network. The access network consists of over 1,500 local exchanges and around 3.4 million subscriber access lines to end customers. Swisscom started many years ago to upgrade the fixed network with fibre. In a first step, fibre-optic cables were laid between the local exchanges, from where they were extended to neighbourhood cabinets (FTTC – Fibre to the Curb). Most subscriber access lines consist of copper cables. Depending on the underlying technology, over 91% of households and businesses can receive Swisscom TV, over 85% in high-definition quality. Many large companies and office complexes have enjoyed fibre connections for some years now. Since autumn 2008, Swisscom has been extending access to residential customers (Fibre to the Home, FTTH) and to small and medium-sized enterprises. By the end of 2013, some 750,000 homes and businesses were connected with FTTH. This figure is set to rise to around a million or around a third of all households in Switzerland by the end of 2015. FTTH rollout is generally carried out in conjunction with local partners – mainly power utility companies, cable network providers or municipalities. Swisscom has concluded over 20 partnership agreements to date which in many cases have been contractually committed.

Mobile data traffic is increasing every year.
Compared with the previous year,
data volume grew by

116 %

Investments in enhancing performance and security in the Swiss infrastructure and in fibre-optic network expansion
totalled

1.7 billion Swiss francs

Additional partnership agreements were signed in 2013 and further agreements are at an advanced stage. In addition to investing in FTTH, work is under way, laying fibre-optic cables to within a short distance of individual homes and businesses using the new Fibre to the Street (FTTS) technology. The use of vectoring technology as an intermediate step is expected to almost double network performance from 2014, enabling the rapid and cost-effective nationwide rollout of ultra-fast broadband.

In mobile communications, Swisscom has access to a frequency spectrum covering all common frequency bands between 800 MHz and 2,600 MHz, so that over the longer term it will be able to deploy GSM, UMTS and LTE technology as and when the need arises. All mobile frequencies for the period up to the end of 2028 were newly allocated or allocated for the first time in an auction conducted in February 2012. As a result of the auction, Swisscom now has access to 42% of the entire mobile spectrum. It has also equipped all of its sites with mobile antennas using second- or third-generation technologies such as EDGE, UMTS or HSPA/HSPA+. And in 2012, Swisscom became the first mobile provider in Switzerland to launch fourth-generation LTE technology on a commercial basis. Swisscom will be able to use LTE (which supports high bandwidths) as a future alternative to the fixed network in more remote-lying areas. By the end of 2013, Swisscom had already extended LTE coverage to 85% of the Swiss population, and nearly a million Swisscom customers were regularly using the new high-speed LTE network. LTE penetration now stands at 15%.

See **www.swisscom.ch/networkcoverage**

Data traffic throughout the mobile network is doubling practically every 12 months, compared with 16 months in the fixed network. The volume of data in the fixed network, however, is 35 times greater than in the mobile network.

Swisscom is continually expanding its broadband network, extending the product range and increasing the number of antenna sites. Swisscom is committed to deploying modern, needs-appropriate technologies in order to ensure efficiency and compliance with contemporary zoning requirements while also minimising emissions. Swisscom's rollout of LTE technology marks a further important step into the future. Wherever possible, site expansion is coordinated with third-party mobile providers; Swisscom already shares around 22% of its nearly 6,800 antenna sites with other providers. And with over 2,000 hotspots in Switzerland, Swisscom is also the country's leading provider of public wireless local area networks.

In a bid to improve efficiency, Swisscom is not only investing in latest-generation networks but also systematically dismantling earlier-generation networks.

Network infrastructure in Italy

Fastweb's network infrastructure consists of an all-IP fibre-optic network spanning a total distance of over 36,000 kilometres. Fastweb reaches more than half of the Italian population with its own fixed-network infrastructure, with more than two million or 10% of urban households and businesses connected by Fibre to the Home (FTTH). Fastweb plans to expand its fixed-network infrastructure by an additional three and half million households and businesses. Under a partnership agreement with Telecom Italia, Fastweb intends to invest around EUR 400 million in fibre-optic expansion up to the end of 2016. This will be done by rolling out Fibre to the Street (FTTS) so as to provide some 20% of homes and businesses in Italy with access to ultra-fast broadband by the end of 2016.

Fastweb does have not a mobile network of its own, but offers proprietary services based on an agreement with other mobile operators (MVNO).

General conditions

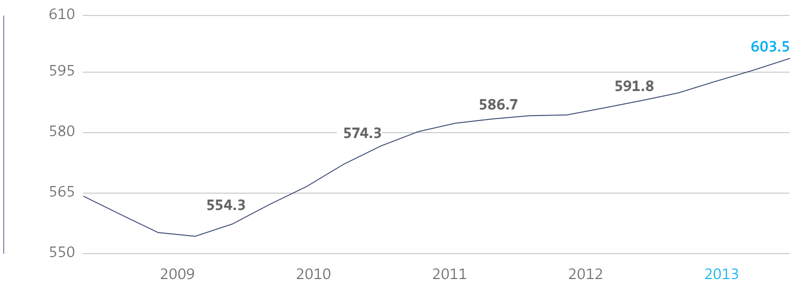
Macroeconomic environment

Swisscom's financial position, results of operations and cash flows are primarily influenced by macroeconomic factors, notably economic trends, interest rates, exchange rates and the capital markets.

Economy

Switzerland enjoyed robust economic growth in 2013, thanks in large measure to strong domestic demand. Gross domestic product (GDP) rose by 2%. Despite modest improvement in the economic situation in Europe and an easing of the financial crisis, there is still the risk of a phase of sluggish growth or even a recession setting in.

Gross domestic product Switzerland, rolling in CHF billion

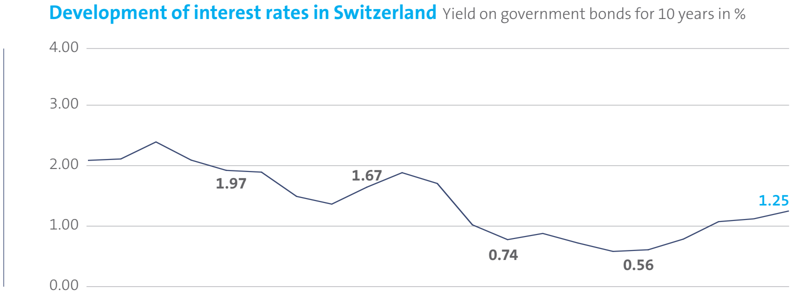


The bulk of Swisscom's revenue stems from telephony, broadband services and television – services based on fixed monthly fees and subject to low cyclical fluctuations in demand. By contrast, project business with business customers and international roaming are affected by cyclical factors.

Interest rates

For many years, the general level of interest rates in Switzerland has been lower than in most other industrialised countries. The main national banks adhered to their low-interest policy and interest rates edged up slightly in 2013. The yield on ten-year government bonds at the end of 2013 was around 1.25%.

Development of interest rates in Switzerland Yield on government bonds for 10 years in %

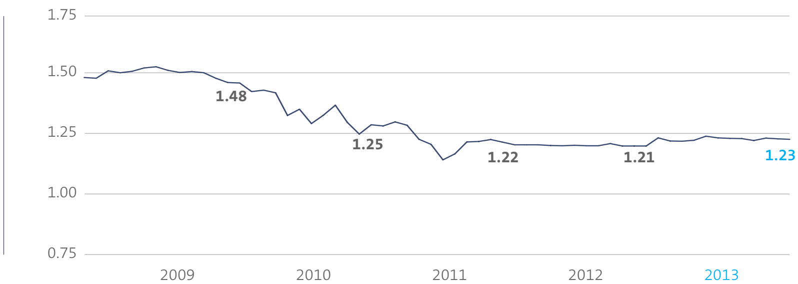


Swisscom capitalised again in 2013 on the low-interest phase by entering into two financing transactions: in the third quarter of 2013, Swisscom took out a loan of EUR 300 million with the European Investment Bank (EIB) and a debenture bond of EUR 500 million. Average interest expense on financial liabilities is 2.4%, and average term to maturity four years. Market-based interest rates influence the financial result as well as the measurement of various items in the Swisscom consolidated financial statements, such as goodwill impairment (Fastweb), defined benefit obligations and non-current provisions for dismantlement and restoration costs. Interest levels also have a material impact on returns and thus on the financial situation of the Swisscom pension fund.

Exchange rates

There was only a minimal change in the value of the Swiss franc against currencies of key relevance for Swisscom's operations in 2013. The Swiss National Bank (SNB) adhered to the minimum CHF/EUR exchange rate of 1.20.

Development of exchange rate at the end of period CHF/EUR



Swisscom's business activities in Switzerland are not materially influenced by currency movements. Only a small share of revenue is generated in foreign currencies. The procurement of handsets and technical equipment as well as the incurring of roaming charges for the use of fixed and mobile networks abroad by Swisscom customers give rise to transaction risks in foreign currencies (notably EUR and USD). These risks are partly hedged by forward foreign exchange transactions. Swisscom finances itself primarily in Swiss francs. At the end of 2013, financial liabilities amounted to CHF 8.8 billion, of which 89% in CHF and 11% in EUR. Currency translations in respect of foreign Group companies, in particular Fastweb in Italy, affect the presentation of the financial position and results of operations in the consolidated financial statements. Cumulative currency translation differences in respect of foreign subsidiaries recognised in consolidated equity amounted before deduction of tax effects to around CHF 1.9 billion in 2013 (previous year: around CHF 2.0 billion).

Capital market

International equity markets performed positively in 2013. The SMI rose by around 20%. Swisscom holds surplus liquidity in the form of cash and cash equivalents and short-term money-market investments. There are only insignificant direct financial investments in equities, bonds or other non-current financial assets. Swisscom's legally independent pension fund comPlan has total assets invested in equities, bonds and other investment categories of around CHF 8.3 billion. These assets are exposed to capital market risks. This indirectly affects the financial position presented in Swisscom's consolidated financial statements.

See **www.swisscom.ch/investor**

Legal and regulatory environment

Swisscom's legal framework

Swisscom is a public limited company with special status under Swiss law. It is organised in compliance with the Telecommunications Enterprise Act (TEA), company law and the company's Articles of Incorporation. Its business operations are governed primarily by telecommunications and broadcasting legislation. Swisscom is also subject to rules governing business as a whole, namely competition law. As an stock-exchange-listed company, Swisscom is also required to comply with capital market legislation as well as with the Federal Ordinance of 20 November 2013 against Excessive Compensation in Listed Stock Companies.

Telecommunications Enterprise Act (TEA) and relationship with the Swiss Confederation

As of 1 January 1998 the former operations of Swiss Telecom PTT were legally transformed into "Swiss Post" and "Swisscom Ltd" (hence the term "public limited company with special status"). Under the terms of the TEA and the company's Articles of Incorporation, Swisscom is responsible for the provision of domestic and international telecommunications and broadcast services as well as related products and services. The TEA requires the Swiss Confederation to hold a majority of the capital and voting rights in Swisscom. For the Swiss Confederation to give up its majority shareholding, the TEA would need to be amended. Swisscom is also obliged to draw up a collective employment agreement in consultation with the employee associations. Moreover, every four years the Federal Council defines the goals which the Confederation as principal shareholder aims to achieve. These include strategic, financial and personnel policy goals as well as goals relating to partnerships and investments. To guarantee transparency the goals are made public to other investors. The aims of the Confederation are incorporated in the strategic and operating targets set by the Swisscom Board of Directors. For the year under review, the goals for the period 2010 to 2013 are relevant. The Federal Council has renewed its goals for the period 2014 to 2017 and set Swisscom the following financial goals:

- Increase enterprise value over the long term and deliver a total shareholder return (dividend payout and share performance) in line with that of comparable telecoms companies in Europe.
- Pursue a dividend policy that follows the principle of consistency and guarantees an attractive dividend yield commensurate with other stock-exchange-listed companies in Switzerland. This should meet the criteria of a sustainable investment policy, a risk-appropriate equity ratio and easy access at all times to capital markets.
- Aim for a maximum net debt of 2.1 times EBITDA (operating income before depreciation and amortisation); this ratio may be temporarily exceeded.

See **www.admin.ch/dokumentation**

Telecommunications Act (TCA)

The Telecommunications Act governs the conditions under which market-dominant providers of telecoms services are required to make their network available to other providers. The Act covers a comprehensive catalogue of access types and in the area of the "last mile" is restricted to copper cables. The access services cited in the Act must be offered at regulated conditions and above all at cost-based prices. In addition to network access, the Act governs universal service provision, laying down the framework for the reliable and affordable provision of basic telecommunications to all sections of the population in all regions of the country. The scope of services as well as the related quality and pricing requirements are determined periodically by the Federal Council. The universal service provision licence granted to Swisscom in 2007 by the Federal Communications Commission (ComCom) runs until 2017. The Telecommunications Act also governs conditions for use of the radio frequency spectrum.

See **www.admin.ch/dokumentation**

Competition law/Federal Cartel Act

The Cartel Act prohibits anti-competitive agreements between companies, provides for sanctions in the event of abuse by companies of their market-dominant position, and prohibits business combinations that result in the elimination of competition. Discrimination of trading partners with respect to prices or other business conditions is considered to be an example of abuse.

See **www.admin.ch/dokumentation**

Capital market law

The shares of Swisscom Ltd are listed on the SIX Swiss Exchange in Zurich. In addition, Swisscom has issued bonds which are traded on the SIX Swiss Exchange. Swisscom is therefore required to comply with Swiss stock market legislation and regulations. The company is also subject to regulations governing accounting and financial reporting as well as rules relating to ad-hoc publicity and the disclosure of transactions in Swisscom securities by members of the Board of Directors and the Group Executive Board. Shareholdings in Swisscom must also be disclosed if they exceed or fall below a certain limit.

Ordinance Against Excessive Compensation in Listed Stock Companies (OaEC)

The OaEC enters into force on 1 January 2014 and provides for the implementation of transitional provisions. From 1 January 2014, members of the Board of Directors (including the Chairman) as well as members of the Compensation Committee and the independent proxy must be elected on an annual basis by the Annual General Meeting for a one-year term of office. Voting representation by governing bodies and/or custodians is not permitted. It is also prohibited to award severance payments, advance compensation and bonus payments for company acquisitions and disposals. The Board of Directors must undertake to draw up a compensation report, in writing, for financial years starting on or after 1 January 2014. Shareholders must vote on total compensation for the Board of Directors and the Group Executive Board starting from the 2015 Annual General Meeting at the latest. In addition, companies must ensure that powers of attorney and instructions can also be assigned electronically to the independent proxies. The Articles of Incorporation and regulations must be revised in line with the provisions of the Ordinance by no later than the 2015 Annual General Meeting. The Ordinance stipulates certain types of abuse that constitute an offence punishable by law.

Regulatory developments in Switzerland in 2013

Ongoing proceedings relating to telecommunications and competition legislation

See Report
pages 199–200

In recent years, a number of proceedings relating to telecommunications and competition law have been initiated against Swisscom. Ongoing proceedings in connection with the Telecommunications Act and Cartel Act are described in Notes 28 and 29 to the consolidated financial statements.

Telecommunications market evaluation

In 2012, the Federal Council published a follow-up report to its 2010 telecoms market evaluation, in which it concluded among things that, despite an observable investment dynamic, there are indications of local competition issues or the emergence of a monopoly situation. The Federal Council announced that it would commission the Administration to prepare a draft revision of the Telecommunications Act before the end of the current legislative period (2011–2015). The revision should provide for a more flexible regulatory framework than today which would permit intervention by the regulator as needed. One conceivable option is the introduction of technology-neutral regulatory instruments at legislative level which would only be enacted by the Federal Council for the technologies in question, should the need for regulatory intervention arise, for example if competition in the market failed to function properly.

Revision of the Ordinance on Telecommunications Services (OTS)

On 17 April 2013, the Department of the Environment, Transport, Energy and Communications (DETEC) opened a hearing on the revision of the Ordinance on Telecommunications Services (OTS revision). The revision is intended to amend the methods used to calculate cost-based prices for network access services, which are regulated by the Telecommunications Act (TCA).

Roaming

On 20 September 2011, contrary to the Federal Council's proposal, the National Council approved the motion calling for "an end to exorbitant mobile charges abroad". A similar motion was passed in spring 2013. The motion calls for the Federal Council to fix binding maximum tariffs to be adopted by all telecoms providers for inbound and outbound calls, SMS messages and data transfers over mobile devices when used abroad, in line with the requirements imposed by the European Union. Following consultation with the operators, the Council of States decided on 19 March 2013 to suspend the motions until the end of 2014 and to commission the Federal Council to deliver a report to parliament by the end of 2014 on the trend in roaming prices and, in particular, the new technical possibilities such as local breakout (the ability to switch temporarily to a local provider abroad without having to exchange the SIM card and the phone number). On 17 September 2013, the National Council also spoke out in favour of suspending the motions.

Network neutrality

A motion put before the National Council on 14 December 2012 called for the legal enforcement of network neutrality. The rationale behind the initiative is that network operators can deploy new technologies at their own discretion and so discriminate against content, thereby posing a threat to freedom of opinion and information. On 13 February 2013, the Federal Council proposed that the motion be rejected and pointed out that it was intending during the current legislative period to commission a draft consultation paper calling for a partial revision of the Telecommunications Act which includes proposals on the issue of network neutrality. In autumn 2013, the Federal Office of Communications (OFCOM) set up a network neutrality workgroup tasked with drawing up a report by the summer of 2014.

Copyright protection – tariff proceedings

In tariff negotiations with the copyright collecting agencies, Swisscom is represented by Swissstream, the Swiss association of streaming providers. Swisscom is particularly interested in the Joint tariff 12 and the Joint tariff 4 e proceedings due to be dealt with in 2013.
Joint tariff 12 for the recording of TV programmes and replay TV is of vital importance to Swisscom. The Federal Arbitration Board responsible for exploitation of copyrights and related intellectual property rights approved this tariff in a ruling issued on 17 December 2012. The ProsiebenSat1 Group has lodged an appeal against the decision with the Federal Administrative Court.
The copyright collecting agencies have been negotiating with the user associations on Joint tariff 4 e for the storage of copyright-protected works on mobile phones since 2009. Both the user associations and the collecting agencies filed appeals with the Federal Administrative Court against

the rulings of the Federal Arbitration Board concerning the disputed tariffs for the tariff periods 2010–2011 and 2012–2013. Further tariff negotiations on the matter have been suspended until such time as the Federal Administrative Court reaches a decision.

Revision of the Federal Law on the Monitoring of Postal and Telecommunications Traffic (BÜPF)

On 27 February 2013, the Federal Council submitted to parliament its message proposing a revision of the BÜPF. The aim of the revision is to ensure that the required monitoring cannot be prevented through the use of modern technologies. The current fee and payment model would be retained. The matter is still being debated in parliament.

Regulatory differences between Switzerland and the European Union

In the European Union (EU), the regulatory authorities have extensive powers to analyse markets and impose on market-dominant companies obligations relating to non-discrimination, transparency and forms of access ("ex-ante regulation"). The Swiss regulator has rejected this type of practice, opting instead for ex-post regulation (primacy of negotiation and appeal principle) on the grounds that market conditions in Switzerland differ from those in most EU member states. The Swiss market is characterised by virtually nationwide competition between Swisscom and the cable network operators. Moreover, municipal and regional power utility companies have also entered the market. The market situation prevailing in Switzerland therefore necessitates a different set of regulations from those in place in countries such as France and Italy, where no platform competition has evolved due largely to the existence of a single network provider.

Legal and regulatory environment in Italy

Fastweb's legal framework

As a member of the European Union, Italy is required to bring national legislation into line with the European legislative framework. The Italian regulatory authority Autorità per le Garanzie nelle Comunicazioni (AGCOM) has the task, based on an analysis of the markets defined by the European Commission, of imposing regulatory obligations on companies. Drafts of such regulations must be submitted to the European Commission and the regulatory authorities of the other member states, who have the right to comment on or veto the draft. The business operations of Swisscom's Italian subsidiary Fastweb are therefore heavily influenced by Italian and European telecommunication legislation and its application.

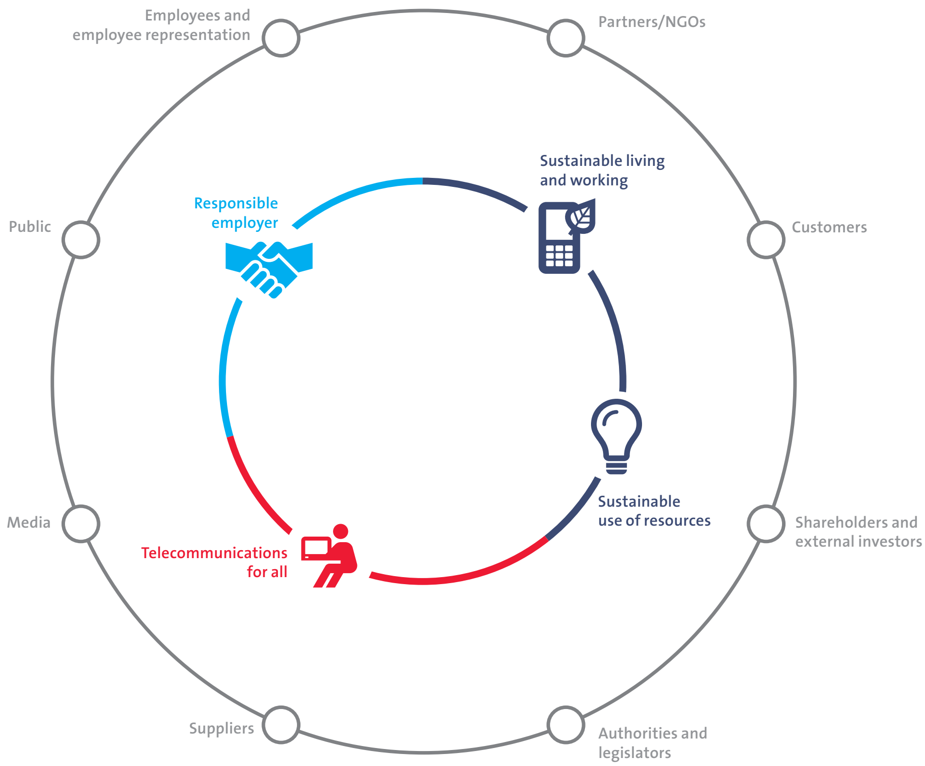
Regulatory developments in Italy in 2013

In December 2013, AGCOM agreed to a reduction in prices for unbundled fixed access lines and bitrate services from EUR 9.28 to EUR 8.68 and from EUR 19.50 to EUR 15.14 respectively.

In 2011, the Italian regulatory authority AGCOM issued a ruling to the effect that fixed-line termination rates between Telecom Italia and third-party fixed-network providers were to be billed symmetrically from 1 January 2012. The Administrative Court reversed the decision on the grounds that in 2012 no symmetry existed as yet in the IP-based network architectures. As a consequence, AGCOM decreed an increase of 33% in fixed-line termination rates for third-party networks to EUR/cent 0.361 per minute for 2012, thereafter falling in stages from July 2013 based on the model of an efficient IP architecture. AGCOM is aiming for a price of EUR/cent 0.043 per minute as from 1 July 2015.

Sustainable environment

Dialogue with stakeholder groups and strategic priorities



Swisscom fosters dialogue with its most important stakeholder groups via electronic media, over the phone, through surveys, information events, business meetings, road shows and conferences, as well as in customers' homes and in the Swisscom Shops. In 2013 – as in previous years – Swisscom took note of the concerns of the various stakeholder groups, prioritising them and among other things incorporating them into its corporate responsibility strategy.
Stakeholder management at Swisscom is decentralised in order to ensure proximity and ongoing contact with the individual stakeholder groups.

Customers
Swisscom systematically consults residential customers in order to identify their needs. Customer relationship managers, for example, gather information on customer needs directly at customer touch points. The Corporate Business division conducts quarterly surveys that include questions on sustainability. Swisscom also maintains regular contact with consumer organisations in all linguistic regions of Switzerland and runs blogs as well as online discussion platforms. The overall findings show that customers expect attractive pricing, market transparency, responsible marketing, comprehensive network coverage, network stability, low-radiation communication technologies and sustainable products and services.

See
www.swisscom.ch/crblog

Shareholders and external investors
Besides the Annual General Meeting, Swisscom fosters dialogue with shareholders at analysts' presentations, road shows and in regular teleconferences. Over the years, it has also built up contacts with numerous external investors and rating agencies. Shareholders and external investors expect above all growth, profitability and innovation from Swisscom.

Authorities
Swisscom maintains regular, close contact with various public authorities. A key issue in its dealings with this stakeholder group concerns mobile network expansion. Mobile data applications are becoming increasingly popular with customers. But while mobile communications are clearly

appreciated and widely used, acceptance of the required infrastructure is sometimes lacking. Network expansion gives rise to tension because of the different interests at stake. For many years, Swisscom has been engaged in dialogue with residents and municipalities on network planning, which in the case of construction projects gives the parties affected an opportunity to suggest suitable alternative locations. Swisscom also liaises regularly with public authorities in other areas and on other occasions: for example, it invites ICT heads of the cantonal education authorities to an annual two-day seminar on the subject of "Internet for Schools". As a stakeholder group, public authorities expect Swisscom to act decisively in the way it recognises its responsibility towards the public at large and towards young people in particular.

Legislators

Swisscom is required to deal with political and regulatory issues, advocating the company's interests vis-à-vis political parties, public authorities and associations. Legislators expect compliance from Swisscom.

Suppliers

See **www.swisscom.ch/supplierawards**

Swisscom's procurement organisations regularly deal with suppliers and supplier relationships, analysing the results of evaluations, formulating targets and reviewing performance. Once a year, they invite their main suppliers to the Key Supplier Day. The focus of the event is on risk mitigation and responsibility in the supply chain.

Media

Swisscom maintains close contact with the media – seven days a week. Its relationship with the media is informed by professional journalistic principles.

Employees and employee representation

In order to meet its mandate and live up to its customer promise, Swisscom relies on fully-committed employees who think and act proactively. It is our employees who transform Swisscom into a tangible experience for customers. Engaging in dialogue with customers and ensuring that the information gathered at the customer interfaces flows back to the company and into the decision-making processes allow Swisscom to continually improve its products and services. Using a wide range of communications platforms and activities, Swisscom promotes a corporate culture that encourages dialogue and cross-collaboration within the company. Every two years, Swisscom conducts an employee survey, the results of which provide ideas for new projects and measures. Helping to shape Swisscom's future is one of the most important tasks of the Employee Representation Committee. Twice a year, Swisscom organises a round-table meeting with the employee representatives to discuss the main issues of social partnership, training and development, diversity, health and safety at work.

Partners and NGOs

See **www.swisscom.ch/cr-partnerships**

Swisscom believes in the importance of sharing insights and information with partners within the framework of projects: for example, with the WWF Climate Group, myclimate, the Swiss Child Protection Foundation and organisations that address the special needs of disadvantaged groups. Active partnerships and social and ecological commitment are especially relevant for this stakeholder group.

Materiality/materiality matrix

See Report **pages 76–77**

The materiality matrix covers the key issues that are important to stakeholders and Swisscom, and illustrates where they fall within the company's four strategic priorities in the area of corporate responsibility. The matrix also denotes other issues that have an impact on Swisscom's business strategy.

Swisscom carefully monitors each issue in the matrix and handles them according to priority. Those with the highest priority and of major relevance to both stakeholders and Swisscom are positioned in the top right-hand box. Other topics such as noise, water protection, wildlife conservation, violence and population growth are important from an ecological and social point of view, but are not pivotal to Swisscom's activities.

The issues can be identified based on their relevance to Swisscom's business strategy and the concerns of stakeholders. They are examined and dealt with internally according to level of importance and scope either by specialist departments or by those bodies that act as contact partners for the respective stakeholders. The issues are also discussed by other bodies such as division management, the Management Board of Swisscom Switzerland and the Group Executive Board. If neces-

sary, these bodies initiate the appropriate measures. The matrix topics and priorities were validated by representative target groups in a survey conducted in October 2013. Government authorities, partners and NGOs such as the WWF and myclimate commented on ecological aspects, while the Swiss association for audiovisual learning (SSAB) and the Federal Social Insurance Office (FSIO), which are jointly responsible for the National Programme for the Promotion of Media Skills, commented on social aspects. The survey concluded that Swisscom should promote climate-friendly products and services even more strongly, since they are able to make a substantial contribution to combating climate change. These findings are also confirmed by the most recent study of the International Global e-Sustainability Initiative (GeSI smarter 2020) as well as Swisscom's latest evaluation. The topic of climate-friendly products and services is therefore classified as highly relevant within the matrix.
Issues highlighted by the FSIO and SSAB surveys, such as the shortage of specialist staff and generation management, have also been incorporated in Swisscom's materiality matrix under diversity and personnel training and development. There is consensus as regards the rating accorded to the other issues. The issues are arranged alphabetically within the boxes of the materiality matrix.

Swisscom materiality matrix 2013

Materiality for stakeholders

	relevant	very relevant
very relevant	Basic service provision Health and safety in the workplace Sponsorship/partnerships Youth media protection	Corporate governance/Compliance/Legal and regulatory environment Customer satisfaction Data protection Eco-friendly offerings (products and services) Employee representation and union relations Energy consumption and CO_2-emissions (infrastructure efficiency) Financial position and cash flows Investments and network infrastructure Low-radiation communications technologies Payout policy and share performance Revenues and results (turnover and EBITDA)
relevant	Corporate volunteering Diversity Ecological aspects of operations Promotion of start-ups/social entrepreneurship	Innovation and development Personnel training and development Promoting media competency Responsibility in the supply chain

Materiality for Swisscom

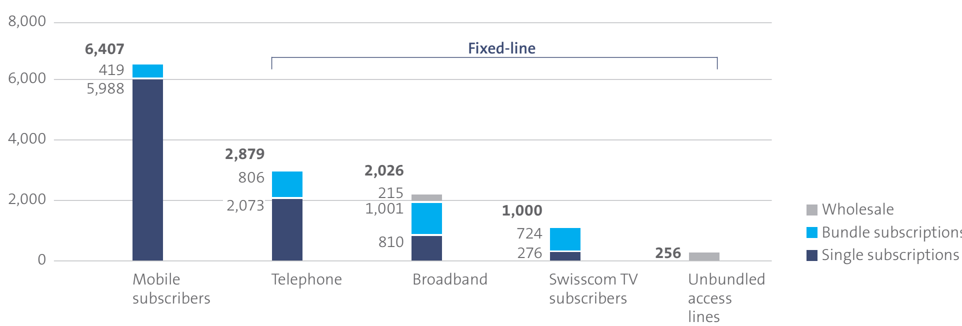
■ Management commentary
■ Corporate governance
■ Corporate responsibility/annex

Market trends in telecoms and IT services

Swiss telecoms market

Switzerland has three mobile networks and several transport and access networks in the fixed network area. TV signals in Switzerland are transmitted terrestrially via antenna as well as satellite. The Swiss telecoms market is highly developed by international standards. It is characterised by innovation, a wide range of voice and data services, and television signal broadcasting. Total revenue generated by the telecoms market in Switzerland is estimated at around CHF 17 billion. The market is in a state of transition, driven by the growing convergence of telecommunications, information technology, media and entertainment. People nowadays can access the Internet from anywhere and at any time using a whole range of devices. The rapid spread of smartphones is changing the needs of customers. Swisscom spotted this trend and in June 2012 was one of the first telecoms providers in the world to introduce new types of mobile subscription (*infinity* tariffs) which allow customers to make unlimited phone calls and send unlimited SMS messages to all Swiss mobile networks, as well as unlimited Internet surfing at flat rates. The individual subscriptions mainly differ in terms of mobile data speeds. As smartphone penetration increases, so too does the volume of data and hence the load on networks. Swisscom is investing continuously in the network infrastructure of the future in order to keep pace with this development. In 2012, Swisscom expanded its mobile frequency portfolio after successfully competing in an auction. Swisscom is also tackling the relentless growth in data traffic by continuously expanding fixed broadband access and deploying new technologies in the mobile network such as LTE (Long Term Evolution). Swisscom also offers bundled offerings that combine different technologies such as fixed-line access with telephony, Internet and TV, plus the option of a mobile line. Competition is continuing to drive down prices. The Swiss telecoms market can be broken down into submarkets of relevance to Swisscom: fixed-line, mobile, broadband and TV.

Swisscom Switzerland access lines in thousand



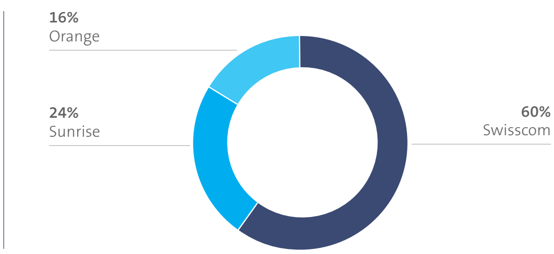
Fixed-line market

Fixed-line telephony is mainly based on lines running over the telephone network and cable networks. Market shares have changed very little over the last few years. Swisscom leads the market, well ahead of its competitors. The spread of mobile telephony in recent years has led to a rapid decline in the number of phone calls made over the fixed network and a continuing fall in Swisscom fixed lines. This trend continued in 2013, with the number of fixed lines falling by around 4% to 2.9 million, mainly due to the substitution of fixed lines by mobile communications. At the end of 2013, the number of unbundled fixed lines totalled 256,000.

Mobile communications market

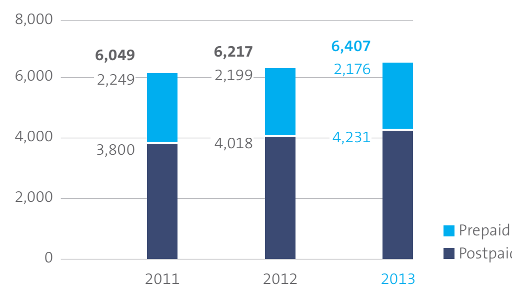
Three companies operate their own wide-area mobile networks in Switzerland: Swisscom, Orange Switzerland and Sunrise. While GSM network coverage is close to 100% of the population, the demands on mobile networks continue to grow. So that it can continue to offer customers optimum data access, Swisscom is investing in new mobile technologies such as LTE. At the end of 2013, some 85% of the Swiss population had access to the latest-generation mobile network. Growth in mobile lines (SIM cards) in Switzerland was slower than in 2012 due to the already high market penetration. Together, the three network operators have a combined total of around 10.5 million mobile lines; penetration in Switzerland is around 130%. The technical possibilities offered by mobile communications are increasing due to the rapid spread of smartphones. A growing number of customers access their data, e-mails and Internet while on the move. Swisscom's *infinity* tariffs reflect customers' changing needs. At the end of 2013, around 1.7 million customers were using the new *infinity* offerings. For occasional mobile network users, Swisscom provides prepaid offerings with no monthly subscription fee, so that they are charged only as and when they access the network. Machine-to-machine (M2M) mobile data is a growth market which in future will support a whole range of applications such as automatic localisation in the event of a vehicle breakdown. Swisscom makes its mobile network available to third-party providers (MVNO, mobile virtual network operators) so that they can offer their customers proprietary products and services over the Swisscom network.

Market shares mobile subscribers in Switzerland* in %



* Estimate Swisscom

Swisscom mobile access lines in thousand

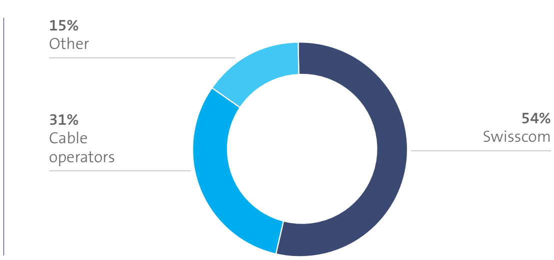


In 2013, Swisscom's market share remained relatively stable at 60%. The percentage of postpaid customers in Switzerland is around 62%. As in previous years, prices for mobile services continued to be squeezed by competition, driving down average monthly revenue per customer accordingly.

Broadband market

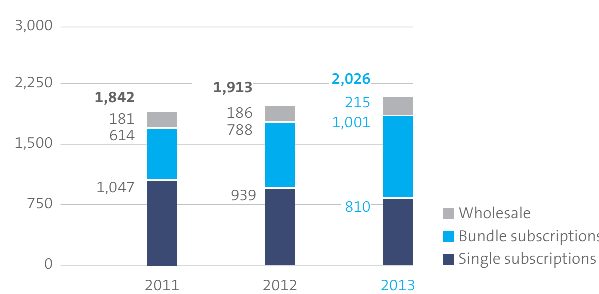
The most widespread access technologies for fixed broadband in Switzerland are the telephone network based on DSL and cable networks. At the end of 2013 the number of retail broadband lines in Switzerland totalled around 3.3 million or around 92% of all households. Switzerland therefore leads the way internationally in terms of market penetration of broadband lines. Swisscom's DSL offerings reach more than 98% of the Swiss population.

Market shares broadband access lines in Switzerland* in %



* Estimate Swisscom

Swisscom Broadband access lines in thousand

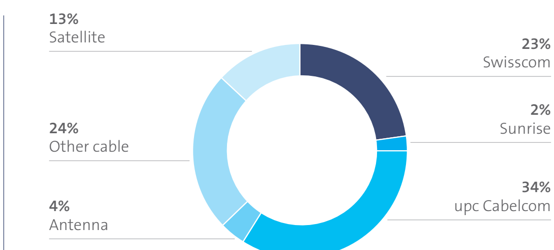


Growth in broadband lines is slowing from year to year. In 2013, the number of lines grew by around 4%, versus around 5% in 2012. As in the previous year, growth in broadband access lines provided by cable network operators outpaced that of telephone-based DSL broadband access lines. DSL broadband accounted for around a third of new lines in 2013, corresponding to a market share of all broadband lines of around 69%. Of these, 54% (prior year: 55%) were Swisscom end customers and 15% (prior year: 16%) wholesale offerings and fully unbundled lines. Broadband is increasingly becoming the basic Internet access for households, through which customers can access additional services or bundled offerings.

TV market

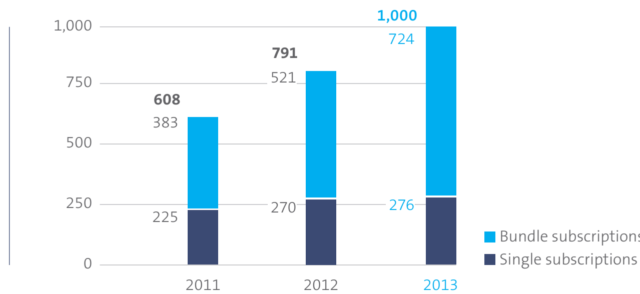
The most important modes of transmission for TV signals in Switzerland are cable, broadband, satellite, antenna (terrestrial) and mobile. The importance and market penetration of digital television continues to grow. In May 2013, the Federal Department of the Environment, Transport, Energy and Communication (DETEC) decided to phase out (in two stages) the obligation to broadcast analogue television signals. As of 1 June 2013, the obligation was lifted for selected foreign TV channels; as of 1 January 2015, the obligation will be lifted for certain domestic TV channels. This will mainly affect cable network operators. If a cable network operator offers customers a free converter which converts the digital signal into an analogue signal, thereby allowing them to receive a comparable basic digital package, the operator is immediately freed from its obligation to broadcast analogue channels. This is already the case with upc cablecom, Switzerland's biggest cable network operator. Cable television, Swisscom TV and satellite reception account for the largest market shares. Sunrise has been offering its own digital television services since 2012.

Market shares digital TV in Switzerland* in %



* Estimate Swisscom

Swisscom TV subscribers in thousand

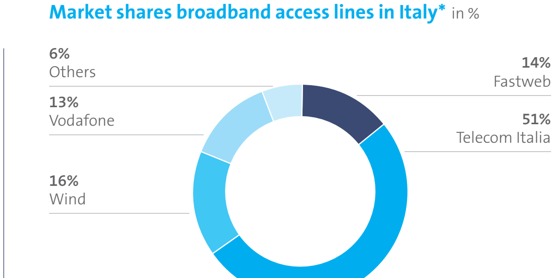


Swisscom has been steadily growing its market share over the last few years thanks to its own digital TV offering, Swisscom TV. At year-end 2013, it commanded a market share of 23% (prior year: 20%). In 2013, the number of Swisscom TV customers rose by 209,000 to 1.0 million. Swisscom TV offers over 200 television channels, more than 6,100 films (video-on-demand) and over 4,000 exclusive live sports coverage (mainly football and ice hockey). Swisscom TV also offers convenience features such as replay TV (allowing viewers to watch missed programmes for up to 30 hours after transmission), live pause, a recording function, picture-in-picture, TV apps for weather, news, photos and other services, and a TV guide. Thanks to a mobile app, customers can access the services and schedule at any time while on the move. Swisscom TV is available in a range of packages to meet all customer needs.

Italian broadband market

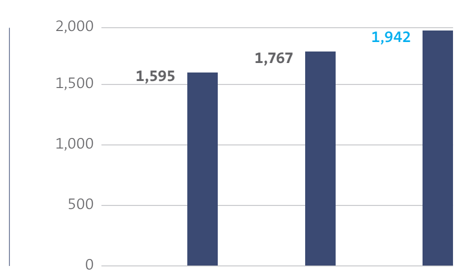
Italy's broadband market is Europe's fourth largest, with a revenue volume of around EUR 14 billion. Unlike most other European markets, no competition exists in Italy between DSL-based broadband providers and cable network operators. Broadband penetration is well below the European average, accounting for just over 50% of households. The total number of broadband lines in Italy remained steady in 2013 at around 13.6 million. Fastweb increased the number of broadband lines year-on-year by 9.9% or 175,000 to 1.94 million, outperforming its competitors in terms of new customers in 2013.

Market shares broadband access lines in Italy* in %



* Estimate Swisscom

Fastweb broadband access lines in thousand

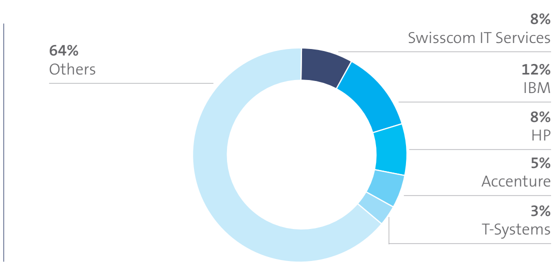


Telecom Italia commands the lion's share of the broadband market, with 51% of all broadband lines (prior year: 52%) compared with Fastweb's 14% (prior year: 13%). Three integrated players dominate the market: Telecom Italia, Vodafone and Wind. Thanks to economies of scale, they are able to maintain a strong advertising presence and build up a dense sales network. For service providers, a permanent countrywide presence is becoming increasingly important, given the growing complexity of products and services and increasing legal constraints on telephone sales due to data privacy. With this in mind, Fastweb has decided to expand its own sales network, improve the efficiency of its dealer structure and step up investment in its own sales outlets in major Italian cities.

IT services market in Switzerland

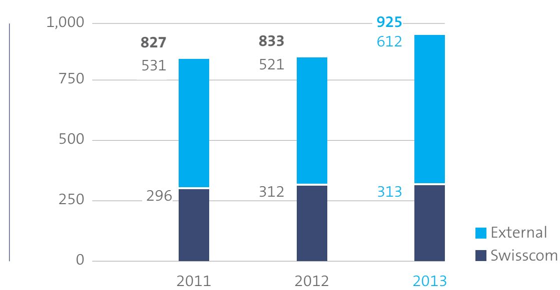
In 2013, the IT services market generated a revenue volume of CHF 7.9 billion. Swisscom expects the market volume in 2016 to total CHF 8.6 billion. Growth prospects have improved slightly. Growth is expected in the segment for applications-based services, which are often sector-specific or based on SAP. Business process outsourcing (BPO) and cloud services are also expected to grow, whereas the outlook for classic infrastructure services is rather one of stagnation or even decline.

Market shares IT services in Switzerland* in %



* Estimate Swisscom only revenue from external customers

Swisscom IT Services Net revenue in CHF million



Swisscom IT Services remains one of the biggest providers of IT services in Switzerland, with a market share of 8%, and has substantially increased its share of the banking BPO market. Having acquired Entris Integrator Ltd and Entris Operations AG in the first half of 2013, Swisscom IT Services now offers an IT back-office management solution (including process handling) to some 50 banks and has paved the way for further growth in business process outsourcing for the banking sector. Swisscom IT Services defended its market position in IT outsourcing and laid the foundations for further growth in cloud computing by setting up new platforms.

Group structure and organisation

Management structure in the 2013 financial year

The Group organisation is based on the following management structure: the Board of Directors of Swisscom Ltd is responsible for overall management and for determining the Group's strategic, organisational and budgetary principles. It delegates day-to-day business management to the CEO Swisscom Ltd, who, together with the Heads of the Group divisions Group Business Steering, Group Strategy & Innovation and Group Human Resources as well as the CEO of Swisscom IT Services and the Head of Swisscom Switzerland, make up the Group Executive Board. Swisscom's financial reporting focuses on three operating divisions: Swisscom Switzerland, Fastweb and Other operating segments. Swisscom Switzerland is subdivided into the Residential Customers, Small and Medium-Sized Enterprises, Corporate Business, Wholesale and Network & IT operating segments. Swisscom Switzerland is the contact partner for telecoms and data services in Switzerland and Fastweb in Italy. Swisscom IT Services supports corporate customers in all IT-related matters.

Group structure

Swisscom Ltd comprises the following five Group divisions: Group Business Steering, Group Strategy & Innovation, Group Communications & Responsibility, Group Human Resources and Group Participation Management. These together with the subsidiaries make up the Swisscom Group. The shares of Swisscom Ltd are listed on the SIX Swiss Exchange in Zurich and are also traded over the counter (OTC) in the form of American Depositary Receipts (ADR) Level 1. As at 31 December 2013, the Swiss Confederation as majority shareholder held 51.2% of the voting rights and issued capital.

As at 31 December 2013, 27 Swiss subsidiaries (prior year: 22) and 33 foreign subsidiaries (prior year: 32) are fully consolidated in Swisscom's consolidated financial statements. In addition, 7 associates (prior year: 9) are accounted for according to the equity method.

In February 2013, Hospitality Services acquired the business operations of Deuromedia, a global provider of IP-based infotainment solutions for the hospitality market. At the end of March 2013, Datasport AG acquired 100% of the shares in Abavent GmbH, a German provider of services for sport events. In April 2013, Swisscom IT Services assumed control of the Entris Banking business platform and also acquired Entris Integrator Ltd. The business platform of Entris Integrator Ltd is used by banks to process their banking transactions, from payment transactions and credit business to securities trading and e-banking. Following the takeover, Swisscom IT Services changed the name of Entris Integrator Ltd to Swisscom Banking Provider Ltd. In addition, in June 2013, Swisscom IT Services took over Entris Operations AG, which specialises in the processing of payment transactions and securities trading for around 50 banks. After the takeover, Entris Operations AG was merged with Swisscom Banking Provider Ltd. In April 2013, Swisscom increased its stake in CT Cinetrade AG (Cinetrade) from 49% to 75%. Cinetrade offer TV-services, Pay-TV, broadcast of sport events and Video-on-Demand (VOD). Cinetrade also operates one of Switzerland's leading cinema chains. In December 2013, Swisscom Switzerland also purchased a 67% stake in DL-Groupe GMG AG, a provider of IP-based managed unified communication and collaboration services.

Swisscom Ltd holds direct shareholdings in Swisscom (Switzerland) Ltd, Swisscom IT Services Ltd, Swisscom Broadcast Ltd and Swisscom Real Estate Ltd. Fastweb S.p.A. (Fastweb) is held indirectly via Swisscom (Switzerland) Ltd and intermediate companies in Belgium and Italy. Group Related Businesses (formerly Swisscom Participations) is not a legal entity but is responsible for managing a portfolio of small and medium-sized enterprises. Swisscom and PubliGroupe have reciprocal interests of 49% each in LTV Yellow Pages Ltd and Swisscom Directories Ltd. Swisscom Re AG in Liechtenstein is the Group's own reinsurance company.

See Report **page 117**

Board of Directors

Group Executive Board

Group Headquarters

- Group Business Steering
- Group Strategy & Innovation
- Group Communications & Responsibility
- Group Human Resources
- Group Participation Management

	Swisscom Switzerland[1]	Fastweb	Swisscom IT Services (ITS)	Group related Businesses	Other operating segments	Group Headquarters
Subsidiaries	Swisscom (Switzerland) Ltd Axept Ltd CT Cinetrade Ltd[2] DL-Groupe GMG AG local.ch Ltd Swisscom Directories Ltd Wingo Ltd	Fastweb S.p.A. Fastweb Wholesale S.r.l.	Swisscom IT Services Ltd[3] ITS Banking Provider Ltd ITS Finance Custom Solutions Ltd ITS Sourcing Ltd	Alphapay Ltd Billag Ltd Cablex Ltd Sicap[4] Swisscom Broadcast Ltd Swisscom Energy Solutions Ltd Swisscom Event & Media Solutions Ltd	Hospitality Services[5] Swisscom Real Estate Ltd Venturing Participations[6]	Swisscom Ltd Swisscom Belgium N.V. Swisscom Italia S.r.l Swisscom Re Ltd Worklink AG
Associates	Belgacom International Carrier SA LTV Yellow Pages Ltd	Metroweb S.p.A.		Medgate Holding Ltd	Venturing Participations	

[1] Swisscom Switzerland comprises the operating segments Residential Customers, Small and Medium-Sized Enterprises, Corporate Business, Wholesale and Network & IT.
[2] CT Cinetrade Ltd has subsidiaries in Switzerland: kitag kino-theater Ltd, PlazaVista Entertainment AG and Teleclub AG.
[3] Swisscom IT Services Ltd has subsidiaries in Austria and Singapore.
[4] Sicap has subsidiaries in France, Malaysia, Singapore and South Africa.
[5] Hospitality Services has subsidiaries in Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Italy, Luxembourg, the Netherlands, in Norway, Portugal, Philippines, Romania, Spain, the UK and USA.
[6] Venturing Participations comprises the fully consolidated company Mona Lisa Capital Ltd.

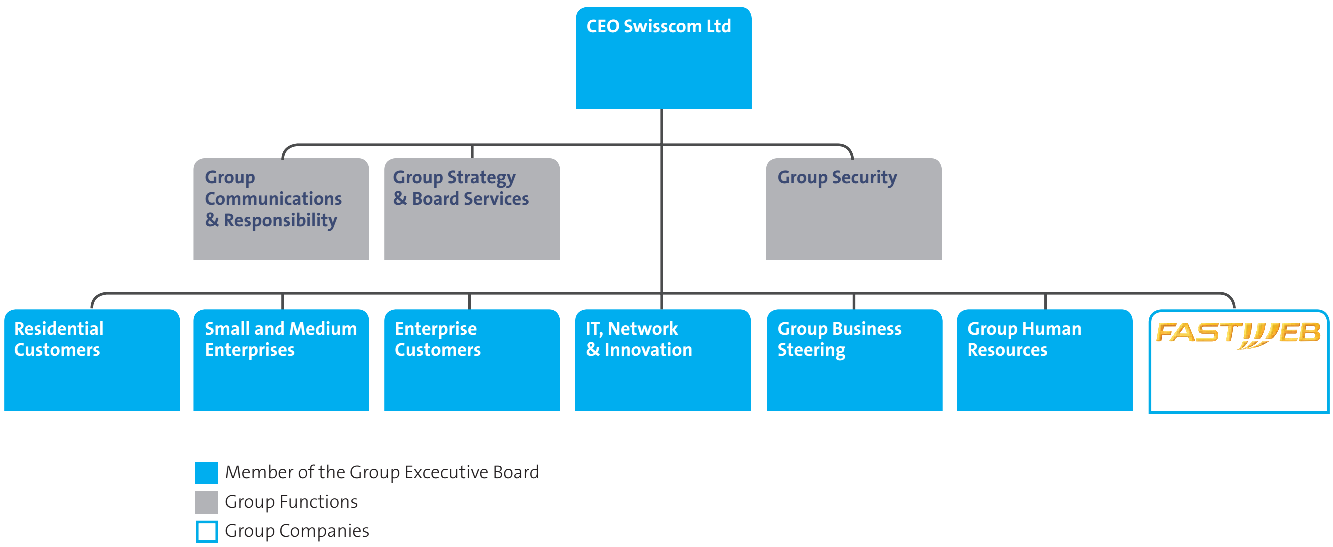
Scope of sustainability report

The scope of the sustainability report in compliance with the Global Reporting Initiative (GRI) covers Swisscom Ltd and all fully consolidated subsidiaries domiciled in Switzerland. It does not cover Group companies domiciled abroad or associates. The Group's main foreign shareholding is Fastweb in Italy. The closely related foundations comPlan (pension fund) and sovis (a not-for-profit foundation that provides assistance and support for employees and retirees) are also not included in the scope. Any deviation of the GRI reporting boundary from the above definition is duly reported.

Change in management structure from 1 January 2014

In order to offer business customers one-stop offerings and speed up the delivery of cloud-based solutions, Swisscom has bundled its Corporate Business, Network & IT and Swisscom IT Services activities. From 1 January 2014, all corporate customers will be served by the new Enterprise Customers division, making it one of the biggest integrated ICT providers for large companies in Switzerland. The IT, Network & Innovation division will be responsible for the operation of all IT systems, including the IT platforms previously managed by Swisscom IT Services, and for the development and production of standardised IT and network services for the entire Swisscom Group.

The integration of Swisscom IT Services in Swisscom Switzerland will result in a simplified Group structure. From 1 January 2014, the Group Executive Board will comprise the following members: Urs Schaeppi (CEO), Marc Werner (Residential Customers), Roger Wüthrich-Hasenböhler (Small and Medium-Sized Enterprises), Andreas König (Enterprise Customers), Heinz Herren (IT, Network & Innovation), Mario Rossi (Group Business Steering) and Hans Werner (Group Human Resources). Stefan Nünlist (Group Communications & Responsibility), Martin Vögeli (Group Strategy & Board Services) and Roger Halbheer (Group Security) will also report directly to the CEO. Fastweb will be managed in future via the Board of Directors chaired by Swisscom CEO Urs Schaeppi.



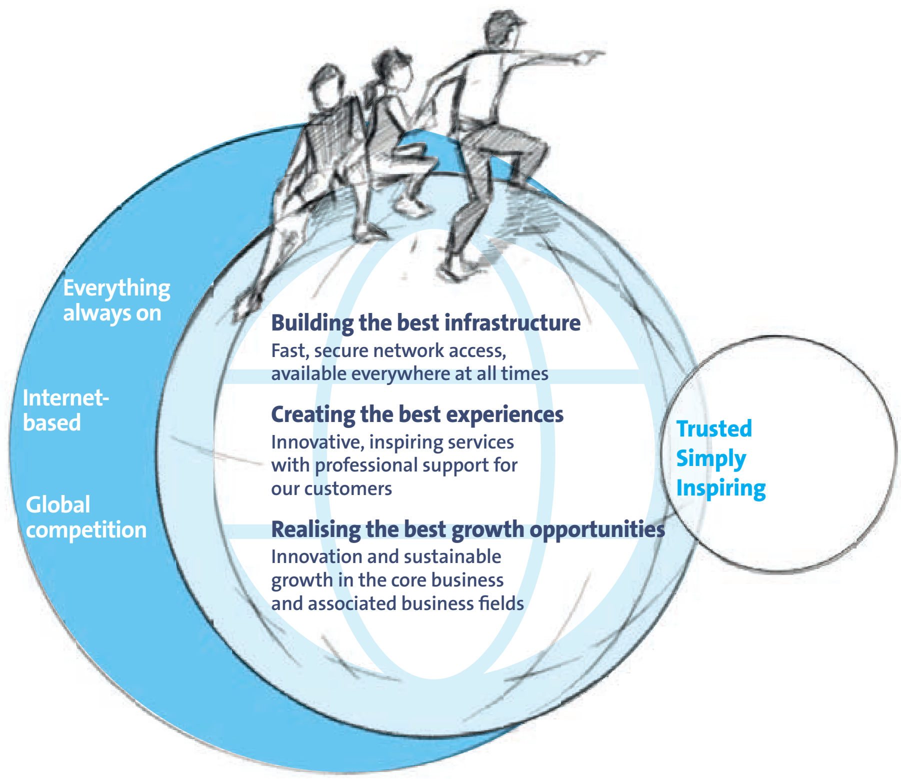
Corporate strategy

Swisscom commands a leading position in the mobile, fixed, broadband and digital TV submarkets. It is also the market leader in IT services. In its traditional usage-based business, stiff competition and changing customer needs continue to erode prices and volumes. The resulting lower revenue and income need to be offset in order to ensure that sufficient financial resources are available for major investments in new technologies.

The ICT sector is characterised by the following key trends and developments:

- **Everything always on:** In a few years from now, Swisscom customers will be able to access all their private and work-related applications and data in real time using any digital device. This is changing customers' usage behaviour and creating new business opportunities.
- **IP-based telecommunications market:** In future, to improve the customer experience and accelerate product development, all products and services will be operated based on Internet protocol. Digitalisation and mobility are changing business models and opening up many growth opportunities for telecoms service providers.
- **Global competition:** The number of Internet-based communications services available free of charge is growing apace. In recent years, new global competitors have entered the telecoms market. These worldwide OTT providers benefit from global economies of scale and are changing business models in the telecoms market.

Swisscom's long-term "Swisscom 2020" strategy is aimed at maintaining Swisscom's position in the ICT market and offering customers only the best:



Swisscom's mission statement: a trusted partner in today's digital world

The spread of IP technology is driving significant growth in the range of available products and services. As a result, Swisscom customers are demanding more personalised advice and services and expect even more from Swisscom in terms of customer service and support. As a trustworthy partner in the digital world, Swisscom helps customers feel secure and at ease, and enables them to find what they're looking for quickly and simply, and to experience and achieve extraordinary things. Swisscom also helps business customers to create a flexible ICT infrastructure, and to optimise communication and collaboration among their employees.

Building the best infrastructure

The demands of Swisscom customers on infrastructure in terms of availability, quality and security are set to grow even further. With this in mind, Swisscom is aiming to accelerate technological transformation by switching from proprietary to open and more powerful technology systems and infrastructures. In the fixed network, the main priority is on continuing expansion of Fibre to the Home (FTTH) and on speeding up the rollout of Fibre to the Street (FTTS) outside of the major urban areas. In the mobile network area, Swisscom is driving forward expansion of fourth-generation LTE coverage. By investing heavily in these areas, Swisscom wants to provide its customers with an infrastructure that is second-to-none in terms of performance, security and quality.
The availability of a high-performance infrastructure is also a key competitive factor for telecoms providers in Italy. When Swisscom acquired Fastweb, it took over a provider that had invested in its own fibre-optic infrastructure over the years and was thus able to differentiate itself successfully in the marketplace. The competitive advantages are reflected in market share growth in both the residential and business customer areas. Fastweb will continue to invest in expanding the infrastructure in Italy in order to further boost market differentiation and significantly expand its geographical broadband reach.

Creating the best experiences

Swisscom aims to differentiate itself from the ever-growing global competition by offering innovative new products and services and is adjusting its business model in line with the changing market conditions. The change in business model driven by the Internet is prompting the development of new offerings and pricing models that are no longer usage- and volume-dependent. One example is Swisscom's successful NATEL *infinity* pricing plans, which are proving extremely popular with customers due to their simplicity and transparency.

Outstanding customer experiences will further strengthen Swisscom's position in the core business. For customers, the main priority is simplicity. Swisscom differentiates itself successfully on the market through innovative products and services. Examples in the residential customers area include the development of a new Internet box for speeds of 1 Gbps and ultra-secure surfing, or the cross-platform iO communications app which simplifies communications for users, allowing them to manage all calls, messages and conversations at a single location. In the business customers area, Swisscom has blazed new trails with its Mobile ID (a mobile-phone-based authentication solution available as a managed service) and Dynamic Computing Services (offering processing power and storage space from the cloud).

For business customers in particular, the main focus is on technological migration from conventional to voice-over-IP-based solutions. Swisscom attaches great importance to maintaining its position in the IP world by providing innovative end services. In order to offer customers a good customer experience from start to finish, Swisscom pays great attention to creating user-friendly products and services as early as the development stage.

Swisscom is committed to the ongoing transformation of the organisation, in order to ensure that resources can be deployed wherever their impact is greatest. Keeping the organisation as lean as possible and optimising processes will help to continuously improve the way in which resources are used.

Realising the best growth opportunities

The telecoms markets in Switzerland and Italy are expected to see moderate growth over the next few years. Driving factors will be population and household growth, higher spending on ICT, an increase in the number of networked devices per inhabitant and (especially in Italy) pent-up demand due to the relatively low level of broadband penetration. The increasing deployment of ICT is also transforming value chains in many sectors, giving rise to numerous growth opportunities both in the core business and in new business areas provided the relevant synergies and capabilities are in place.

Examples of growth opportunities in the residential customer area include the optimisation of Swisscom bundled offerings, expansion of the range of TV services, and new energy-related offerings. For Fastweb residential customers, the focus is on the partnership with Sky. Examples in the business customer area include the development of new vertical solutions for growth opportunities in the banking, healthcare and energy sectors, as well as new services in M2M, security and cloud computing, and communications and collaboration applications. One of the key aspects of Fastweb's growth strategy is the development of an attractive Value Added Services (VAS) portfolio for business customers.

Forerunner in corporate responsibility

As part of its corporate strategy, Swisscom is aiming to become a global forerunner in the field of corporate responsibility. To this end, Swisscom intends to integrate ecological, social and economic aspects of sustainability in its core business. Various ratings in 2013 show that Swisscom has made further headway in this regard. Swisscom's corporate responsibility activities, based on dialogue with stakeholder groups, are prioritised as follows: "Enabling sustainable living and working", "Promoting sustainable use of resources", "Providing telecommunications for all" and "Acting as a responsible employer". By minimising internal energy and resource consumption, using electricity generated from renewable sources, imposing ecological and social standards on suppliers and acting as a responsible employer, Swisscom honours its responsibility towards the environment and the community at large. Swisscom supports customers in their pursuit of a sustainable way of living and working. This includes offering climate-friendly, low-radiation products and services to residential customers and Green ICT services to business customers. Another priority is to promote media skills by offering courses, including online courses. Swisscom is also looking to position

itself as a responsible employer, as reflected in its commitment to social partnerships, new working models, measures to promote diversity and the ongoing expansion of its corporate volunteering activities.
Swisscom intends to differentiate itself even further and strengthen the confidence of relevant players in the ICT sector. In future, the ICT sector will be instrumental in creating sustainable solutions in key areas such as energy, mobility and healthcare, which will open up attractive new opportunities for growth for Swisscom.

Value-oriented business management

Key performance indicators for planning and managing the cash flows are operating income before depreciation and amortisation (EBITDA) and capital expenditure on property, plant and equipment and intangible assets. EBITDA is driven mainly by revenue and margins. Swisscom's remuneration system is tied to value generation via variable performance-related components. The variable performance-related component is based, among other things, on financial targets such as net revenue, EBITDA margin and operating free cash flow as well as on the target of customer net promoter score.

Enterprise value

In CHF million, except where indicated	31.12.2013	31.12.2012
Enterprise value		
Market capitalisation	24,394	20,400
Net debt	7,812	8,071
Non-controlling interests in subsidiary companies	29	27
Enterprise value (EV)	**32,235**	**28,498**
Operating income before depreciation and amortisation (EBITDA)	4,302	4,477
Ratio enterprise value/EBITDA	**7.5**	**6.4**

The sum of market capitalisation, net debt and minority interests in subsidiaries is the enterprise value (EV) derived from the share price. Minority interests are stated at carrying amount. Swisscom's enterprise value increased year-on-year by CHF 3.7 billion or 13.1% to CHF 32.2 billion. Market capitalisation grew by CHF 4.0 billion, while net debt fell by CHF 0.3 billion. At the end of 2013, the ratio of enterprise value to EBITDA was 7.5 (prior year: 6.4). Had EBITDA remained unchanged, the ratio would have been 7.2. The enterprise value/EBITDA ratio is a key figure used to compare Swisscom with other companies in the sector. With a factor of 7.5, Swisscom is above the average for Europe's former state telecom companies. A lower interest rate, lower average tax rates and a solid market position have made a significant contribution to this higher factor.

Statement of added value

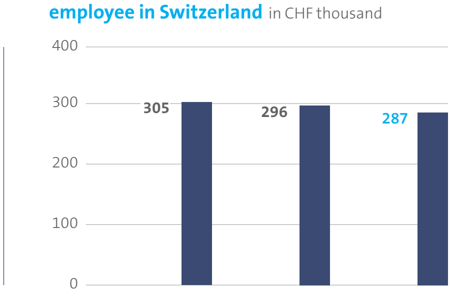
Operating added value is equivalent to net revenue less goods and services purchased, other operating expenses and depreciation and amortisation. Personnel expense is treated as use of added value rather than as an intermediate input. Swisscom generates the bulk of its added value in Switzerland. In the year under review, international activities accounted for 5% of the Group's added value from operations (prior year: 6%).

			2013			2012
In CHF million	Switzerland	Abroad	Total	Switzerland	Abroad	Total
Added value						
Net revenue	**9,358**	**2,076**	**11,434**	**9,268**	**2,116**	**11,384**
Capitalised self-constructed assets and other income	(229)	(159)	(388)	(245)	(128)	(373)
Goods and services purchased	1,712	626	2,338	1,678	721	2,399
Other operating expenses [1]	1,736	723	2,459	1,750	635	2,385
Depreciation [2]	1,281	607	1,888	1,222	577	1,799
Intermediate inputs	**4,500**	**1,797**	**6,297**	**4,405**	**1,805**	**6,210**
Operating added value	**4,858**	**279**	**5,137**	**4,863**	**311**	**5,174**
Other non-operating result [3]			(83)			(158)
Total added value			**5,054**			**5,016**
Allocation of added value						
Employees [4]	2,460	266	2,726	2,396	269	2,665
Authorities [5]	322	(3)	319	315	33	348
Shareholders (dividends)			1,154			1,154
External investors (net interest expense)			251			249
Company (retained earnings) [6]			604			600
Total added value			**5,054**			**5,016**

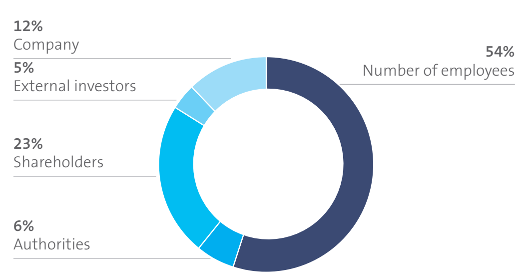
[1] Other operating expense: excluding taxes on capital and other taxes not based on income.
[2] Depreciation and amortisation: excluding depreciation and amortisation of acquisition-related assets such as brands or customer relations.
[3] Other non-operating result: financial result excluding net interest expense, share of profits of investments in associates, and depreciation and amortisation of acquisition-related intangible assets.
[4] Employees: employer contributions are reported as pension cost, rather than as expenses according to IFRS.
[5] Public sector: current income taxes, taxes on capital and other taxes not based on income.
[6] Companies: including changes in deferred income taxes and defined benefit obligations.

Operating added value amounted to CHF 5,137 million in 2013, a drop of 0.7% compared with the previous year. Some 95% of total operating added value was generated in Switzerland. Added value from international operations declined by CHF 32 million to CHF 279 million on account of higher depreciation and amortisation costs.
Although operating added value in Switzerland was virtually unchanged year-on-year at CHF 4,858 million, added value from operations per FTE was 3.0% lower at CHF 287,000 (prior year: CHF 296,000).

Swisscom development of value added per employee in Switzerland in CHF thousand



Allocation of added value in %



Capital market

Swisscom's shares are listed on the SIX Swiss Exchange. The creditworthiness of Swisscom is regularly assessed by international rating agencies.

Swisscom share

As at 31 December 2013 Swisscom's market capitalisation totalled CHF 24.4 billion (prior year: CHF 20.4 billion), with the number of shares outstanding at 51.8 million. Par value per registered share is CHF 1. Each share entitles the holder to one vote. Voting rights can only be exercised if the shareholder is entered in the share register of Swisscom Ltd with voting rights. The Board of Directors may refuse to enter a shareholder with voting rights if such voting rights exceed 5% of the company's share capital.

Ownership structure

	31.12.2013			31.12.2012		
	Number of Shareholders	Number of Shares	Share in %	Number of Shareholders	Number of Shares	Share in %
Confederation	1	26,535,500	51.2%	1	29,410,500	56.8%
Natural person	63,531	4,453,496	8.6%	65,591	4,624,737	8.9%
Institution	2,614	20,812,947	40.2%	2,653	17,766,706	34.3%
Total	**66,146**	**51,801,943**	**100.0%**	**68,245**	**51,801,943**	**100.0%**

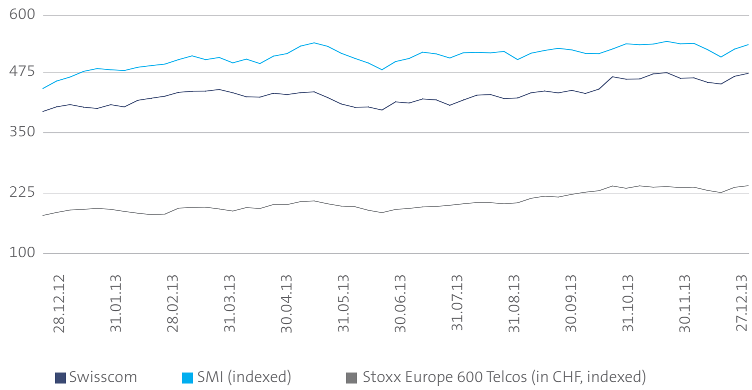
The majority shareholder as at 31 December 2013 was the Swiss Confederation, with 51.2% of the voting rights and capital. By law, the Swiss Confederation must hold the majority of the capital and voting rights. As at 31 December 2013, around 97% of the registered shareholders were from Switzerland.

Stock exchanges

Swisscom shares are listed on the SIX Swiss Exchange under the symbol SCMN (Securities No. 874251). In the United States they are traded in the form of American Depositary Receipts (ADR) at a ratio of 1:10 (Over The Counter, Level 1) under the symbol SCMWY (Pink Sheet No. 69769).

Share performance

Share performance 2013 in CHF



See www.swisscom.ch/shareprice

The Swiss Market Index (SMI) gained 20.2% compared with the previous year. The Swisscom share price increased by 19.6% to CHF 470.90, performing below the European Stoxx Europe 600 Telecommunications Index (34.1% in CHF; 32.1% in EUR). Average daily trading volume rose year-on-year by 3.9% to 103,940 shares. Total trading volume of Swisscom shares in 2013 amounted to CHF 11.1 billion.

Shareholder return

On 11 April 2013 Swisscom paid out an ordinary dividend of CHF 22 per share. Based on the closing price at the end of 2012, this equates to a return of 5.6%. Taking into account the rise in share price, Swisscom achieved a total shareholder return (TSR) of 25.8% in 2013. The TSR for the SMI was 22.9% and for the Stoxx Europe 600 Telecommunications Index 41.2% in CHF and 39.1% in EUR.

Swisscom share performance indicators

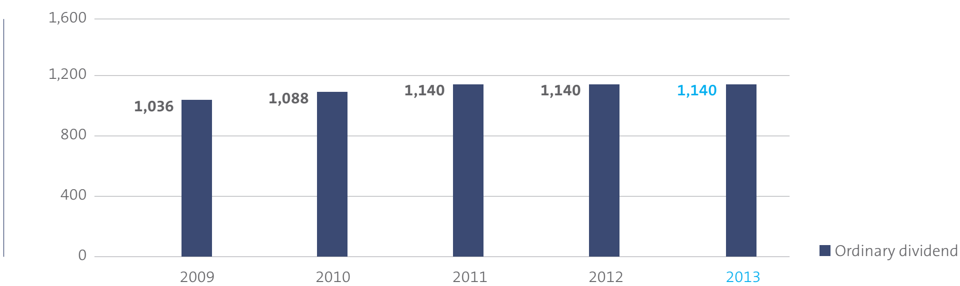
		2009	2010	2011	2012	2013
Par value per share at end of year	CHF	1.00	1.00	1.00	1.00	1.00
Number of issued shares at end of period	in thousand	51,802	51,802	51,802	51,802	51,802
Market capitalisation at end of year	in CHF million	20,491	21,296	18,436	20,400	24,394
Closing price at end of period	CHF	395.60	411.10	355.90	393.80	470.90
Closing price highest	CHF	400.90	420.80	433.50	400.00	474.00
Closing price lowest	CHF	293.50	358.00	323.10	334.40	390.20
Earnings per share	CHF	37.47	35.00	13.19	34.90	32.53
Ordinary dividend per share	CHF	20.00	21.00	22.00	22.00	22.00 [1]
Ratio payout/earnings per share	%	53.38	60.00	166.79	63.04	67.63
Equity per share at end of year	CHF	113.91	102.89	82.47	79.77	115.30

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

Payout policy

Swisscom seeks to achieve a steady dividend payout per share. Subject to meeting its financial targets, Swisscom plans to pay a dividend per share at least on a par with the previous year.
At the forthcoming Annual General Meeting on 7 April 2014, the Board of Directors will propose an ordinary dividend of CHF 22 per share (previous year: CHF 22 per share). This is equivalent to a total dividend payout of CHF 1,140 million.

Development of payout in CHF million



Since going public in 1998 Swisscom has distributed a total of CHF 26.2 billion to its shareholders: CHF 14.2 billion in dividend payments, CHF 1.6 billion in capital reductions and CHF 10.4 billion in share buybacks. Swisscom has paid out a total of CHF 279 per share since the initial public offering. Together with the overall increase in share price of CHF 130.90 per share, this amounts to an average annual total return of 5.3%.

Analysts' recommendations

Investment specialists analyse Swisscom's business performance, results and market situation on an ongoing basis. Their findings and recommendations offer valuable indicators for investors. 23 analysts regularly publish studies on Swisscom. At the end of 2013, 43% of the analysts recommended a buy rating for the Swisscom share, 48% a hold rating and 9% a sell rating. The average price target at 31 December 2013, according to the analysts' estimates, was CHF 463.

Indebtedness

Level of indebtedness

Swisscom pursues a finance policy, which provides a maximum net debt/EBITDA ratio of around 2.1.

Credit ratings and financing

With A (stable) and A2 (stable) respectively, Swisscom enjoys good ratings with the Standard & Poor's and Moody's rating agencies. To avoid structural downgrading, Swisscom endeavours to raise financing at the level of Swisscom Ltd. Swisscom aims for a broadly diversified debt portfolio, taking particular care to balance maturities and spread financing instruments, markets and currencies.
Swisscom's solid financial standing enabled unrestricted access to money and capital markets also in 2013. In 2013 Swisscom raised borrowings of EUR 800 million with a term of seven years to refinance existing debts. Net debt fell by CHF 0.3 billion to CHF 7.8 billion, corresponding to a net debt/EBITDA ratio of 1.8. Around 80% of financial liabilities have a term to maturity of more than one year. As at 31 December 2013, financial liabilities with a term of one year or less amounted to CHF 1.7 billion. Average interest expense on financial liabilities is 2.4%, and average term to maturity four years. A large share of the financial liabilities will fall due for repayment if a shareholder other than the Swiss Confederation can exercise control over Swisscom.

Ongoing dialogue with the capital market

Swisscom pursues an open and ongoing information policy vis-à-vis the general public and the capital markets. It publishes comprehensive financial information on a quarterly basis. Swisscom also meets investors regularly throughout the year, presents its financial results at analysts' meetings and road shows, attends expert conferences for financial analysts and investors, and keeps its shareholders regularly informed about its business through press releases and shareholder letters.

Financial calendar

> 7 April 2014	Annual General Meeting
> 9 April 2014	Ex-dividend
> 14 April 2014	Dividend payment
> 7 May 2014	First-quarter results 2014
> 20 August 2014	Half-year results 2014
> 6 November 2014	Third-quarter results 2014
> in February 2015	Annual results 2014

Employees

Overall headcount at Swisscom increased by 594 FTEs year-on-year. In Switzerland the number of FTEs increased by 1,093 FTEs.

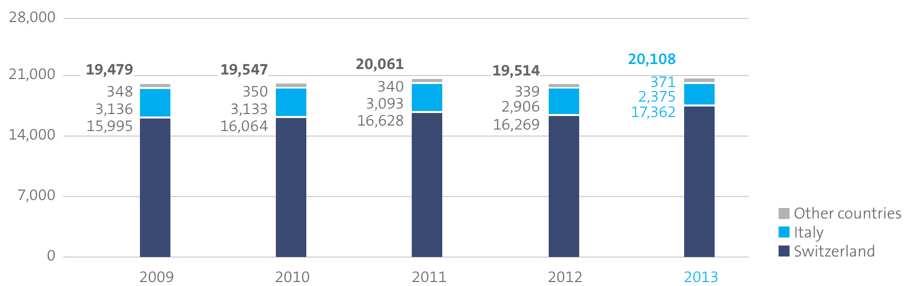
Headcount

At the end of 2013 Swisscom had 20,108 full-time equivalent employees (FTEs), of which 17,362 or 86.3% of the total workforce were employed in Switzerland (prior year: 83.4%). Swisscom is also training 920 apprentices in Switzerland. The following chart shows a breakdown of full-time equivalent positions by segment:

	31.12.2011	31.12.2012	31.12.2013
Full-time equivalent employees at end of year			
Residential Customers	4,628	4,316	4,754
Small and Medium-Sized Enterprises	675	681	757
Corporate Business	2,371	2,360	2,441
Wholesale	115	116	107
Network & IT	4,340	4,389	4,404
Swisscom Switzerland	**12,129**	**11,862**	**12,463**
Fastweb	**3,079**	**2,893**	**2,363**
Swisscom IT Services	2,888	2,684	3,162
Group Related Businesses	1,369	1,471	1,493
Swisscom Hospitality Services	257	264	309
Other operating segments	**4,514**	**4,419**	**4,964**
Group Headquarters	**339**	**340**	**318**
Total Group	**20,061**	**19,514**	**20,108**
Thereof employees in Switzerland	16,628	16,269	17,362

Headcount increased year-on-year by 594 full-time equivalents or 3.0% to 20,108. The increase attributable to company acquisitions, the hiring of external staff and the strengthening of customer service operations in Swiss business was offset by a fall in headcount at Fastweb due to outsourcing.
Employees in Switzerland on fixed-term contracts accounted for 0.4% of the workforce in 2013 (prior year: 0.4%). Part-time employees made up 13.5% (prior year: 13.7%). Terminations of employment by employees in Switzerland amounted to 6.4% of the workforce (prior year: 6.3%).

Development of headcount in full-time equivalent



Personnel expense

In CHF million	2013	2012	Change
Salary and wage costs	2,132	2,058	3.6%
Social security expenses	224	222	0.9%
Pension cost	269	62	333.9%
Restructuring costs	6	68	−91.2%
Other personnel expenses	75	75	–
Total personnel expense	**2,706**	**2,485**	**8.9%**
Thereof personnel expense in Switzerland	2,440	2,216	10.1%
Thereof personnel expense in Italy	227	233	−2.6%
Thereof personnel expense in other countries	39	36	8.3%

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Personnel expense increased by CHF 221 million or 8.9% year-on-year to CHF 2,706 million. The prior-year figure contains a reduction of CHF 157 million due to a one-off non-cash pension plan amendment as well as restructuring costs of CHF 68 million. Discounting these special effects and adjusting for acquisition of subsidiaries, personnel expense increased by 2.9%, with employees in Switzerland accounting for CHF 2,440 million (prior year: CHF 2,216 million) or 90.2% of the total (prior year: 89.2%).

Employment law in Switzerland

Introduction

Swisscom is one of the largest employers in Switzerland, with around 17,400 full-time equivalent positions. The legal terms and conditions of employment in Switzerland are based on the Swiss Code of Obligations. The collective employment agreement (CEA) sets out the key terms and conditions of employment between Swisscom and its employees. It also contains provisions governing relations between Swisscom and its social partners. A new CEA and social plan entered into force on 1 January 2013. Swisscom IT Services and cablex AG, which operate in a special market and competitive environment, have their own CEA. At the end of December 2013, 13,869 FTEs or 83.8% of the workforce were covered by the collective employment agreement.
General terms and conditions of employment which exceed the minimum standard defined by the Code of Obligations are governed by the special provisions for Swisscom management staff in Switzerland.

Employee representation and union relations

Swisscom is committed to fostering constructive dialogue with its social partners (the syndicom union and the transfair staff association) as well as the employee associations (employee representatives). The collective employment agreement (CEA) and the social plan are good examples of fair and consensual solutions. In the event of significant operational changes, Swisscom involves the social partners and employee associations at an early stage. The CEA grants the social partners and the employee associations rights of co-determination in various areas. In general and free elections in autumn 2013, Swisscom employees elected the new members of the employee associations charged with exercising these rights. Two employee representatives from the unions also sit on the Board of Directors of Swisscom Ltd.

Collective employment agreement (CEA)

On 1 January 2013 a new CEA entered into force. It included a number of improvements to what were already very good terms and conditions, placing greater emphasis on staff development while also improving the rights of part-time employees. The working week for employees covered by the CEA is 40 hours. Five weeks' annual leave (or 27 days from age 50 and six weeks from age 60), 17 weeks' maternity leave and ten days' paternity leave are also among the progressive fringe benefits defined by the CEA. Employees also enjoy an additional week of paid leave after five years of service. Swisscom pays a child and education allowance which in most cases is above the statutory cantonal allowance, and grants leave on special family-related grounds such as adoption leave. In the event of incapacity to work due to illness or accident, Swisscom continues to pay the employee's full salary for up to 730 days.

Working-hour models

Swisscom promotes work-life balance by offering working conditions that enable both full- and part-time employees to balance their professional and private lives: flexible working hours (the standard model used by a majority of employees), variable working-hour models such as annual working hours, a long-term working-time account and part-time working from the age of 58. Employees may also work from home with the consent of their line manager. This option is used by many employees and is becoming increasingly easier thanks to tools such as Unified Communications & Collaboration (UCC). Swisscom bears the label "home office friendly".

Social plan

Swisscom's social plan sets out the benefits provided to employees covered by the CEA who are affected by redundancy. The new social plan offers more resources in order to improve employees' employability. It also provides for retraining measures in the event of long-term job cuts. Responsibility for implementing the social plan lies with Worklink AG, a wholly owned subsidiary of Swisscom. Worklink AG opens up new prospects for Swisscom employees affected by job cuts, providing them with advice and support in their search for new employment outside the company or arranging temporary internal or external placements. The success rate is high, with 82% of those affected finding a new job prior to the end of the social plan programme.
Swisscom also operates special employment schemes (phased partial retirement, temporary placements in similar areas of expertise) in line with its commitment to providing fair solutions for older employees affected by changes in skill set requirements or redundancy. The pension plan offers employees opting for early retirement (from age 58) financial support in the form of a bridging pension until they reach the statutory retirement age.

Employee remuneration

Salary system

Competitive pay packages help to attract and retain highly-skilled and motivated specialists and managerial staff. Swisscom's salary system comprises a basic salary, a variable performance-related component and bonuses. The basic salary is determined based on function, individual performance and the job market, while the variable component is contingent on business performance as well as individual performance in the case of executive functions. Business performance is measured based on achievement of the Swisscom Group's overarching targets and the targets of the respective business segment or division. The targets primarily relate to key financial indicators and customer loyalty. Individual performance is measured according to the achievement of results- and conduct-related goals. Swisscom awards share bonuses to employees covered by the CEA who deliver outstanding performance. Details on remuneration paid to members of the Group Executive Board are provided in the Remuneration Report.

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Minimum wage

There is no legally defined minimum wage in Switzerland. Instead, this is negotiated by the social partners in the context of collective employment agreements. The new CEA which entered into force on 1 January 2013 included an increase in minimum salary to CHF 52,000, or CHF 50,000 in the case of cablex. Swisscom's operations are spread throughout Switzerland, and when it comes to determining salaries there is very little difference between locations. A study of starting salaries for the youngest employees (up to age 21) at the widely-applied starting-function level found that the average basic annual salary in this category is CHF 57,400 or CHF 55,770 at cablex: in other words, 10% above the minimum salary.

Pay round

In November 2011 Swisscom and the social partners signed a two-year pay round agreement for 2012 and 2013, as a result of which Swisscom (with the exception of Swisscom IT Services) increased its total salary payout in 2013 in Switzerland by 1.2%; of this, 0.8% went on general salary increases and 0.4% on individual salary increases.
For Swisscom IT Services, Swisscom and the social partners concluded a separate agreement to reflect the market environment and the competitive situation specific to the IT market. This resulted in Swisscom IT Services awarding an across-the-board salary increase of 0.8% to employees covered by the CEA in 2013.

Employment law in Italy

Employment agreement for the telecoms sector in Italy

Statutory terms and conditions of employment in Italy are based on the Contratto collettivo nazionale di lavoro (CCNL), a state collective employment agreement. The CCNL defines the terms and conditions of employment between Swisscom's Italian subsidiary Fastweb and its employees. It also contains provisions governing relations between Fastweb and the unions.
In February 2013 the telecoms companies and unions negotiated a new CCNL, setting out better terms and conditions compared with the previous agreement. The new CCNL runs until 31 December 2014.

Employee representation and relations with the unions

Fastweb engages in dialogue with the unions and the employee representatives, and in the event of major operational changes involves them at an early stage.

Industry-wide collective agreement for employees

The working week for employees covered by the state collective employment agreement is 40 hours. Benefits include five weeks' annual leave, 20 weeks' maternity leave and one day of paternity leave. In the event of incapacity for work due to illness or accident, Fastweb guarantees full payment of the employee's salary for 180 days and half the salary for a further 185 days.

Working time model

Fastweb supports work-life balance. The company's terms and conditions of employment enable employees to achieve a healthy balance between their working and private lives. These include in particular the following measures agreed with the unions in the Conciliazione famiglia e lavoro in 2001: flexible office working hours, choice of shifts for mothers and temporary part-time work for mothers.

Employee remuneration

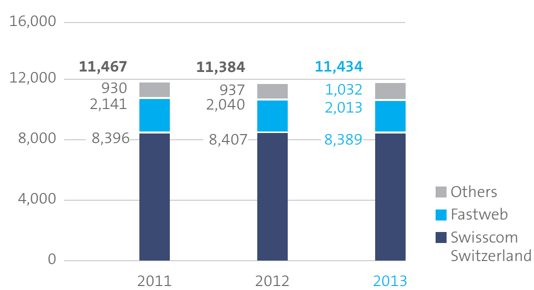
Fastweb offers competitive salary packages aimed at attracting and retaining highly-qualified specialists and managers. The company's salary system comprises a basic salary, a collective variable profit-sharing bonus for non-managerial staff, and a variable performance-related component for managerial staff which is contingent on meeting individual requirements and company targets. The basic salary is determined according to function, individual performance and the situation in the labour market. The variable profit-sharing bonus is based on the Premio di risultato agreed separately with the unions. Fastweb respects the legal minimum salary defined by the CCNL.

Group financial review

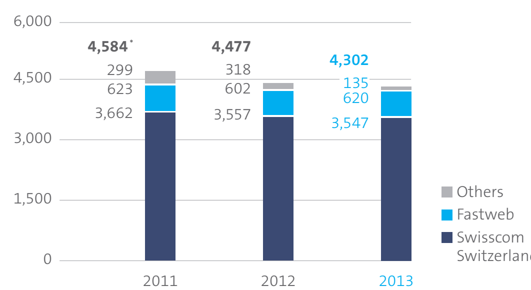
Key financial figures

In CHF million, except where indicated	2013	2012	Change
Net revenue	11,434	11,384	0.4%
Operating income before depreciation and amortisation (EBITDA)	4,302	4,477	–3.9%
EBITDA as % of net revenue	37.6	39.3	
Operating income (EBIT)	2,258	2,527	–10.6%
Net income	1,695	1,815	–6.6%
Share of net income attributable to equity holders of Swisscom Ltd	1,685	1,808	–6.8%
Earnings per share (in CHF)	32.53	34.90	–6.8%
Operating free cash flow	1,978	1,882	5.1%
Capital expenditure in property, plant and equipment and other intangible assets	2,396	2,529	–5.3%
Net debt at end of period	7,812	8,071	–3.2%
Full-time equivalent employees at end of year	20,108	19,514	3.0%

Development of revenue from external customers in CHF million

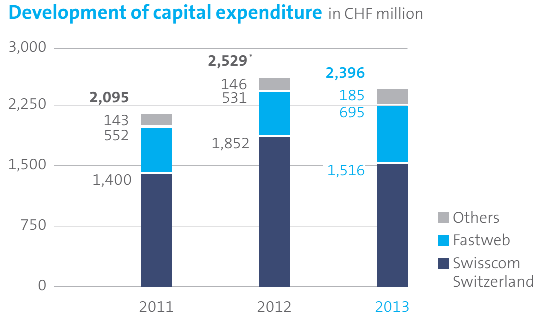


Development of EBITDA in CHF million



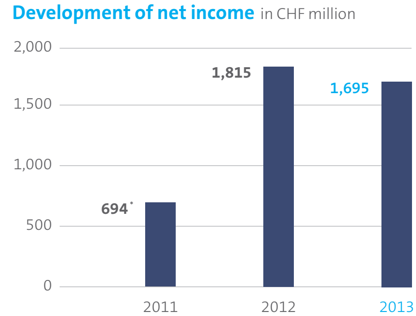
* Without considering the changes of IAS 19 revised.

Development of capital expenditure in CHF million



* Including expenses of CHF 360 million for mobile frequency.

Development of net income in CHF million



* Including goodwill impairment of CHF 1,189 million less taxes. Without considering the changes of IAS 19 revised.

Summary

Swisscom's net revenue rose by CHF 50 million or 0.4% to CHF 11,434 million. In contrast, operating income before depreciation and amortisation (EBITDA) fell by CHF 175 million or 3.9% to CHF 4,302 million. The fall in EBITDA and higher depreciation and amortisation led to a decline in net income of CHF 120 million to CHF 1,695 million.

Revenue and EBITDA performance were impacted by the euro exchange rate, Fastweb's wholesale revenue from low-margin interconnection services (hubbing) and corporate acquisitions. At constant exchange rates and excluding these special factors, net revenue fell by 0.8%. The decrease is primarily a result of general price erosion and price reductions for roaming in Swiss business totalling CHF 560 million. The CHF 480 million in customer and volume growth largely offset this decrease. Excluding hubbing, net revenue at Fastweb was down by EUR 16 million or 1.0% to EUR 1,597 million, despite customer growth. Higher revenues from residential customers were offset by a fall in revenue from corporate business resulting from price pressure.

Swisscom's EBITDA dropped by 2.0% on a like-for-like basis. This reduction was chiefly due to lower revenues in Swiss core business as a consequence of continuing competition and price pressure. Fastweb EBITDA rose year-on-year by EUR 5 million or 1.0% to EUR 505 million.

Excluding the costs of CHF 360 million for the mobile frequencies acquired in 2012, capital expenditure rose by CHF 227 million or 10.5% to CHF 2,396 million, and in Switzerland by CHF 52 million or 3.2% to CHF 1,686 million. This increase is due to expansion of the broadband networks and modernisation of the mobile networks. The increase in capital expenditure at Fastweb by EUR 124 million or 28.1% to EUR 565 million is attributable to expansion of the fibre-optic network in Italy.

Operating free cash flow rose by CHF 96 million or 5.1% to CHF 1,978 million. Net debt fell by CHF 259 million or 3.2% to CHF 7,812 million compared to the end of 2012. The ratio of net debt to EBITDA remained unchanged versus the previous year at 1.8.

Headcount increased year-on-year by 594 FTEs or 3.0% to 20,108 FTEs. While headcount was higher as a result of acquisition of subsidiaries, the insourcing of external staff and expansion of customer service in Swiss business, the number of Fastweb employees was lower due to outsourcing. In Switzerland, the number of employees increased by 1,093 FTEs or 6.7% to 17,362.

Swisscom expects to close the year with revenue of around CHF 11.5 billion and EBITDA of around CHF 4.35 billion. Network infrastructure expansion in both Switzerland and Italy will continue to entail high capital expenditure: this is expected to total CHF 2.4 billion, of which CHF 1.75 billion in Switzerland. If all targets are met, Swisscom will once again propose a dividend of CHF 22 per share for the 2014 financial year.

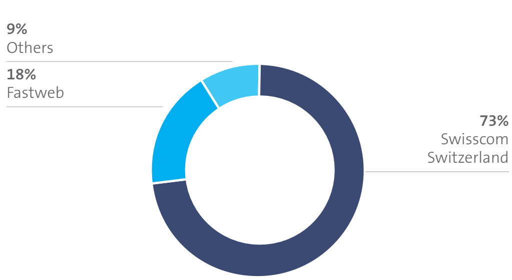
Results of operations

Income statement

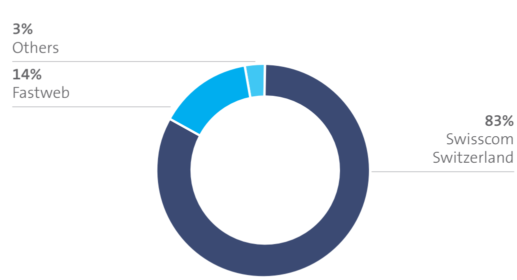
In CHF million, except where indicated	2013	2012	Change
Swisscom Switzerland	8,389	8,407	–0.2%
Fastweb	2,013	2,040	–1.3%
Other operating segments	1,032	936	10.3%
Group Headquarters	–	1	–
Revenue from external customers	**11,434**	**11,384**	**0.4%**
Swisscom Switzerland	3,547	3,557	–0.3%
Fastweb	620	602	3.0%
Other operating segments	303	274	10.6%
Group Headquarters	(127)	(110)	15.5%
Reconciliation pension cost [1]	(17)	179	–
Intersegment elimination	(24)	(25)	–4.0%
Operating income before depreciation and amortisation (EBITDA)	**4,302**	**4,477**	**–3.9%**
Net revenue	**11,434**	**11,384**	**0.4%**
Goods and services purchased	(2,338)	(2,399)	–2.5%
Personnel expense	(2,706)	(2,485)	8.9%
Other operating expense	(2,476)	(2,396)	3.3%
Capitalised self-constructed assets and other income	388	373	4.0%
Operating expenses	**(7,132)**	**(6,907)**	**3.3%**
Operating income before depreciation and amortisation (EBITDA)	**4,302**	**4,477**	**–3.9%**
Depreciation, amortisation and impairment losses	(2,044)	(1,950)	4.8%
Operating income (EBIT)	**2,258**	**2,527**	**–10.6%**
Net interest expense	(251)	(249)	0.8%
Other financial result	(8)	(77)	–89.6%
Share of results of associates	30	32	–6.3%
Income before income taxes	**2,029**	**2,233**	**–9.1%**
Income tax expense	(334)	(418)	–20.1%
Net income	**1,695**	**1,815**	**–6.6%**
Share of net income attributable to equity holders of Swisscom Ltd	1,685	1,808	–6.8%
Share of net income attributable to non-controlling interests	10	7	–
Average number of shares outstanding (in millions of shares)	51.801	51.801	–
Earnings per share (in CHF)	32.53	34.90	–6.8%

[1] The operating income of segments consist of pension cost especially employer contributions. The difference to the pension cost by IAS 19 will therefore be recognised as a reconciliation item.

Share of operating segments in net revenue in %



Share of operating segments in EBITDA in %



Net revenue

Swisscom's net revenue rose by CHF 50 million or 0.4% to CHF 11,434 million. On a like-for-like basis, net revenue was 0.8% lower. At Swisscom Switzerland, revenue dropped by CHF 12 million or 0.1% to CHF 8,449 million, resulting in a like-for-like reduction in revenue of 0.7%. Price erosion and price reductions for roaming of around CHF 560 million was largely offset by CHF 480 million in customer and volume growth. Fastweb's net revenue fell by EUR 58 million or 3.4% to EUR 1,642 million, or by 1.3% in Swiss francs. Excluding wholesale revenue from interconnection services (hubbing), net revenue at Fastweb was down by EUR 16 million or 1.0% to EUR 1,597 million. The EUR 20 million increase in revenue in the residential customer segment was more than offset by the EUR 36 million decline in revenue from business customers and wholesale (excluding hubbing). Primarily as a result of corporate acquisitions, net revenue generated by other operating segments increased by CHF 91 million or 5.3% to CHF 1,819 million.

Goods and services purchased

Goods and services purchased fell year-on-year by CHF 61 million or 2.5% to CHF 2,338 million. Adjusted for corporate acquisitions and at constant exchange rates, the reduction amounts to 5.1%. The lower expenditure at Fastweb is mainly attributable to the planned reduction in hubbing business and lower termination rates, while the reduction at Swisscom Switzerland is the result of lower procurement costs for mobile handsets.

Personnel expense

Personnel expense increased by CHF 221 million or 8.9% year-on-year to CHF 2,706 million. Included in 2012 are a reduction of CHF 157 million from a one-time, non-cash change in a pension plan and restructuring expense of CHF 68 million. Discounting these non-recurring items and adjusting for corporate acquisitions, personnel expense rose by 2.9%, largely due to higher ordinary pension costs which, excluding the effect from the 2012 amendment to the pension plan, rose by CHF 51 million. Headcount rose year-on-year by 594 FTEs or 3.0% to 20,108 FTEs. Adjusted for corporate acquisitions in Switzerland and the outsourcing of positions in Italy, the rise in headcount was 1.8%, which is chiefly attributable to the insourcing of external staff in Switzerland.

Other operating expense

Other operating expense increased by CHF 80 million or 3.3% year-on-year to CHF 2,476 million. Adjusted for company acquisitions and at constant exchange rates, the rise amounted to 1.7%. This increase is primarily attributable to the purchase of outsourcing services due to the outsourcing of positions at Fastweb.

Capitalised self-constructed assets and other income

Capitalised self-constructed assets and other income increased by CHF 15 million or 4.0% year-on-year to CHF 388 million, while capitalised self-constructed assets were CHF 9 million or 3.4% lower year-on-year at CHF 256 million.

Operating income before depreciation and amortisation (EBITDA)

Operating income before depreciation and amortisation (EBITDA) was CHF 175 million or 3.9% lower at CHF 4,302 million. In 2012, the amendment to the pension plan resulted in a one-off reduction of CHF 157 million in pension costs. Restructuring costs totalling CHF 78 million were also recognised in 2012. Ordinary pension costs rose in 2013. Company acquisitions and currency effects had a positive impact on operating income. Adjusted EBITDA decreased by 2.0%, primarily due to the continuing competition and price pressure. Expenses were also higher in Switzerland for grid maintenance and IT, while customer growth in Italy led to higher acquisition costs.

Depreciation and amortisation
Depreciation and amortisation rose by CHF 94 million or 4.8% year-on-year to CHF 2,044 million. This increase is mainly attributable to higher depreciation and amortisation at Swisscom Switzerland due to continuing broadband network expansion and to the mobile frequencies acquired in 2012. Intangible assets resulting from business combinations were capitalised for purchase price allocation purposes. Depreciation and amortisation includes scheduled amortisation related to intangible assets from business combinations (e.g. brands, customer relationships) totalling CHF 156 million (prior year: CHF 151 million).

Net interest income and other financial result
The net financial result in 2013 amounted to CHF 251 million (prior year: CHF 249 million). The average rate of interest on financial liabilities in 2013 is 2.4%. The other financial result improved year-on-year by CHF 69 million, which is primarily attributable to positive effects of CHF 30 million arising from the fair value adjustment of interest rate derivatives.

Associates
Associates mainly covers the share of results of investments in Belgacom International Carrier Services, LTV Yellow Pages and Metroweb (Italy). The share of results of associates declined year-on-year by CHF 2 million to CHF 30 million, primarily due to the acquisition of a majority stake in Cinetrade. Dividends received, amounting to CHF 43 million (prior year: CHF 38 million), largely concern dividends paid by LTV Yellow Pages, Cinetrade and Belgacom International Carrier Services.

Income tax expense
Income tax expense amounted to CHF 334 million (prior year: CHF 418 million), corresponding to an effective income tax rate of 16.5% (prior year: 18.7%). The decrease in income tax expense is largely due to the offsetting and recognition of tax loss carry-forwards that had previously not been capitalised. Excluding non-recurring items, Swisscom anticipates an income tax rate of around 21% in the long term. Income taxes paid were CHF 88 million higher than a year earlier at CHF 278 million.

Net income and earnings per share
Net income fell by CHF 120 million or 6.6% year-on-year to CHF 1,695 million, largely reflecting lower EBITDA and higher depreciation and amortisation as a result of the increase in capital expenditure. Earnings per share fell by 6.8% from CHF 34.90 to CHF 32.53.

Excluding non-recurring items, revenue declined by 0.8% year-on-year.
Revenue in 2013 totalled

11.4 billion Swiss francs

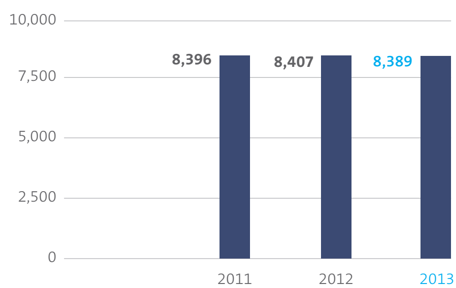
Excluding non-recurring items, EBITDA declined by 2.0% year-on-year.
EBITDA in 2013 totalled

4.3 billion Swiss francs

Operating segment results

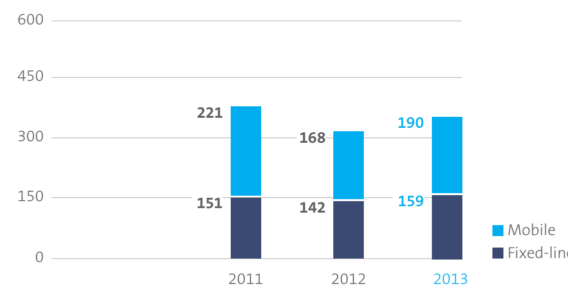
Reporting is broken down into the following segments: Swisscom Switzerland, Fastweb and Other operating segments. Swisscom Switzerland includes the segments Residential Customers, Small and Medium-Sized Enterprises, Enterprise Customers, Wholesale and Network & IT. Group Headquarters is disclosed separately.

Development of revenue from external customers
Swisscom Switzerland in CHF million



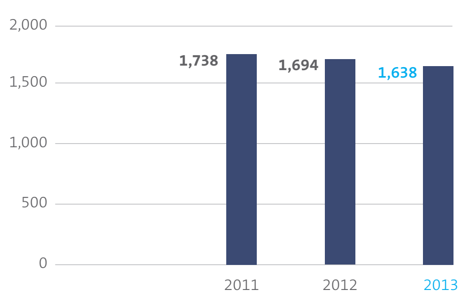
	2011	2012	2013
Revenue mobile single subscriptions	3'104	2'932	2,782
Revenue fixed-line single subscriptions	2'695	2'470	2,215
Revenue bundle subscriptions	792	1'172	1,553
Revenue others	1'805	1'833	1,839
Total	**8,396**	**8,407**	**8,389**

Changes in customer contracts retail
Swisscom Switzerland in thousand



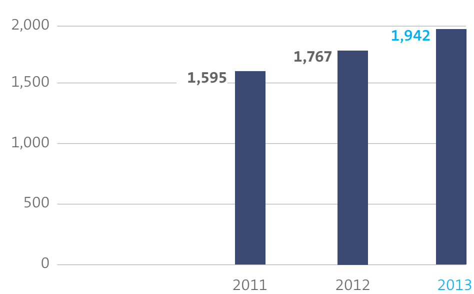
	2011	2012	2013
Fixed-line	–113	–107	–134
Broadband	77	66	84
Swisscom TV	187	183	209
Contracts in fixed-line	**151**	**142**	**159**
Contracts in mobile	**221**	**168**	**190**

Development of revenue from external customers
Fastweb in EUR million



	2011	2012	2013
Residential Customers	758	724	744
Small and Medium-Sized Enterprises	760	791	771
Wholesale hubbing	141	87	45
Wholesale others	79	92	78
External revenue	**1,738**	**1,694**	**1,638**

Development of broadband access lines
Fastweb in thousand



Segment revenue and results

Swisscom Switzerland

In CHF million, except where indicated	2013	2012	Change
Net revenue and results			
Residential Customers	5,145	5,113	0.6%
Small and Medium-Sized Enterprises	1,151	1,161	–0.9%
Corporate Business	1,787	1,835	–2.6%
Wholesale	966	966	–
Elimination	(600)	(614)	–2.3%
Net revenue	**8,449**	**8,461**	**–0.1%**
Residential Customers	2,898	2,886	0.4%
Small and Medium-Sized Enterprises	864	882	–2.0%
Corporate Business	907	945	–4.0%
Wholesale	384	367	4.6%
Network & IT	(1,506)	(1,523)	–1.1%
Segment result before depreciation and amortisation (EBITDA)	**3,547**	**3,557**	**–0.3%**
Margin as % of net revenue	42.0	42.0	
Depreciation, amortisation and impairment losses	(1,104)	(1,053)	4.8%
Segment result	**2,443**	**2,504**	**–2.4%**
Capital expenditure and headcount			
Capital expenditure in property, plant and equipment and other intangible assets	1,516	1,852	–18.1%
Full-time equivalent employees at end of year	12,463	11,862	5.1%

Swisscom Switzerland's net revenue fell by CHF 12 million or 0.1% to CHF 8,449 million, while operating income before depreciation and amortisation (EBITDA) was CHF 10 million or 0.3% lower at CHF 3,547 million. Adjusted for acquisitions and non-recurring costs for restructuring in the prior year, revenue decreased by 0.9% and EBITDA by 2.2%. Decline in revenue as a result of the general price erosion of around CHF 350 million and the price reductions for roaming of around CHF 210 million were largely offset by customer and volume growth of around CHF 480 million. Capital expenditure was CHF 336 million or 18.1% lower at CHF 1,516 million. Excluding expenses of CHF 360 million for the mobile frequencies auctioned in the previous year, capital expenditure increased by 1.6% as a result of the expansion and modernisation of the broadband and mobile networks. Headcount rose by 601 FTEs or 5.1% to 12,463 FTEs as a result of acquisitions, the insourcing of external personnel and an increase in customer service and sales staff.

The trend towards bundled offerings and new pricing models such as flat-rate tariffs continued unabated. The Natel infinity mobile subscriptions launched in 2012, which offer customers unlimited calls and SMS messages to all Swiss networks as well as unlimited surfing, remain highly popular. The customer base grew by 0.8 million to around 1.7 million. By the end of 2013, 1 million customers were subscribing to packages such as Vivo Casa, which combines fixed-line access with telephony, Internet and TV, or Vivo Tutto, which also includes a mobile line. This corresponds to an increase of 213,000 customers or 27.0% versus the prior year. Revenue from contracts for bundled offerings rose accordingly by CHF 381 million or 32.5% to CHF 1,553 million in comparison with the previous year.

Swisscom Switzerland/net revenue

In CHF million or in thousand	2013	2012	Change
Revenue by services			
Revenue mobile single subscriptions	2,782	2,932	–5.1%
Revenue fixed-line single subscriptions	2,215	2,470	–10.3%
Revenue bundles	1,553	1,172	32.5%
Revenue wholesale	588	594	–1.0%
Other net revenue	1,251	1,239	1.0%
Revenue from external customers	**8,389**	**8,407**	**–0.2%**
Operational data at end of period in thousand			
Fixed access lines	2,879	3,013	–4.4%
Broadband access lines retail	1,811	1,727	4.9%
Swisscom TV access lines	1,000	791	26.4%
Mobile access lines	6,407	6,217	3.1%
Bundles	1,001	788	27.0%
Unbundled fixed access lines	256	300	–14.7%
Broadband access lines wholesale	215	186	15.6%
Revenue generating units (RGU)	12,097	11,748	3.0%

Revenue from external customers increased year-on-year by CHF 18 million or 0.2% to CHF 8,389 million. The decrease of around CHF 350 million due to general price erosion and the price reductions for roaming totalling around CHF 210 million were largely offset by customer and volume growth of around CHF 480 million. Swisscom Switzerland's revenue also increased thanks to the acquisition of a majority stake in Cinetrade, Switzerland's leading film rights and content trading company for the purchase and commercialisation of programme and sports broadcasting rights. On 1 July 2013, Swisscom further reduced its roaming charges for mobile surfing by up to 70%. The number of revenue generating units (RGU) with end customers grew by 349,000 or 3.0% to 12.1 million. The Natel infinity mobile subscriptions launched in June 2012, which offer customers unlimited calls, SMS messages and surfing, remain highly popular. Within the year, the number of infinity subscriptions rose by 0.8 million to around 1.7 million. Figures from recent quarters shows that customers switching to Natel infinity are generating higher revenues (ARPU). The number of postpaid mobile customers rose by 213,000 while the number of prepaid customers dropped by 23,000. In 2013, Swisscom sold a total of 1.6 million mobile handsets (+2.6%), of which 65% were smartphones.

Demand remains high for bundled offerings such as Vivo Casa (which combines fixed-line access with telephony, Internet and TV), and Vivo Tutto (which also includes a mobile line). The number of customers using bundled offerings rose year-on year by 213,000 or 27.0% to 1 million. Revenue from contracts for bundled offerings rose accordingly by CHF 381 million or 32.5% to CHF 1,553 million in comparison with the previous year. The number of Swisscom TV connections increased by 209,000 or 26.4% to 1 million, of which 939,000 subscribed to the basic packages. 2013 saw the number of fixed lines for voice telephony decline by 134,000 or 4.4% to 2.88 million, due primarily to the number of customers migrating to cable network providers or switching from fixed to other forms of connectivity such as mobile. Retail broadband access lines grew year-on-year by 84,000 or 4.9% to 1.81 million, while the number of unbundled subscriber access lines fell by 44,000 or 14.7% to 256,000. The number of wholesale broadband access lines rose by 29,000 or 15.6% year-on-year to 215,000.

Swisscom Switzerland/operating expenses and segment result

In CHF million, except where indicated	2013	2012	Change
Segment expenses by nature of cost			
Traffic fees	(449)	(457)	–1.8%
Subscriber acquisition and retention costs	(463)	(474)	–2.3%
Other direct costs	(892)	(889)	0.3%
Direct costs	**(1,804)**	**(1,820)**	**–0.9%**
Personnel expense	(1,691)	(1,714)	–1.3%
Other indirect costs	(1,581)	(1,539)	2.7%
Capitalised self-constructed assets and other income	174	169	3.0%
Indirect costs	**(3,098)**	**(3,084)**	**0.5%**
Segment expenses	**(4,902)**	**(4,904)**	**–**
Segment result			
Segment result before depreciation and amortisation (EBITDA)	**3,547**	**3,557**	**–0.3%**
Margin as % of net revenue	42.0	42.0	
Depreciation, amortisation and impairment losses	(1,104)	(1,053)	4.8%
Segment result	**2,443**	**2,504**	**–2.4%**
Capital expenditure and headcount			
Capital expenditure in property, plant and equipment and other intangible assets	1,516	1,852	–18.1%
Full-time equivalent employees at end of year	12,463	11,862	5.1%

Segment expense was CHF 2 million lower at CHF 4,902 million. At CHF 1,804 million, direct costs were CHF 16 million or 0.9% lower year-on-year due chiefly to the lower volume of mobile handsets purchased. Indirect costs increased by CHF 14 million or 0.5% to CHF 3,098 million. Excluding restructuring costs in the previous year and company acquisitions, indirect costs rose by CHF 55 million or 1.0%, largely as a result of increased weather-related expenditure for network maintenance as well as an increase in IT costs. Personnel expense declined by CHF 23 million or 1.3% to CHF 1,691 million while the adjusted result was 0.6% higher. Headcount rose by 601 FTEs or 5.1% to 12,463 FTEs as a result of company acquisitions, the insourcing of external personnel and an increase in customer service and sales staff. The segment result before depreciation and amortisation fell by CHF 10 million or 0.3% to CHF 3,547 million; EBITDA dropped by 2.2% on a like-for-like basis. The profit margin remained unchanged at 42.0%. Depreciation and amortisation increased year-on-year by CHF 51 million or 4.8% to CHF 1,104 million. The increase is primarily attributable to high levels of investment and expenditure in connection with the mobile frequency auction in 2012. The segment result ended the year CHF 61 million or 2.4% lower at CHF 2,443 million. At CHF 1,516 million, capital expenditure was CHF 336 million or 18.1% lower year-on-year. Excluding expenses for the mobile frequencies acquired in 2012 amounting to CHF 360 million, capital expenditure increased by CHF 24 million or 1.6%, mainly due to the expansion of the broadband network and the modernisation of the mobile network.

Number of infinity customers
At the end of 2013, around

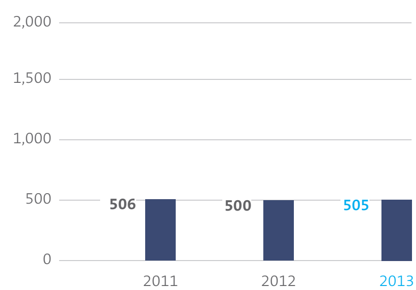
1.7 million

Fastweb

In EUR million, except where indicated	2013	2012	Change
Residential Customers	744	724	2.8%
Corporate Business	771	791	–2.5%
Wholesale hubbing	45	87	–48.3%
Wholesale other	78	92	–15.2%
Revenue from external customers	**1,638**	**1,694**	**–3.3%**
Intersegment revenue	4	6	–
Net revenue	**1,642**	**1,700**	**–3.4%**
Segment expenses	(1,137)	(1,200)	–5.3%
Segment result before depreciation and amortisation	**505**	**500**	**1.0%**
Margin as % of net revenue	30.8	29.4	
Capital expenditure in property, plant and equipment and other intangible assets	565	441	28.1%
Full-time equivalent employees at end of year	2,363	2,893	–18.3%
Broadband access lines at end of year in thousand	1,942	1,767	9.9%

Development of revenue from external customers in EUR million

Development of EBITDA in EUR million



Fastweb's net revenue fell by EUR 58 million or 3.4% to end the year at EUR 1,642 million. The drop in revenue is mainly due to the planned reduction in wholesale revenue from interconnection services (hubbing) with low margins, which fell by EUR 42 million year-on-year. Excluding hubbing, revenue was, in comparison with the previous year, EUR 16 million or 1.0% lower at EUR 1,597 million. Fastweb's broadband customer base grew by 175,000 or 9.9% year-on-year to 1.94 million, thanks in part to the bundled TV and broadband package offered in partnership with Sky Italia. This means that Fastweb is growing faster than the Italian broadband market. In parallel to this, intensive competition reduced average revenue per residential broadband customer by around 6.5%; however, this decline was outweighed by customer growth. At EUR 744 million, revenue from residential customers was up by EUR 20 million or 2.8% in comparison with the previous year. By contrast, revenue from business customers fell by EUR 20 million or 2.5% to EUR 771 million, while revenue from other wholesale business dropped by EUR 14 million or 15.2% to EUR 78 million.

The segment result before depreciation and amortisation totalled EUR 505 million, corresponding to a year-on-year rise of EUR 5 million or 1.0%. The reduction in costs for the network access service had a positive impact on the result. By contrast, customer acquisition costs increased as a result of customer growth. The profit margin improved by 1.4 percentage points to end the year at 30.8%.

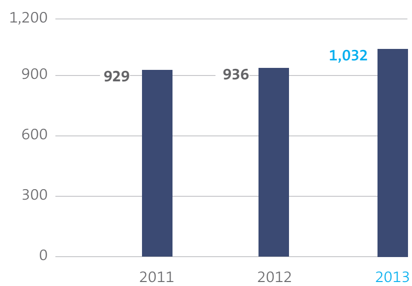
Headcount at the end of 2013 totalled 2,363 FTEs, down by 530 FTEs or 18.3% due to outsourcing.

Capital expenditure was EUR 124 million or 28.1% higher at EUR 565 million as a result of the expansion of the fibre-optic network in Italy. The capital expenditure to net revenue ratio was 34.4% (prior year: 25.9%). Around 40% of investment spending was directly related to customer growth.

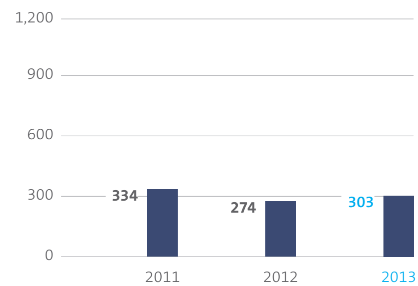
Other operating segments

In CHF million, except where indicated	2013	2012	Change
Revenue from external customers	1,032	936	10.3%
Intersegment revenue	787	792	–0.6%
Net revenue	**1,819**	**1,728**	**5.3%**
Segment expenses	(1,516)	(1,454)	4.3%
Segment result before depreciation and amortisation	**303**	**274**	**10.6%**
Margin as % of net revenue	16.7	15.9	
Capital expenditure in property, plant and equipment and other intangible assets	195	167	16.8%
Full-time equivalent employees at end of year	4,964	4,419	12.3%

Development of revenue from external customers in CHF million



Development of EBITDA in CHF million



Revenue from external customers increased year-on-year by CHF 96 million or 10.3% to CHF 1,032 million. At CHF 612 million, revenue from external customers at Swisscom IT Services was CHF 91 million or 17.5% higher, largely due to acquisitions. In 2013, Swisscom IT Services took over the business platform of Entris Banking and Entris Operations, which is used primarily for processing payment transactions and securities trading for banks. Swisscom IT Services saw incoming orders grow by CHF 273 million or 53.2% to CHF 786 million in comparison with the previous year. Intersegment revenue was CHF 5 million or 0.6% lower year-on-year at CHF 787 million, chiefly due to the lower volume of construction services performed by Group Related Businesses for Swisscom Switzerland. At CHF 1,516 million, segment expense was CHF 62 million or 4.3% higher than the previous year, mainly as a result of increased costs related to corporate acquisitions made by Swisscom IT Services. The segment result before depreciation and amortisation was CHF 29 million or 10.6% higher at CHF 303 million. At 4,964 FTEs, headcount at the end of 2013 was 545 FTEs or 12.3% higher than the previous year, due primarily to corporate acquisitions. Capital expenditure rose by CHF 28 million or 16.8% to CHF 195 million, chiefly as a result of an increase in investment in IT infrastructure by Swisscom IT Services and in ongoing construction projects by Swisscom Real Estate.

Group Headquarters and reconciliation to pension cost

Operating income before depreciation and amortisation decreased by CHF 17 million or 15.5% year-on-year to CHF –127 million, mainly due to the reversal in the prior year of provisions no longer required. Headcount dropped by 22 FTEs or 6.5% to 318 FTEs.
An expense of CHF 17 million is disclosed as a pension cost reconciliation item (prior year: income of CHF 179 million). The prior-year figure of CHF 179 million includes income of CHF 157 million arising from a one-off, non-cash pension plan amendment.

Quarterly review 2012 and 2013

In CHF million, except where indicated	1. quarter	2. quarter	3. quarter	4. quarter	2012	1. quarter	2. quarter	3. quarter	4. quarter	2013
Income statement										
Net revenue	**2,802**	**2,819**	**2,806**	**2,957**	**11,384**	**2,734**	**2,862**	**2,867**	**2,971**	**11,434**
Goods and services purchased	(555)	(566)	(566)	(712)	(2,399)	(552)	(604)	(561)	(621)	(2,338)
Personnel expense	(676)	(659)	(606)	(544)	(2,485)	(671)	(691)	(638)	(706)	(2,706)
Other operating expenses	(564)	(551)	(590)	(691)	(2,396)	(557)	(599)	(596)	(724)	(2,476)
Capitalised costs and other income	91	83	78	121	373	77	103	74	134	388
Operating income (EBITDA)	**1,098**	**1,126**	**1,122**	**1,131**	**4,477**	**1,031**	**1,071**	**1,146**	**1,054**	**4,302**
Depreciation and amortisation	(481)	(482)	(491)	(496)	(1,950)	(491)	(501)	(509)	(543)	(2,044)
Operating income (EBIT)	**617**	**644**	**631**	**635**	**2,527**	**540**	**570**	**637**	**511**	**2,258**
Net interest expense	(58)	(61)	(67)	(63)	(249)	(63)	(62)	(62)	(64)	(251)
Other financial result	(18)	(15)	(10)	(34)	(77)	(2)	4	(11)	1	(8)
Result of associates	6	8	11	7	32	6	6	6	12	30
Income before income taxes	**547**	**576**	**565**	**545**	**2,233**	**481**	**518**	**570**	**460**	**2,029**
Income tax expense	(102)	(114)	(116)	(86)	(418)	(91)	(89)	(116)	(38)	(334)
Net income	**445**	**462**	**449**	**459**	**1,815**	**390**	**429**	**454**	**422**	**1,695**
Share attributable to equity holders of Swisscom Ltd	442	458	448	460	1,808	388	427	450	420	1,685
Share attributable to non-controlling interests	3	4	1	(1)	7	2	2	4	2	10
Earnings per share (in CHF)	8.53	8.84	8.65	8.88	34.90	7.49	8.24	8.69	8.11	32.53
Net revenue										
Swisscom Switzerland	2,079	2,086	2,108	2,188	8,461	2,041	2,109	2,122	2,177	8,449
Fastweb	510	516	492	530	2,048	487	509	494	528	2,018
Other operating segments	427	425	415	461	1,728	412	454	460	493	1,819
Group Headquarters	–	1	–	1	2	–	1	–	–	1
Intersegment elimination	(214)	(209)	(209)	(223)	(855)	(206)	(211)	(209)	(227)	(853)
Total net revenue	**2,802**	**2,819**	**2,806**	**2,957**	**11,384**	**2,734**	**2,862**	**2,867**	**2,971**	**11,434**
Segment result before depreciation and amortisation										
Swisscom Switzerland	923	935	933	766	3,557	877	888	948	834	3,547
Fastweb	131	149	148	174	602	119	139	155	207	620
Other operating segments	70	75	70	59	274	73	86	78	66	303
Group Headquarters	(27)	(30)	(29)	(24)	(110)	(29)	(30)	(27)	(41)	(127)
Reconciliation pension cost	6	3	4	166	179	(5)	(7)	(4)	(1)	(17)
Intersegment elimination	(5)	(6)	(4)	(10)	(25)	(4)	(5)	(4)	(11)	(24)
Total segment result (EBITDA)	**1,098**	**1,126**	**1,122**	**1,131**	**4,477**	**1,031**	**1,071**	**1,146**	**1,054**	**4,302**
Capital expenditure in property, plant and equipment and other intangible assets										
Swisscom Switzerland	337	329	679	507	1,852	284	354	361	517	1,516
Fastweb	135	140	118	138	531	155	160	168	212	695
Other operating segments	36	49	45	37	167	38	38	56	63	195
Group Headquarters	–	–	–	1	1	–	–	–	–	–
Intersegment elimination	(6)	(3)	(6)	(7)	(22)	(3)	(5)	(6)	4	(10)
Total capital expenditure	**502**	**515**	**836**	**676**	**2,529**	**474**	**547**	**579**	**796**	**2,396**
Full-time equivalent employees at end of year										
Swisscom Switzerland	11,999	11,915	11,884	11,862	11,862	12,018	12,344	12,513	12,463	12,463
Fastweb	3,064	3,032	2,911	2,893	2,893	2,389	2,379	2,370	2,363	2,363
Other operating segments	4,501	4,509	4,457	4,419	4,419	4,505	4,802	4,991	4,964	4,964
Group Headquarters	350	349	343	340	340	335	334	320	318	318
Total headcount	**19,914**	**19,805**	**19,595**	**19,514**	**19,514**	**19,247**	**19,859**	**20,194**	**20,108**	**20,108**
Operating free cash flow	483	496	279	624	1,882	245	615	528	590	1,978
Net debt	8,390	9,144	8,622	8,071	8,071	7,931	8,622	8,263	7,812	7,812

In CHF million, except where indicated	1. quarter	2. quarter	3. quarter	4. quarter	2012	1. quarter	2. quarter	3. quarter	4. quarter	2013
Swisscom Switzerland Net revenue and results										
Residential Customers	465	476	474	443	1,858	428	442	469	444	1,783
Small and Medium-Sized Enterprises	119	125	118	110	472	104	109	109	107	429
Corporate Business	147	155	152	148	602	141	145	142	142	570
Revenue mobile single subscriptions	**731**	**756**	**744**	**701**	**2,932**	**673**	**696**	**720**	**693**	**2,782**
Residential Customers	354	336	328	320	1,338	304	289	284	280	1,157
Small and Medium-Sized Enterprises	136	132	128	127	523	124	121	119	117	481
Corporate Business	153	152	151	153	609	146	146	143	142	577
Revenue fixed-line single subscriptions	**643**	**620**	**607**	**600**	**2,470**	**574**	**556**	**546**	**539**	**2,215**
Residential Customers	233	250	281	296	1,060	309	330	352	369	1,360
Small and Medium-Sized Enterprises	20	22	32	38	112	40	46	52	55	193
Revenue bundles	**253**	**272**	**313**	**334**	**1,172**	**349**	**376**	**404**	**424**	**1,553**
Total revenue single subscriptions and bundles	**1,627**	**1,648**	**1,664**	**1,635**	**6,574**	**1,596**	**1,628**	**1,670**	**1,656**	**6,550**
Solution business	85	87	88	100	360	84	87	90	99	360
Hardware sales	137	135	122	167	561	128	143	143	181	595
Wholesale	153	147	151	143	594	149	146	148	145	588
Revenue other	63	56	68	131	318	68	90	56	82	296
Total revenue from external customers	**2,065**	**2,073**	**2,093**	**2,176**	**8,407**	**2,025**	**2,094**	**2,107**	**2,163**	**8,389**
Residential Customers	1,208	1,204	1,227	1,300	4,939	1,190	1,247	1,254	1,294	4,985
Small and Medium-Sized Enterprises	281	287	284	283	1,135	274	282	286	286	1,128
Corporate Business	423	435	431	450	1,739	412	419	419	438	1,688
Wholesale	153	147	151	143	594	149	146	148	145	588
Revenue from external customers	**2,065**	**2,073**	**2,093**	**2,176**	**8,407**	**2,025**	**2,094**	**2,107**	**2,163**	**8,389**
Segment result before depreciation and amortisation										
Residential Customers	748	744	735	659	2,886	710	731	759	698	2,898
Small and Medium-Sized Enterprises	223	225	223	211	882	213	216	222	213	864
Corporate Business	230	235	242	238	945	220	226	231	230	907
Wholesale	94	89	93	91	367	96	96	97	95	384
Network & IT	(372)	(358)	(360)	(433)	(1,523)	(362)	(380)	(363)	(401)	(1,506)
Intersegment elimination	–	–	–	–	–	–	(1)	2	(1)	–
Total segment result (EBITDA)	**923**	**935**	**933**	**766**	**3,557**	**877**	**888**	**948**	**834**	**3,547**
Margin as % of net revenue	44.4	44.8	44.3	35.0	42.0	43.0	42.1	44.7	38.3	42.0
Fastweb, in EUR million										
Residential Customers	182	182	179	181	724	186	186	186	186	744
Corporate Business	183	196	193	219	791	178	193	188	212	771
Wholesale hubbing	27	28	16	16	87	14	11	9	11	45
Wholesale other	29	22	19	22	92	19	21	19	19	78
Revenue from external customers	**421**	**428**	**407**	**438**	**1,694**	**397**	**411**	**402**	**428**	**1,638**
Segment result (EBITDA)	109	124	122	145	500	97	113	126	169	505
Margin as % of net revenue	25.8	28.8	29.9	33.0	29.4	24.4	27.4	31.3	39.4	30.8
Capital expenditure in property, plant and Equipment and other intangible assets	112	116	98	115	441	126	130	137	172	565
Broadband access lines in thousand	1,654	1,673	1,704	1,767	1,767	1,861	1,887	1,911	1,942	1,942

In thousand, except where indicated	1. quarter	2. quarter	3. quarter	4. quarter	2012	1. quarter	2. quarter	3. quarter	4. quarter	2013
Swisscom Switzerland Operational data										
Access lines										
Single subscriptions	2,536	2,465	2,407	2,350	2,350	2,272	2,207	2,142	2,073	2,073
Bundles	557	593	627	663	663	698	729	763	806	806
Fixed access lines	**3,093**	**3,058**	**3,034**	**3,013**	**3,013**	**2,970**	**2,936**	**2,905**	**2,879**	**2,879**
Single subscriptions	1,023	995	969	939	939	909	878	843	810	810
Bundles	659	699	739	788	788	842	889	938	1,001	1,001
Broadband access lines retail	**1,682**	**1,694**	**1,708**	**1,727**	**1,727**	**1,751**	**1,767**	**1,781**	**1,811**	**1,811**
Single subscriptions	236	245	248	270	270	291	289	281	276	276
Bundles	419	449	480	521	521	569	613	662	724	724
Swisscom TV access lines	**655**	**694**	**728**	**791**	**791**	**860**	**902**	**943**	**1,000**	**1,000**
Prepaid single subscriptions	2,243	2,231	2,210	2,199	2,199	2,196	2,180	2,173	2,176	2,176
Postpaid single subscriptions	3,657	3,654	3,672	3,702	3,702	3,741	3,763	3,783	3,812	3,812
Mobile access lines single subscriptions	**5,900**	**5,885**	**5,882**	**5,901**	**5,901**	**5,937**	**5,943**	**5,956**	**5,988**	**5,988**
Bundles	182	229	271	316	316	333	364	390	419	419
Mobile access lines	**6,082**	**6,114**	**6,153**	**6,217**	**6,217**	**6,270**	**6,307**	**6,346**	**6,407**	**6,407**
Revenue generating units (RGU)	**11,512**	**11,560**	**11,623**	**11,748**	**11,748**	**11,851**	**11,912**	**11,975**	**12,097**	**12,097**
Broadband access lines wholesale	179	176	181	186	186	196	201	208	215	215
Unbundled fixed access lines	312	317	310	300	300	290	280	268	256	256
Bundles										
2play bundles	240	237	239	248	248	257	264	270	279	279
3play bundles	347	374	387	403	403	428	451	479	517	517
4play bundles	72	88	113	137	137	157	174	189	205	205
Total bundles	**659**	**699**	**739**	**788**	**788**	**842**	**889**	**938**	**1,001**	**1,001**
Data traffic in million										
Fixed-line traffic in minutes	2,158	1,989	1,847	1,961	7,955	1,918	1,889	1,728	1,830	7,365
Mobile traffic in minutes	1,654	1,633	1,612	1,683	6,582	1,728	1,817	1,770	1,831	7,146
Data SMS mobile	691	694	694	677	2,756	628	607	598	552	2,385
Swisscom Group Information by geographical regions										
Net revenue in Switzerland	2,278	2,285	2,299	2,406	9,268	2,235	2,337	2,358	2,428	9,358
Net revenue in other countries	524	534	507	551	2,116	499	525	509	543	2,076
Total net revenue	**2,802**	**2,819**	**2,806**	**2,957**	**11,384**	**2,734**	**2,862**	**2,867**	**2,971**	**11,434**
EBITDA Switzerland	966	980	979	939	3,864	910	933	993	849	3,685
EBITDA in other countries	132	146	143	192	613	121	138	153	205	617
Total EBITDA	**1,098**	**1,126**	**1,122**	**1,131**	**4,477**	**1,031**	**1,071**	**1,146**	**1,054**	**4,302**
Capital expenditure in Switzerland	366	374	718	536	1,994	319	387	409	571	1,686
Capital expenditure in other countries	136	141	118	140	535	155	160	170	225	710
Total capital expenditure	**502**	**515**	**836**	**676**	**2,529**	**474**	**547**	**579**	**796**	**2,396**
Full-time equivalent employees in Switzerland	16,503	16,426	16,339	16,269	16,269	16,483	17,099	17,449	17,362	17,362
Full-time equivalent employees in other countries	3,411	3,379	3,256	3,245	3,245	2,764	2,760	2,745	2,746	2,746
Total headcount	**19,914**	**19,805**	**19,595**	**19,514**	**19,514**	**19,247**	**19,859**	**20,194**	**20,108**	**20,108**

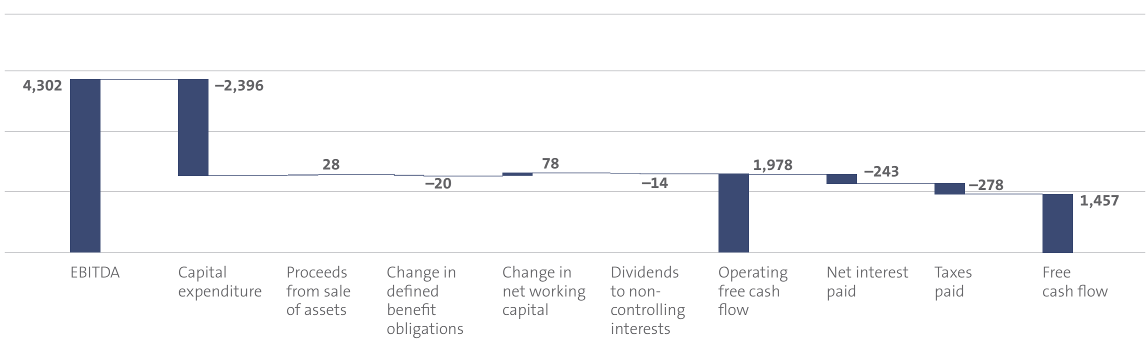
Group financial position

Financial position

Cash flows

In CHF million	2013	2012	Change
Operating income before depreciation and amortisation (EBITDA)	4,302	4,477	(175)
Capital expenditure in property, plant and equipment and other intangible assets	(2,396)	(2,529)	133
Proceeds from sale of tangible and other intangible assets	28	25	3
Change in defined benefit obligations	(20)	(180)	160
Change in net working capital and other cash flows from operating activities	78	103	(25)
Dividends paid to non-controlling interests	(14)	(14)	–
Operating free cash flow	**1,978**	**1,882**	**96**
Net interest paid	(243)	(236)	(7)
Income taxes paid	(278)	(190)	(88)
Free cash flow	**1,457**	**1,456**	**1**
Other cash flows from investing activities, net	(149)	1	(150)
Issuance and repayment of financial liabilities, net	37	(75)	112
Dividends paid to equity holders of Swisscom Ltd	(1,140)	(1,140)	–
Other cash flows	(21)	(18)	(3)
Net increase in cash and cash equivalents	**184**	**224**	**(40)**

Free cash flow in CHF million



Free cash flow was almost unchanged versus the previous year at CHF 1,457 million. Higher income tax payments and higher net interest payments offset the increase in the operating cash flow. The main reason for the increase in operating free cash flow was the lower capital expenditure in comparison with the previous year. Capital expenditure fell by CHF 133 million or 5.3% year-on-year to CHF 2,396 million. Excluding these costs, investments for mobile frequencies increased by CHF 227 million or 10.5% to CHF 360 million, primarily as a result of increased investment at Fastweb. The change in defined benefit obligations in the previous year includes non-cash non-recurring income of CHF 157 million resulting from a pension plan adjustment. Net working capital was CHF 78 million lower versus the end of 2012 (prior year: CHF 103 million). The decrease is primarily the result of lower trade receivables. In 2013, Swisscom paid dividends totalling CHF 1,140 million to its shareholders (prior year: CHF 1,140 million).

Net asset position

Balance sheet

In CHF million	31.12.2013	31.12.2012	Change
Assets			
Cash and cash equivalents and current financial assets	883	578	52.8%
Trade and other receivables	2,516	2,658	–5.3%
Property, plant and equipment	9,156	8,549	7.1%
Goodwill	4,809	4,662	3.2%
Other intangible assets	2,053	2,121	–3.2%
Associates and non-current financial assets	346	465	–25.6%
Income tax assets	301	340	–11.5%
Other current and non-current assets	432	423	2.1%
Total assets	**20,496**	**19,796**	**3.5%**
Liabilities and equity			
Financial liabilities	8,823	8,783	0.5%
Trade and other payables	1,870	1,993	–6.2%
Defined benefit obligations	1,293	2,108	–38.7%
Accrued liabilities	799	840	–4.9%
Income tax liabilities	640	425	50.6%
Other current and non-current liabilities	1,069	930	14.9%
Total liabilities	**14,494**	**15,079**	**–3.9%**
Share of equity attributable to equity holders of Swisscom Ltd	5,973	4,690	27.4%
Share of equity attributable to non-controlling interests	29	27	7.4%
Total equity	**6,002**	**4,717**	**27.2%**
Total liabilities and equity	**20,496**	**19,796**	**3.5%**
Equity ratio at end of year	29.3%	23.8%	

Total assets rose by CHF 0.7 billion or 3.5% to CHF 20.5 billion, mainly due to the high investment activity and acquisition of subsidiaries.

In CHF million	31.12.2011	31.12.2012	31.12.2013	Change
Property, plant and equipment	8,222	8,549	9,156	607
Goodwill	4,664	4,662	4,809	147
Other intangible assets	1,879	2,121	2,053	(68)
Receivables	2,948	3,081	346	(2,735)
Liabilities	(3,738)	(3,763)	(790)	2,973
Other net operating assets	**13,975**	**14,650**	**15,574**	**924**
Cash and cash equivalents and financial assets	522	712	884	172
Financial liabilities	(8,831)	(8,783)	(8,823)	(40)
Defined benefit obligations	(1,489)	(2,108)	(1,293)	815
Income tax assets and liabilities, net	(16)	(85)	(339)	(254)
Investments in associates	233	268	153	(115)
Other assets, net	299	63	(154)	(217)
Equity	**4,693**	**4,717**	**6,002**	**1,285**

Goodwill

The net carrying amount of goodwill is CHF 4,809 million, the bulk of which relates to Swisscom Switzerland (CHF 4,065 million). This goodwill arose primarily in 2007 in connection with the repurchase of the 25% stake in Swisscom Mobile Ltd sold to Vodafone in 2001. Following the repurchase, the mobile, fixed-network and solutions businesses were organisationally combined and merged to create the new company Swisscom (Switzerland) Ltd. The valuation risk of this goodwill item is extremely low. The net carrying amount of Fastweb goodwill is EUR 492 million (CHF 604 million). Goodwill in respect of other operating segments amounts to CHF 140 million.

Post-employment benefits

The defined benefit obligations disclosed in the consolidated financial statements are measured in accordance with International Financial Reporting Standards (IFRS). Net obligations recognised on the balance sheet amounted to CHF 1,293 million, corresponding to a reduction of CHF 815 million compared to the prior year. This is largely due to a higher discount rate and the sound performance of the plan assets. In accordance with Swiss accounting standards (Swiss GAAP ARR) the surplus amounts to some CHF 0.4 billion corresponding to a coverage ratio of 106%. The main reasons for the differences in accordance with IFRS of CHF 1.7 billion are the application of differing actuarial assumptions with regard to the discount rate (CHF 0.7 billion) and life expectancy (CHF 0.4 billion), and a different actuarial measurement method (CHF 0.6 billion). IFRS measurement takes into account future salary, contribution and pension increases and early retirements.

Equity

Equity rose by CHF 1,285 million or 27.2% to CHF 6,002 million. The dividend payments of CHF 1,140 million to the equity holders of Swisscom Ltd were more than offset by net income of CHF 1,695 million and net gains of CHF 740 million recognised directly in equity. Net gains recognised directly in equity include non-cash actuarial gains from pension plans totalling CHF 847 million as well as unrealised losses of CHF 63 million resulting from currency translation of foreign Group companies. The CHF/EUR exchange rate rose from 1.207 at the end of 2012 to 1.228. At 31 December 2013, cumulative currency translation losses recognised in equity amounted to CHF 1,559 million (after tax).

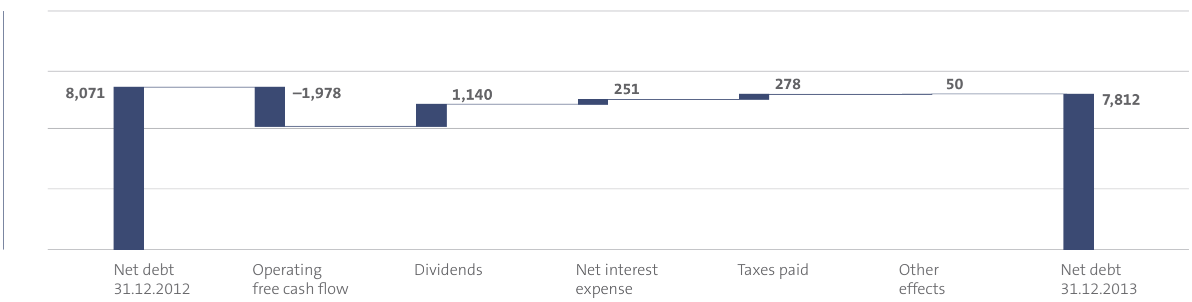
Distributable reserves are calculated on the basis of equity reported in the separate financial statements of Swisscom Ltd in accordance with statutory accounting provisions, rather than on the basis of equity as disclosed in the consolidated balance sheet prepared in accordance with International Financial Reporting Standards (IFRS). At 31 December 2013, the equity of Swisscom Ltd amounted to CHF 4,243 million. The difference between this amount and equity disclosed in the consolidated balance sheet is essentially due to earnings retained by subsidiaries as well as different accounting and valuation methods. Under Swiss company law, share capital and that part of the general reserves representing 20% of the share capital may not be distributed. At 31 December 2013, Swisscom Ltd had distributable reserves of CHF 4,180 million.

Net debt

Net debt comprises financial liabilities less cash and cash equivalents, current financial assets and non-current, fixed-interest-bearing deposits. Swisscom's goal is to achieve a maximum net debt/ EBITDA ratio of around 2. This value may be exceeded temporarily. Financial leeway exists if the target is not reached.

In CHF million, except where indicated	31.12.2011	31.12.2012	31.12.2013	Change
Net debt	8,309	8,071	7,812	−3.2%
Ratio total liabilities/total assets	77.9%	76.2%	70.7%	
Ratio net debt/equity	1.9	1.7	1.3	(0.4)
Ratio net debt/EBITDA	1.8	1.8	1.8	–

Development of net debt in CHF million



The ratio of net debt to EBITDA remained unchanged year-on-year at 1.8. In recent years, Swisscom has taken advantage of favourable capital market conditions with a view to optimising the interest and maturity structure of the Group's financial obligations. The share of the Group's variable-rate financial liabilities amounts to around 20%.

Maturity profile of financial liabilities

Swisscom aims for a broadly diversified debt portfolio. This involves paying particular attention to balancing maturities and a diversification of financing instruments and markets. The following table shows the maturity profile of interest-bearing financial liabilities at nominal value as at 31 December 2013:

In CHF million	Due within 1 year	Due within 1 to 2 years	Due within 3 to 5 years	Due within 6 to 10 years	Due after 10 years	Total
Bank loans	–	430	650	148	85	1,313
Debenture bonds	1,250	500	2,100	1,114	500	5,464
Private placements	205	–	672	278	–	1,155
Finance lease liabilities	13	14	30	40	558	655
Other financial liabilities	3	1	1	–	–	5
Total	**1,471**	**945**	**3,453**	**1,580**	**1,143**	**8,592**

Capital expenditure

Introduction

See Report
pages 17–18

Swisscom remains committed to maintaining the high quality and availability of its network infrastructure in Switzerland, in particular by making targeted investments in fibre-optic network expansion, migration to an all-IP-based infrastructure, and ensuring a state-of-the-art mobile network.
In Italy, Fastweb operates a network comprising a proprietary fibre-optic network and a copper-based broadband access infrastructure. This network infrastructure is also undergoing further expansion in specific areas.

Capital expenditure in the 2013 financial year

In CHF million, except where indicated	2011	2012	2013	Change
Fixed access	409	425	410	–3.5%
Mobile access	151	226	271	19.9%
Expansion of the fibre-optic network	301	317	292	–7.9%
Customer driven	172	162	159	–1.9%
Projects and others [1]	367	362	384	6.1%
Mobile frequencies	–	360	–	–
Swisscom Switzerland	**1,400**	**1,852**	**1,516**	**–18.1%**
Fastweb	552	531	695	30.9%
Other operating segments	169	167	195	16.8%
Group Headquarters and elimination	(26)	(21)	(10)	–52.4%
Total capital expenditure in tangible and other intangible assets	**2,095**	**2,529** [2]	**2,396** [2]	**–5.3%**
Total capital expenditure as % of net revenue	18.3	22.2	21.0	

[1] Including All IP migration.
[2] Excluding capital expenditure totalling CHF 49 million (prior year: CHF 32 million) in a real-estate project for which a sales contract was signed and an advance payment made by the buyer in the same amount.

Swisscom's capital expenditure was CHF 133 million or 5.3% lower year-on-year at CHF 2,396 million. The prior-year figure included CHF 360 million for investments in existing and new mobile frequencies. Excluding these costs, capital expenditure was up by 10.5% and amounted to 21.0% of net revenue (prior year: 19.1% adjusted). Swisscom Switzerland accounted for 63% of 2013 capital expenditure, while Fastweb accounted for 29% and other operating segments 8%.
Capital expenditure incurred by Swisscom Switzerland fell year-on-year by CHF 336 million or 18.1% to CHF 1,516 million. Excluding investments for mobile frequencies, capital expenditure was CHF 24 million or 1.6% higher, corresponding to 17.9% of net revenue (prior year: 17.6% adjusted). The increase is attributable to the expansion of the broadband network and, in particular, the modernisation of the mobile network with the latest-generation LTE (Long Term Evolution) mobile technology.
Fastweb's capital expenditure was CHF 164 million or 30.9% higher year-on-year at CHF 695 million, which represented an increase of EUR 124 million or 28.1% to EUR 565 million in local currency terms. The main reason for increase was fibre-optic network expansion in Italy. The capital expenditure to net revenue ratio amounted to 34.4% (prior year: 25.9%). Around 40% of total capital expenditure are related to the customer growth.
At CHF 195 million, capital expenditure incurred by other operating segments was CHF 28 million or 16.8% higher year-on-year, chiefly as a result of an increase in investment in IT infrastructure by Swisscom IT Services and in ongoing construction projects by Swisscom Real Estate.

Supplement and outlook

Events after the balance sheet date

The Swisscom Board of Directors approved the release of this Annual Report on 5 February 2014. As of this date, no significant events after the balance sheet date occurred.

Outlook

Financial outlook 2014

Swisscom expects the 2014 year-end figures for revenue and EBITDA to show moderate growth. Excluding Fastweb, Swisscom expects to close 2014 with revenue of around CHF 9.45 billion and EBITDA of at least CHF 3.7 billion. The trend for revenue and income is being driven by a slight increase in revenue from services, coupled with ongoing stagnation in the business customer segment due to persistent price erosion. The companies acquired in 2013 will also contribute some CHF 80 million to growth. The outlook for EBITDA remains predicated on the assumption that no material restructuring and integration costs will be incurred. Expansion of the network infrastructure will again entail high capital expenditure of around CHF 1.75 billion in 2014.
Fastweb is expected to close 2014 with revenue of around EUR 1.65 billion, EBITDA of at least EUR 0.5 billion, and capital expenditure of around EUR 0.55 billion. The high figure for capital expenditure is due to expansion of the fibre-optic network in Italy.
Assuming a stable CHF/EUR exchange rate of 1.23, Swisscom therefore expects to post Group revenue of around CHF 11.5 billion, EBITDA of around CHF 4.35 billion and capital expenditure of CHF 2.4 billion at the end of 2014. If all targets are met, Swisscom will once again propose a dividend of CHF 22 per share for the 2014 financial year to the Annual General Meeting of Shareholders.

Risks

Swisscom's risk management is aimed at safeguarding the company's enterprise value.

Risk management system

Swisscom's enterprise risk management (ERM) applies Group-wide and takes both internal and external events into account. Swisscom observes the established COSO II and ISO 31000 risk management standards and thus has a risk management system in place that complies with the requirements of its own corporate governance policy as well as those under Swiss law.

Objectives

Swisscom's risk management is aimed at safeguarding the company's enterprise value. This is assured by having in place a recognised and appropriate Group-wide risk management system as well as comprehensive, meaningful, level-appropriate reporting, suitable documentation and a risk-aware corporate culture. Risks are events or situations which could jeopardise the company's ability to achieve its objectives should they occur.

Organisation

The Board of Directors delegates responsibility for implementing the risk management system to the CEO Swisscom Ltd. A central organisational unit Risk Management reports to the CFO Swisscom Ltd, coordinates all organisational units charged with risk management tasks and oversees these insofar as this is required for reporting purposes. This ensures comprehensive, Group-wide coordinated risk management and reporting. As part of their remit, employees entrusted with risk management tasks have an unrestricted right to information and are authorised to access and view all relevant documents and records.
Swisscom employs special instruments in individual risk areas. In financial risk management, for example, quantitative tools (sensitivity analyses) are used to assess interest rate and currency risks. Compliance risks and financial reporting risks are overseen by specialist central organisational units which report to the central Risk Management organisational unit and are responsible for meeting the goals of the company's internal control system (ICS).

Process

The main risks to which Swisscom is exposed are identified in a comprehensive risk analysis. Each risk is assigned a risk owner. To enable the early identification, assessment and management of risks and their inclusion in strategic planning, the central Risk Management unit works closely with the Controlling and Strategy departments and other relevant departments. Risk management covers risks in the areas of strategy (including market risks), operations (including finance risks), compliance and financial reporting. The risks are assessed according to their probability of occurrence and their qualitative and quantitative effects in the event of occurrence, and are managed on the basis of a risk strategy. The risks are evaluated in terms of their impact on key performance indicators reported by Swisscom. The risk profile is reviewed and updated quarterly. The Board of Directors' Audit Committee and the Swisscom Group Executive Board are informed about significant risks, their potential effects and the status of measures on a quarterly basis, and the Board of Directors on an annual basis. The effectiveness of the risk strategies and measures taken is assessed quar-

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terly. Information on the internal control system, compliance management and internal auditing is provided in Section 3.9 of the Corporate Governance Report, Controlling instruments of the Board of Directors vis-à-vis the Group Executive Board.

General statement on the risk situation

Risks are driven by changes in technology, the regulatory environment, markets, competition and customer behaviour. The importance of established telecoms services is continuing to decline, and the associated loss of revenue from traditional core business needs to be compensated by driving customer and volume growth and offering new services. The economic environment remains uncertain and is having an effect, among other things, on customers and suppliers. Over the long term the trend in the ICT market will necessitate fundamental changes in the approach to risks related to human capital, technology and the business model. Pending regulatory decisions pose a latent risk which could have a major impact on Swisscom's financial development, as illustrated by the following selected key risk factors.

Risk factors

Telecommunications market

Changes within the telecoms market, structural adjustments and competition from service providers who do not maintain their own telecoms infrastructure are exerting pressure on transformation. It remains to be seen which technologies and services will emerge the winners. Current trends are increasingly necessitating the integration of a growing number of technologies and devices in order to win new customers and deliver multimedia services. The integration and operation of new infrastructures entails significant risks in terms of interfaces to existing infrastructure. The occurrence of such risks could delay implementation of the strategy or have a detrimental effect on customer satisfaction. Swisscom has initiated measures in various areas to address this transformation process.

Politics and regulation

For Swisscom, telecommunications and antitrust legislation entail risks which could have a sustained impact on the company's future financial position and results of operations and hence negatively impact Swisscom's products and services as well as its investment activities. The main risks concern the possibility of stricter price regulations (for leased lines, for example), which would further restrict Swisscom's room for manoeuvre; or sanctions by the Competition Commission, which would reduce Swisscom's operating results and damage the company's good reputation.
New initiatives to revise the Telecommunications Act (TCA) and the related ordinance (OTS) further increase the regulatory risk. These include a possible regulation of roaming charges, mobile telephony and fibre-optic technology, or establishment of the principle of network neutrality. A change in the method used to calculate costs relating to regulated access services could have also negative implications for Swisscom.
Increased demands on the part of the regulator with regard to basic service provision (for example, universal entitlement to faster Internet access) or cooperation in the fight against crime (for example, entitlement to real-time monitoring of mobile phones) would push up expenditure considerably and have an adverse impact on Swisscom's results.

Access network expansion

Customer demand for broadband access is growing rapidly, as is the popularity of mobile devices and IP-based services (smartphones, IP TV, OTTs, etc.). Swisscom faces tough competition from cable companies and other network operators as it strives to meet current and future customer needs and defend its own market shares. The necessary network expansion calls for major investments which need to be amortised over several decades. To mitigate financial risks and ensure optimum network coverage, expansion is determined by population density and customer demand. The risks would be substantial if Swisscom were forced to spend more on network expansion than planned, or if projected long-term earnings were to fall. Risks will be minimised by adapting expansion of the access network to changing framework conditions.

Human capital

Constant changes in framework conditions and markets necessitate a change in corporate culture. The key challenges in this context lie in maintaining employee motivation and high staff loyalty despite cost pressure, while managing growth and efficiency, increasing employees' ability to adapt their skills and ensuring Swisscom remains an attractive employer.

Economic climate, market consolidation in Italy, regulation and recoverability of Fastweb's assets

A potential consolidation of the Italian market could have significant ramifications for Swisscom's subsidiary Fastweb. In addition, Italy's economic development and competitive dynamics carry risks which could have a detrimental impact on Fastweb's strategy and jeopardise projected revenue growth. The impairment test performed in 2013 confirmed the recoverable value of Fastweb's assets. The recoverability of Fastweb's net assets recognised in the consolidated financial statements is contingent above all on achieving the financial targets set out in the business plan (revenue growth, improvement in EBITDA margin and reduction in capital expenditure ratio). If future growth is lower than projected, there is a risk that this will result in a further impairment loss. Major uncertainty also surrounds the future interest rate trend and the country risk premium. An increase in interest rates or the country risk premium could lead to an impairment loss. Fastweb's business operations are also influenced by European and Italian telecommunications legislation. Regulatory risks can jeopardise the achievement of targets and reduce the enterprise value.

Business interruption

Usage of Swisscom's services is heavily dependent on technical infrastructure such as communications networks and IT platforms. Any major disruption to business operations poses a high financial risk as well as a substantial reputation risk. Force majeure, human error, hardware or software failure, criminal acts by third parties (for example, computer viruses or hacking) or the ever-growing complexity and interdependence of modern technologies can cause damage or interruption to operations. Built-in redundancy, contingency plans, deputising arrangements, alternative locations, careful selection of suppliers and other measures are designed to ensure Swisscom can deliver the level of services that customers expect at all times.

Information technologies

Swisscom is in the midst of a transformation from line-switched TDM technology to IP technology. This transformation should enable Swisscom to develop and roll out new products and services more flexibly, efficiently and cost-effectively than before. Initial results are positive, but Swisscom is entering new territory and therefore taking on higher risks. Swisscom's highly complex IT architecture entails high risks during both the implementation and operating phases. These risks have the potential, among other things, to delay the rollout of new services, increase costs and impact competitiveness. The transformation is being monitored by the Swisscom Switzerland Management Board.

Environment and health

Electromagnetic radiation (for example from mobile antennas or mobile handsets) has repeatedly been claimed to be potentially harmful to the environment and to health. Under the terms of the Ordinance on Non-Ionising Radiation (ONIR), Switzerland has adopted a so-called precautionary principle and introduced limits for base stations that are ten times higher than the EU's limits. The public's wary attitude to mobile antenna sites in particular is impeding Swisscom's network expansion. There is a future risk that regulations governing electromagnetic emissions and legal requirements for the construction of mobile base stations may be further tightened. This would result in additional costs for network expansion and operation. Even without stricter legislation, public concerns about the effects of electromagnetic radiation on the environment and health could further hamper the construction of wireless networks in the future and drive up costs. Such concerns could also reduce intensity of mobile phone usage.

Climate change poses risks for Swisscom in the form of increased levels of precipitation as well as higher average or extreme temperatures. These trends could impact the operability of Swisscom's telecoms infrastructure, particularly in view of the potential risk to base stations and local exchanges. The analysis of risks and opportunities posed by climate change is based on the official reports of the Federal Office for the Environment (FOEN) on climate change, published in October 2007 and October 2011.

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