Management Commentary

Helping customers find their way and enjoy the best experiences in the networked world.

Every 16 months

the volume of data
used in the fixed network
increases by 100%.

Every 12 months

the volume of data
used in the mobile network
increases by 100%.

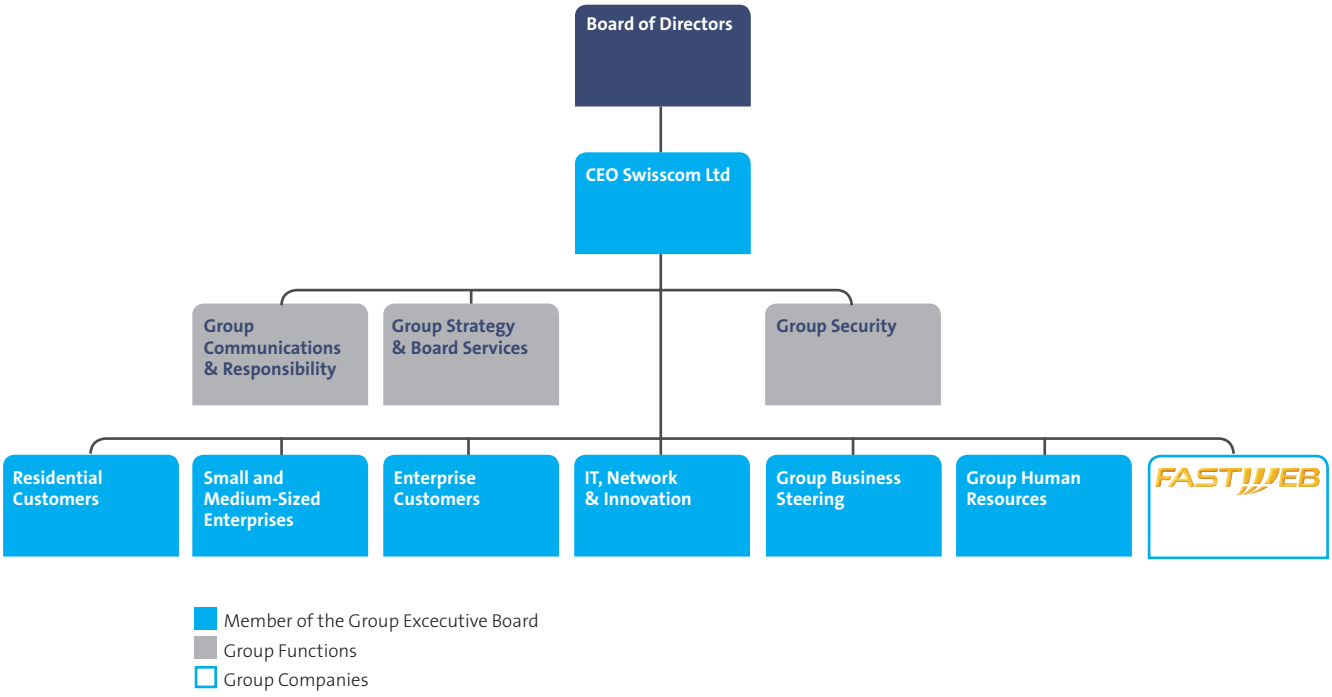
Strategy, organisation and environment

The corporate strategy "Swisscom 2020" is aimed at maintaining Swisscom's position in the ICT market and offering customers only the best. Trusted, simple, inspiring.

Group structure and organisation

Management structure

Swisscom has merged the corporate customer activities of its Corporate Business, Network & IT and Swisscom IT Services divisions so it is able to provide business customers with one-stop offerings and speed up the delivery of cloud-based solutions. Since 1 January 2014, all corporate customers have been 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 is now 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. Swisscom IT Services will be integrated into Swisscom Switzerland, which will result in a simplified Group structure and shorter decision-making paths.
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 of Swisscom Ltd, Urs Schaeppi. The heads of the business divisions Residential Customers, Small and Medium-Sized Enterprises, Enterprise Customers and IT, Network & Innovation, along with the heads of the Group divisions, report directly to the CEO of Swisscom Ltd. Swisscom's Italian subsidiary, Fastweb, is managed via the Board of Directors chaired by Swisscom's CEO.



Group structure

The holding company Swisscom Ltd is responsible for overall management as well as the strategic and financial management of the Swisscom Group. By law, the Swiss Confederation must hold the majority of shares in Swisscom Ltd. At 31 December 2014, the Confederation held 51.0% of the shares in Swisscom Ltd.

At 31 December 2014, 28 Swiss subsidiaries (prior year: 27) and 32 foreign subsidiaries (prior year: 33) were fully consolidated in Swisscom's consolidated financial statements, while 7 associates (prior year: 7) were accounted for according to the equity method. Swisscom also holds various non-controlling interests in growth companies active in the IT, communications and entertainment markets. Swisscom Ltd mainly holds direct shareholdings in Swisscom (Switzerland) Ltd, Swisscom Broadcast Ltd and Swisscom Directories Ltd. Fastweb S.p.A. (Fastweb) is held indirectly via Swisscom (Switzerland) Ltd and intermediate companies in Belgium and Italy. Swisscom Re Ltd in Liechtenstein is the Group's own reinsurance company.

In September 2014, Swisscom acquired PubliGroupe Ltd for a purchase price of CHF 474 million. PubliGroupe Ltd mainly operates in the Swiss directory market. Prior to the takeover, it held half of the Local Group (Swisscom Directories Ltd, LTV Yellow Pages Ltd and local.ch Ltd), with Swisscom holding the other half. The main objective behind the acquisition of PubliGroupe is to gain full control over the Local Group and to develop it further. Following the takeover, LTV Yellow Pages Ltd and local.ch Ltd were merged with Swisscom Directories Ltd. Swisscom and Tamedia now intend to merge their directories business. The planned partnership between Swisscom and Tamedia is subject to the approval of the Competition Commission. Swisscom will hold 69% of the joint subsidiary and fully consolidate the company. PubliGroupe holds other interests in media companies and providers of media services. Swisscom is planning to sell the interests in the media companies and will evaluate all options for the other interests.

In January 2015, Swisscom acquired Veltigroup, thus expanding its ICT portfolio for business customers and its presence in western Switzerland. Veltigroup is domiciled in Lausanne and is a leading ICT service provider in western Switzerland. Veltigroup has around 480 employees in Switzerland and offers companies a comprehensive ICT range, from infrastructure to end-client services and solutions.

Segment reporting

For financial reporting purposes, the business divisions of Swisscom are allocated to individual segments based on the management structure. For practical reasons, segment reporting has not been changed for the 2014 financial year. Consequently, as in the past, the 2014 consolidated financial statements refer to the segments "Residential Customers", "Small and Medium-Sized Enterprises", "Corporate Business", "Wholesale" and "Network & IT", which are grouped together as "Swisscom Switzerland". Swisscom IT Services is accounted for under "Other Operating Segments". Segment reporting will be adjusted in line with the management structure from 2015. It will comprise the following: Swisscom Switzerland, Fastweb and Other Operating Segments. Swisscom Switzerland covers the segments Residential Customers, Small and Medium-Sized Enterprises, Enterprise Customers, Wholesale and IT, Network & Innovation. Group Headquarters, which primarily includes the Group divisions as well as the employment company Worklink AG, will continue to be reported separately.

Structure of 2015 segment reporting

	Swisscom Switzerland[1]	Fastweb	Other operating segments[2]	Group Headquarters
Subsidiaries	> Swisscom (Switzerland) Ltd[3] > CT Cinetrade Ltd[4] > DL-Groupe GMG AG > Swisscom Banking Provider Ltd > Swisscom Directories Ltd > Swisscom ITS Custom Solutions Ltd > Swisscom Immobilien Ltd > Veltigroup > Wingo Ltd	> Fastweb S.p.A.	> Alphapay Ltd > BFM Business Fleet Management Ltd > Billag Ltd > Cablex Ltd > Datasport Ltd > Swisscom Broadcast Ltd > Swisscom Energy Solutions Ltd > Swisscom Event & Media Solutions Ltd > Hospitality Services[5] > PubliGroupe Ltd[6] > Mona Lisa Capital Ltd[7]	> Swisscom Ltd > Swisscom Belgium N.V. > Swisscom Italia S.r.l. > Swisscom Re Ltd > Worklink AG
Associates	> Belgacom International Carrier SA	> Metroweb S.p.A.	> Medgate Holding Ltd > Zanox Ltd > Venturing Participations	

[1] Swisscom Switzerland comprises the operating segments Residential Customers, Small and Medium-Sized Enterprises, Enterprise Customers, Wholesale and IT, Network & Innovation.
[2] Other operating Segments comprises the operating segments Participations, Health, Connected Living and Hospitality Services.
[3] Swisscom (Switzerland) Ltd has operating subsidiaries in Austria, the Netherlands, Singapore, Switzerland and the USA.
[4] CT Cinetrade Ltd has subsidiaries in Switzerland: kitag kino-theater Ltd, PlazaVista Entertainment AG and Teleclub AG.
[5] Hospitality Services has subsidiaries in Austria, Belgium, Denmark, Finland, France, Germany, Italy, Luxembourg, the Netherlands, in Norway, Portugal, Romania, Spain, the UK and the USA.
[6] PubliGroupe Ltd has subsidiaries in France, Germany, the Netherlands, Sweden and Switzerland.
[7] Mona Lisa Capital Ltd is a venturing participation.

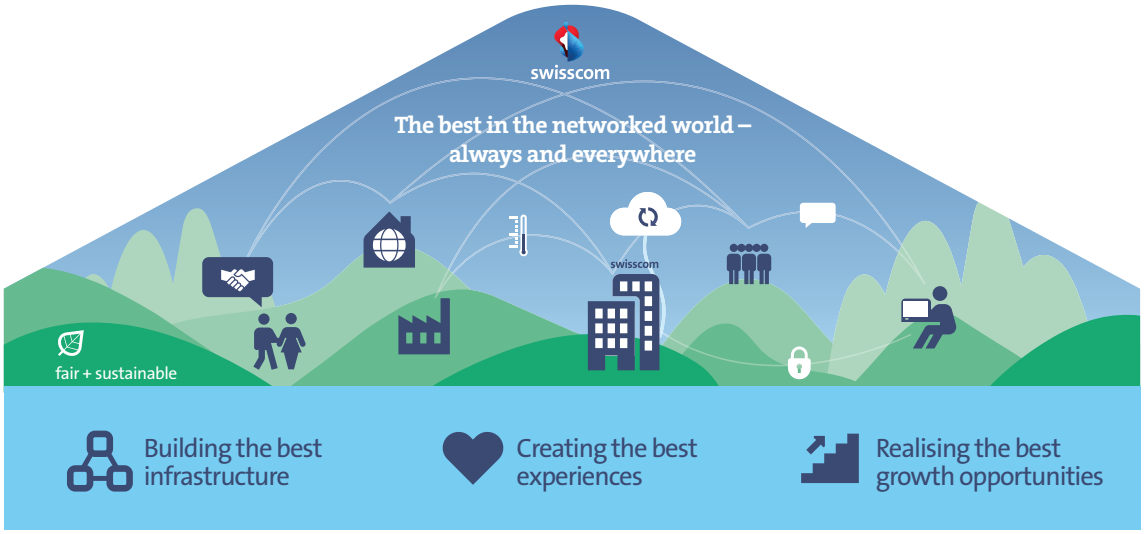
Corporate strategy and objectives

Corporate strategy

Swisscom commands a leading position in the mobile, fixed, broadband and digital TV submarkets. It is also one of the leading providers in the IT services market. Technological change coupled with intensive local and global competition and changing customer requirements are steadily eroding prices and volumes in the classical usage-based business. 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.
Three key trends are changing the ICT sector and exerting a significant influence on Swisscom's strategy:

> **Always online:** A few years from now, Swisscom customers will be able to access all their private and work-related applications and data in real time from any digital device. Technical innovations are fundamentally changing the way in which customers interact and communicate with each other and with devices. As a result of digitalisation, not only people but also smart applications and devices are becoming increasingly interconnected. Networking and digitalisation are revolutionising value chains, production processes and customer contacts in all sectors of the economy.
> **Internet-based:** In future, all products and services will be operated on the basis of Internet protocol. Storage space, processing power and software will increasingly be sourced from the Internet. This trend is driving new business models and generating better customer experiences.
> **Global competition:** Digitalisation and the spread of Internet-based services are creating international markets. Worldwide competitors are benefiting from global economies of scale and are transforming business models through enhanced use of customer data. In the telecommunications industry, too, the trend towards consolidation looks set to continue. Many telecommunications providers are expanding their business to include offerings in the IT, media and entertainment fields.

Swisscom firmly believes that a competent and trustworthy partner is needed in this increasingly interconnected and digitalised world. In this capacity Swisscom aims to inspire people and play a key role in turning Switzerland into a leading ICT centre. It wants to play an active part in shaping connectivity for the community at large, and to position itself successfully as an exemplary company in a digital world. This objective is reflected in Swisscom's vision and corporate strategy.



The vision of Swisscom: The best in the networked world – always and everywhere

At Swisscom, people and their relationships are at the heart of all our activities. Customer focus, sustainability, passion, curiosity and reliability are the values that guide our employees' actions. As the best partner in the networked world, Swisscom strives to ensure simplicity and is a trusted and inspiring partner for its customers. Swisscom helps customers feel secure and at ease, and enables them to find what they are looking for quickly and simply, and to experience and achieve extraordinary things. Swisscom also helps business customers to create a flexible ICT infrastructure, adjust their business processes to meet the new challenges of the digital world, and to optimise communication and collaboration among their employees. Due to the value that Swisscom creates and, indirectly, its high level of investment from which other companies in Switzerland benefit, Swisscom plays a major role in Switzerland's competitiveness and contributes significantly to the country's GDP and employment.
To be the best partner, Swisscom must meet the highest expectations in terms of infrastructure, customer experience and growth.

Building the best infrastructure

Infrastructure is the foundation that allows Swisscom to deliver its products and services and provide a consistently positive customer experience. Swisscom wants to offer its customers in Switzerland and Italy the leading IT and communications infrastructure: one that will generate the best experiences, enable Swisscom to differentiate itself from the competition, and enhance efficiency. Swisscom fulfils the ever-growing requirements of its customers with networks that are second to none in terms of security, availability and performance. In the fixed network area, Swisscom's focus is on driving forward the continuous expansion of the ultra-fast broadband network – both in Switzerland and in Italy – with Fibre to the Home (FTTH) and Fibre to the Street (FTTS). In the mobile area, Swisscom aims to further expand the LTE fourth-generation mobile network and deploy additional technologies (for example, Voice over LTE) in order to meet the demand for higher capacity and to further improve the mobile communication experience.
Swisscom intends to increase its efficiency through a scalable infrastructure, increasingly virtualised infrastructure and services, and continual improvement processes. The new cloud infrastructure offers high-level quality and security and will also be used for Swisscom systems. In addition, Swisscom wants to accelerate technological transformation and for this reason is switching from proprietary to open, more powerful technology systems and infrastructures. In the first place, Swisscom plans to build an open cloud, provide simple programming interfaces to functions and

drive forward both the technological transformation from traditional offerings to IP-based solutions and the related organisational transformation, so as to take full advantage of the available technological resources.

Creating the best experiences

To differentiate itself clearly in its core business, Swisscom is committed to delivering professional advice and first-class service to its customers, right along the entire experience chain. Swisscom aims to provide highly personalised and flexible customer care and offer an outstanding service experience to its customers.

By building full-service solutions and rolling out innovative digital services, Swisscom wants to inspire its customers and drive forward digitalisation and networking both for the business world and private individuals. Current examples include cloud products such as the successful, further-developed TV service (Swisscom TV 2.0), the storage solution Docsafe, the digital wallet Tapit, and the cross-platform communication application iO.

From the customer's standpoint, the key to contact with Swisscom should be simplicity. This is why, when creating new offerings, Swisscom focuses on customer needs right from the development stage. A streamlined product structure and new self-service options simplify customer interaction and enhance efficiency.

Realising the best growth opportunities

The telecoms markets in Switzerland and Italy are expected to see moderate growth over the next few years, driven primarily by a slight increase in population and the number of households, the growing number of networked devices per individual, and a rise in the use of ICT in many sectors of the economy. Added to this, there is still pent-up demand in Italy due to the relatively low level of broadband penetration.

Against this backdrop, Swisscom aims to ensure existing revenues in its core business through the further development of its product portfolio. One key factor in this context is the development of national and international offerings based on a modern, high-speed cloud infrastructure. Vertical solutions offer growth opportunities for Swisscom in the banking, healthcare and energy sectors. New related business fields also harbour promising revenue potential for Swisscom. Examples include the development of new services and business fields in the area of Internet services (for example Big Data) and the "Internet of Things" (for example Smart Home), and the further development of Swisscom Energy Solutions. Swisscom intends to cater to the changed framework conditions resulting from increasingly global competition by developing business models and by further developing its Natel infinity pricing plans, in order to ensure a sustained source of revenue.

Fastweb in Italy is focusing on new customer acquisition by extending its coverage of the optical fibre network, enlarging partnerships and offering new convergent products.

Forerunner in corporate responsibility

Swisscom's corporate responsibility activities focus on issues which have high relevance for stakeholder groups and at the same time are closely linked to the company's core business and thus entail market opportunities. Swisscom's vision is of a modern, forward-looking Switzerland: a country of great opportunities, particularly in the field of sustainability. Specifically, Swisscom focuses on the following six areas as strategic priorities. For each of these it has formulated a long-term target for 2020:

- **Climate protection:** With the help of its customers, Swisscom wants to save twice as much CO_2 as it emits throughout the entire Group and along the entire supply chain; for example, by avoiding commuting thanks to Home Office solutions, or by promoting the use of TV set-top boxes that consume less energy than older boxes.
- **Work-life balance:** Swisscom is aiming to support one million customers with its offerings in the healthcare sector; for example with the Swisscom health platform with fitness sensors included, electronic patient dossiers and products from its subsidiary Datasport.
- **Media expertise:** Swisscom aims to be the market leader in data security, helping one million people to use media safely and responsibly; for example, with a router that allows customers to set age-appropriate browsing times and protects minors against inappropriate use.
- **Attractive employer:** Swisscom wants to be one of the most attractive employers in Switzerland, offering employees the opportunity to develop their knowledge and skills and promoting work-life balance. Fair terms and conditions of employment are as important to Swisscom as an active social partnership and an above-average commitment to vocational training.

- **Fair supply chain:** In the interests of a fair supply chain, Swisscom is committed to improving employment conditions for more than two million people. To this end, Swisscom has forged international partnerships that will ensure the implementation of relevant measures in close collaboration with suppliers.
- **Networked Switzerland:** Swisscom will extend ultra-fast broadband coverage to 85% of all homes and offices and bring mobile ultra-fast broadband to 99% of the population.

Swisscom's targets

Based on the strategy, Swisscom has set itself various short- and long-term targets that take economic, ecological and social factors into consideration.

	Objectives	Effective 2014
Financial targets		
Net revenue	Group revenue for 2014 of around CHF 11.5 billion.	CHF 11,703 million
Operating income before depreciation and amortisation (EBITDA)	EBITDA for 2014 of more than CHF 4,4 billion	CHF 4,413 million
Capital expenditure in property, plant and equipment and other intangible assets	Capital expenditure for 2014 of around CHF 2.4 billion	CHF 2,436 million
Other targets		
Ultra–fast–broadband homes and offices Switzerland	Coverage of 85% by the end of 2020	41% or more than 1.4 million of homes and offices
Ultra–fast–broadband homes and offices Italy	Coverage of 30% or of around 7.5 million of homes and offices by the end of 2016	20% or 5.5 million of homes and offices
Mobile ultra–fast–broadband Switzerland	Coverage of 99% with 4G/LTE by the end of 2016	97%
Energy efficiency Switzerland	+25% by the end of 2015 to the efficiency of energy Switzerland 1 January 2010	+26%
CO_2–emissions Switzerland	–12% by the end of 2015 to 1 January 2010	–17%

The following sections describe the targets and key performance indicators.

Value-oriented business management

Key performance indicators for planning and managing the operating cash flows are operating income before depreciation and amortisation (EBITDA) and capital expenditure on property, plant and equipment and intangible assets. The enterprise value / EBITDA ratio is also used to compare Swisscom with other companies in the sector.
The ratio is primarily driven by revenue and margins as well as the growth expectations of equity investors. The remuneration system for Group Executive Board members contains a variable performance-related component, of which 25% is paid out in Swisscom shares subject to a three-year blocking period. Group Executive Board members may opt to receive up to 50% of the performance-related component in the form of shares. The variable performance-related component is based on factors including financial targets such as net revenue, EBITDA margin and operating free cash flow. The financial targets that determine the variable performance-related salary component and the Management Incentive Plan ensure that the interests of management are kept aligned with those of the shareholders.

Enterprise value

In CHF million, except where indicated	31.12.2014	31.12.2013
Enterprise value		
Market capitalisation	27,067	24,394
Net debt	8,120	7,812
Non-controlling interests in subsidiary companies	3	29
Enterprise value (EV)	**35,190**	**32,235**
Operating income before depreciation and amortisation (EBITDA)	4,413	4,302
Ratio enterprise value/EBITDA	**8.0**	**7.5**

The sum of market capitalisation, net debt and non-controlling interests in subsidiaries is the enterprise value (EV) derived from the share price. Non-controlling interests are stated at carrying amount. For the sake of simplicity, other non-operating assets and liabilities are not included. Swisscom's enterprise value increased year-on-year by CHF 3.0 billion or 9.2% to CHF 35.2 billion. Market capitalisation grew by CHF 2.7 billion, while net debt was CHF 0.3 billion higher. The ratio of enterprise value to EBITDA rose to 8.0 (prior year: 7.5). The increase is largely attributable to the higher relative share price valuation and only to a lesser extent to the higher EBITDA. With a ratio of 8.0, Swisscom is well above the average for comparable companies in Europe's telecoms sector. The higher ratio is supported by the solid market position Swisscom has achieved thanks to high-level investment, an attractive dividend policy and the Confederation's majority share of capital, as well as the general business conditions in Switzerland such as lower interest rates and lower corporate income tax rates.

General conditions

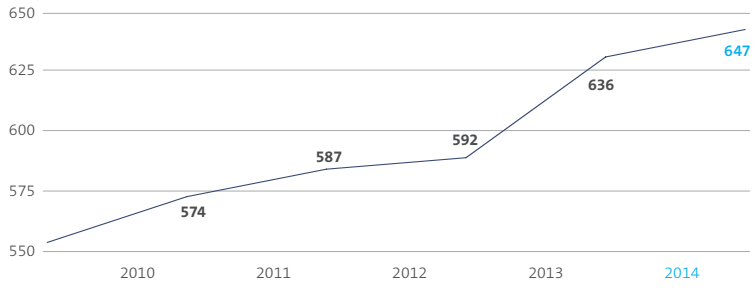
Macroeconomic environment

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 2014, thanks in large measure to strong domestic demand. Gross domestic product (GDP) rose by 1.8%. In Europe, inflation rates are low and economic development has plateaued. The risk of a phase of consistently low growth is still present. Following the steep rise in the value of the Swiss franc in January 2015, the risk of a pronounced economic downturn or even a recession has increased.

Gross domestic product Switzerland, rolling in CHF billion

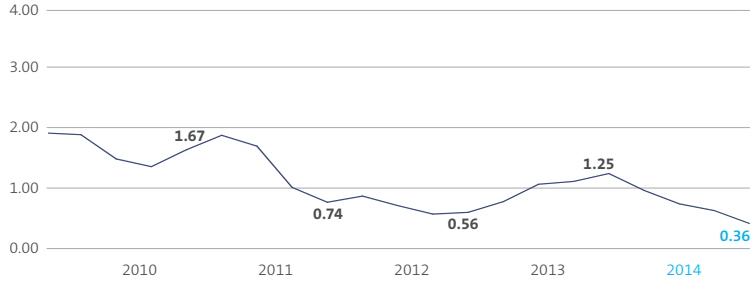


The bulk of Swisscom's revenue stems from telephony, broadband services and digital TV – services based on fixed monthly fees and subject to low cyclical fluctuations in demand. By contrast, project business with business customers and international roaming are affected by cyclical factors.

Interest rates

For many years, the general level of interest rates in Switzerland has been lower than in most other industrialised countries. In 2014, the main national banks adhered to their low-interest policy and, after edging up slightly in 2013, interest rates dropped relatively strongly during the reporting year. Consequently, the yield on ten-year Confederation bonds had fallen to only 0.36% by the end of 2014. In January 2015, the downward movement in interest rates resumed, and yields on ten-year Confederation bonds turned negative.

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



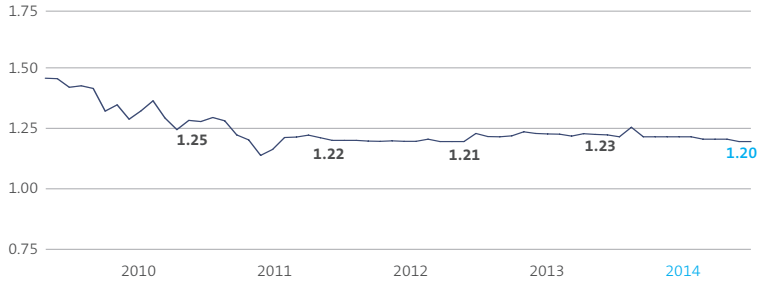
In the year under review, Swisscom capitalised once more on the continuing low-interest phase by entering into two financing transactions: Swisscom took out loans of EUR 500 million and CHF 360 on, with terms between 7.5 and 15 years, at advantageous interest rate conditions. Average interest rate expense on all financial liabilities in 2014 was 2.5%. Market-based interest rates influence the measurement of various items in the Swisscom consolidated financial statements, such as the weighted average cost of capital (WACC) used to measure goodwill impairment for the

Italian subsidiary Fastweb, the discount rates for defined benefit obligations, and non-current provisions for dismantlement and restoration costs. In addition, Swisscom has concluded in the past interest rate swaps with long terms to maturity which are not classified under hedge accounting. Changes in market interest rates can result in high fluctuations in fair values charged to income.

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 2014. On 15 January 2015, the Swiss National Bank (SNB) announced it would no longer defend the minimum CHF/EUR exchange rate of 1.20. As a consequence, the Swiss franc appreciated substantially against all major currencies.

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. Handset and technical equipment procurement as well as roaming charges incurred 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 2014, financial liabilities amounted to CHF 8.6 billion, of which 80% was in CHF, 18% in EUR and 2% in USD. 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 adjustments in respect of foreign subsidiaries recognised in consolidated equity amounted before deduction of tax effects to CHF 2.0 billion in 2014 (prior year: CHF 1.9 billion). In 2015, there is a risk that with the abandonment of the minimum EUR exchange rate, cumulative currency translation adjustments not affecting income may increase and that the EBITDA contribution of Fastweb will be reduced by the currency conversion.

Capital market

International equity markets performed positively in 2014. The SMI rose by 9.5%. 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 or other non-current financial assets. comPlan, Swisscom's legally independent pension fund in Switzerland, has total assets of around CHF 9.0 billion invested in equities, bonds and other investment categories. These assets are exposed to capital market risks. This indirectly affects the financial position presented in Swisscom's consolidated financial statements. The prices of Swiss shares plummeted following the SNB's abandonment of the minimum EUR exchange rate in January 2015.

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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 a stock-exchange-listed company, Swisscom is also required to comply with capital market legislation as well as with the Federal Ordinance 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. 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 2014 to 2017 are relevant. The Federal Council has set the following financial goals for Swisscom:

- Increase enterprise value over the long term. Deliver a total shareholder return (dividend payout and share performance) on a par 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. It should reflect the requirements of a sustainable investment policy, a risk-appropriate, industry-standard equity ratio and easy access to capital markets at all times.
- Aim for a maximum net debt of 2.1 times EBITDA (operating income before depreciation and amortisation). This ratio may be temporarily exceeded.

The Federal Council also expects Swisscom to enter into partnerships (participations, alliances, foundation of companies and other forms of cooperation) only if they promote a sustained increase in enterprise value, can be managed according to good practices and take sufficient account of the risk aspect. No interests may be held in foreign telecoms companies with a universal service obligation. Other interests in foreign companies may be acquired if they support the core business in Switzerland or are otherwise a strategic fit.

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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 connection area 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. Among other things, universal service provision covers guaranteed nationwide access to a broadband connection with a download speed of at least 1 Mbps (2 Mbps as of 1 January 2015). The universal service provision licence granted to Swisscom in 2007 by the Federal Communications Commission (ComCom) runs until 2017. To date, Swisscom has fulfilled the requirements of the universal service provision licence according to the quality criteria laid down by the TCA without complaints and without financial compensation. The Telecommunications Act also governs conditions for use of the radio frequency spectrum.

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Competition law/Federal Cartel Act

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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.

Capital market law

The shares of Swisscom Ltd are listed on the SIX Swiss Exchange in Zurich. In addition, Swisscom has issued debenture bonds which are traded on the SIX Swiss Exchange. Swisscom is therefore required to comply with Swiss stock market legislation and regulations. Among other things, it is 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, fall below or meet a certain limit.

Ordinance Against Excessive Compensation in Listed Stock Companies (OaEC)

The OaEC entered into force on 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 members of the Board of Directors and the Group Executive Board it is prohibited to award severance payments, advance compensation and bonus payments for company acquisitions and disposals. The Board of Directors is required to prepare a written compensation report as of the 2014 financial year. Shareholders must vote on total compensation for the Board of Directors and the Group Executive Board starting from the 2015 Annual General Meeting. 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. Swisscom amended the relevant Articles of Incorporation and regulations in the course of 2014. The OaEC stipulates certain types of abuse that constitute an offence punishable by law.

Regulatory developments in Switzerland in 2014

Ongoing proceedings relating to telecommunications and competition legislation

See report
pages 180–181

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

"Pro Service Public" initiative

The people's initiative "Pro Service Public", submitted in June 2013 by a Swiss consumer magazine, calls for the Swiss Confederation to desist from seeking profit, cross-subsidising or pursuing fiscal interests and to bring the wages of employees in government-associated companies in line with those of federal employees. The Federal Council rejected the initiative in its message of May 2014, without counterproposal. The Council of States followed suit in the autumn of 2014.

2014 Telecommunications Report – revision of the Telecommunications Act (TCA)

In November 2014, the Federal Council published its third Telecommunications Report, the conclusions of which supported a revision of the Telecommunications Act. The Federal Council seeks to approach the revision in two stages. The first stage will be confined to the most pressing problems. The second stage will involve a system change in relation to the access regime and fundamental amendments regarding universal service. The 2014 Telecommunications Report underscores the good market conditions. Switzerland is regularly ranked among the leading countries in terms of investment, broadband penetration and effective transmission speeds. The report describes infrastructure competition (i. e. competition between the various networks) as the primary driver of market development. The Federal Office of Communications (OFCOM) is aiming to formulate the priority areas for the first stage of the revision and will prepare a draft bill by the end of 2015. The subject of this bill will be the introduction of an official (ex officio) option to regulate. This would constitute a deviation from the established primacy of negotiation, according to which regulation is resorted to only if the parties are unable to agree on the aspects of regulated access (ex post). In addition, roaming is to be billed by the second rather than by the minute. In terms of net neutrality, the Federal Council is aiming to introduce certain regulations governing the transparency of the bandwidth to which customers subscribe. With this in mind, at the beginning of November 2014, the main telecoms providers Swisscom, Orange, Sunrise, upc cablecom and the Swisscable Association signed a voluntary open Internet code of conduct under which all users are ensured the freedom to use the content, services, applications, hardware and software of their choice. No services

or applications shall be blocked as a matter of principle. Moreover, the telecoms providers confirmed their support of unrestricted freedom of information and the free expression of opinion. The code of conduct also states that providers may continue network management for the purpose of quality assurance and provision of services tailored to end users' needs, and that users can ask their provider whether and to what extent the capacity available through their Internet connection is shared with services other than Internet services.

Revision of the Ordinance on Telecommunications Services (OTS)

The revised Ordinance on Telecommunications Services (OTS) came into force on 1 July 2014. It requires an amendment to the cost calculation models for regulated access services, resulting in a price reduction of around 10% for these services. In addition, as of 1 January 2015, the download speed for basic-service broadband provision was raised from a minimum of 1 Mbps to 2 Mbps.

Roaming

There are two pending motions in Parliament which aim to regulate roaming along the same lines as in the EU. They call for the Federal Council to fix binding maximum tariffs to be adopted by all telecoms providers for incoming and outgoing calls, SMS messages and data transfers via mobile devices when used abroad. The Council of States suspended both motions, which are similarly worded. After the 2014 Telecommunications Report was published, the debate on the two motions was resumed.

Net neutrality

In June 2014, the National Council voted in favour of a motion calling for net neutrality. The Advisory Commission of the Council of States suspended the motion in August 2014 in order to enable the findings of the Federal Council's Telecommunications Report to be included in the consultation. The motion calls for the Federal Council to enshrine net neutrality in law, in order to ensure the transparent and non-discriminatory transfer of data over the Internet.

Copyright protection – tariff proceedings

Joint tariff 12 for the recording of TV programmes and replay TV has been in force since mid-September 2014. The Federal Administrative Court rejected the objection to the tariff lodged by Pro7/Sat1, as a result of which catchup TV may continue to be offered in Switzerland without agreements with the channels, simply by paying a charge to the copyright collecting agencies.
Since 2009, the copyright collecting agencies had been negotiating with the user associations on Joint tariff 4e concerning a tariff as compensation for copyright-protected works stored on mobile phones. Despite the various proceedings pending before the Federal Administrative Court in this context, the parties came to an agreement in 2014. The agreement retrospectively covers the tariff for the period between July 2010 and the end of 2014 as well as the tariff valid from 1 January 2015. The pending proceedings have been settled.

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

In 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 for telecommunications services would be retained. The bill is still under discussion 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. Municipal and regional power utility companies have also now 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 telecoms regulator 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 requirements on companies. Drafts of such requirements and corresponding 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 telecommunications legislation and its application.

Regulatory developments in Italy in 2014

In 2014, AGCOM continued its work on the market analysis for wholesale markets, which will determine the regulatory guidelines for the next three years. A new consultation document is to be adopted in early 2015. The final decision will be taken in mid-2015.
AGCOM confirmed that the glide path would be applied for fixed network termination prices for 2013 to 2015. This glide path is based on the assumption of a migration to efficient, IP-based architectures. Since July 2013, the applicable price for all fixed network operators has been EUR/cent 0.104 per minute. From 1 July 2015, this will gradually decrease to EUR/cent 0.043 per minute.
In 2014, the Italian Federal Administrative Court (Consiglio di Stato) partially annulled AGCOM's decision on applicable prices between May 2009 and December 2012. In response, AGCOM started consultations on a revision of wholesale prices. The Consiglio di Stato also questioned AGCOM's decision to impose no cost basis on WLR and bitstream services and found that some cost elements used for pricing unbundled subscriber connections (LLU) had been overestimated. A final decision is expected in 2015.
AGCOM also launched a new market analysis of mobile termination prices, which is scheduled for completion in 2015.

Swisscom stakeholder groups

Swisscom fosters dialogue with its most important stakeholder groups through various channels: 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.

Customers

Swisscom systematically consults residential customers in order to identify their needs and determine their satisfaction. Customer relationship managers, for example, gather information on customer needs in the course of direct contact with customers. Representative customer satisfaction surveys are also regularly conducted, among other things to determine the extent to which customers perceive Swisscom as an environmentally responsible, socially aware company. Quarterly surveys are conducted among business customers that include questions about sustainability. Swisscom also maintains regular contact with consumer organisations in all language regions of Switzerland and runs blogs as well as online discussion platforms. The overall findings show that Swisscom customers expect attractive pricing, good service, 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

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. Swisscom also fosters contacts with numerous external investors and rating agencies. Shareholders and external investors expect above all 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 communications and mobile applications are growing in popularity, but acceptance of the expansion of the infrastructure that is required to provide them is sometimes lacking. Because of the different interests at stake, network expansion can give rise to tensions. For many years, Swisscom has therefore 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 honours 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, comprehensive network coverage and technology leadership from Swisscom.

Suppliers

Swisscom's procurement organisations regularly deal with suppliers and supplier relationships, analysing the results of evaluations, formulating target agreements and reviewing performance. Once a year, they invite their main suppliers to a Key Supplier Day. The focus of the event is on risk mitigation and responsibility in the supply chain. In the interests of maintaining dialogue with global suppliers, Swisscom also relies on international cooperation within the relevant sectors.

Media

Swisscom maintains close contact with the media, seven days a week. Its relationship with the media is informed by professional journalistic principles. In addition to the Media Office, representatives of management maintain a regular dialogue with journalists and make themselves available for interviews and more in-depth background discussions.

Employees and employee representation

In order to meet its mandate and live up to its customer promise, Swisscom relies on fully committed, responsibly-minded employees who think and act proactively. It is our employees who transform Swisscom into a tangible experience for customers. Swisscom gains valuable information from dialogue between employees and customers. The information gathered at the customer interfaces flows back to the company and allows 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. Employee concerns mainly relate to social partnership, training and development, diversity, and health and safety at work. Swisscom engages in dialogue with teams from all organisational units on sustainability issues, under the motto "Hello Future". Through this dialogue, Swisscom keeps its employees up to date on its commitments in the area of sustainability and motivates them to implement sustainability measures in their daily work and life.

Partners and NGOs

Swisscom believes in the importance of sharing insights and information with partners and NGOs within the framework of projects; for example, with WWF Climate Savers, myclimate, the Swiss Child Protection Foundation and organisations that address the specific needs of affected groups. Active partnerships and Swisscom's social and ecological commitment are especially relevant for this stakeholder group.

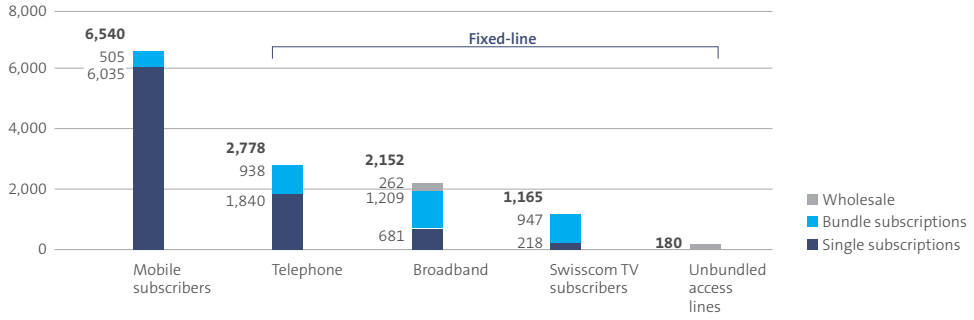
See
www.swisscom.ch/cr-partnerships

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 13 billion. The market is in a state of transition, driven by the growing convergence of telecommunications, information technology, media and entertainment. More and more new global competitors are entering the Swiss telecoms market, offering free and paying Internet-based services including telephony, SMS messaging and TV. Cloud solutions are also playing an ever more important role, with storage capacity, processing power, software and services all relocating to an increasing degree to the Internet. Customers' needs also continue to change as more and more switch to flat-rate monthly subscriptions. Increasingly, they are accessing data and applications from just about anywhere and at any time using a whole range of different Internet-enabled devices. The result is a rapid growth in demand for high bandwidths that enable fast, high-quality access. To address this trend, Swisscom is building the network infrastructure of the future. Swisscom is tackling the relentless growth in data traffic by continuously expanding fixed broadband access and further expanding new technologies in the mobile network such as 4G/LTE (Long Term Evolution). In addition, Swisscom's bundled offerings combine different technologies such as fixed-line access with telephony, Internet and TV, plus the option of a mobile line. The Swiss telecoms market can thus be broken down into the following submarkets of relevance to Swisscom: mobile, fixed-line, broadband and TV.

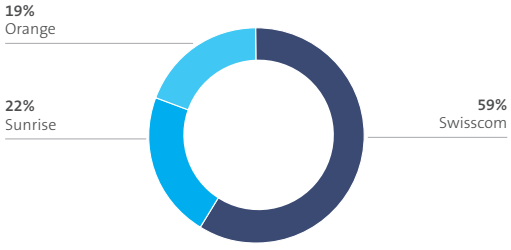
Swisscom Switzerland access lines in thousand



Mobile communications market

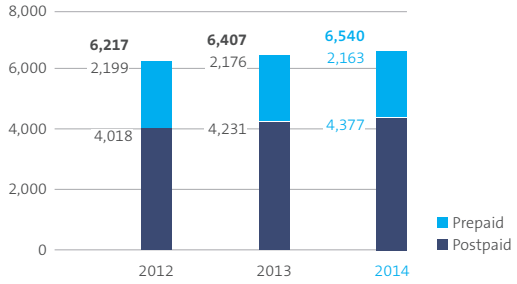
Three companies operate their own wide-area mobile networks in Switzerland: Swisscom, Orange Switzerland and Sunrise. In December 2014, Apax Partners announced that it would consent to the sale of Orange Switzerland to NJJ Capital, the private holding company of Xavier Niel, subject to the approval of the responsible authorities. In early 2015, Sunrise announced that it plans to list the company on the Swiss stock exchange (SIX Swiss Exchange). Another major market player, upc cablecom, has been offering its own mobile services (MVNO, mobile virtual network operator) via Orange Switzerland's networks since the spring of 2014. However, these offerings are currently limited to existing and new upc cablecom customers with at least one additional digital product. While GSM network coverage is close to 100% of the population, the demands on mobile networks continue to grow. To continue offering customers optimum data connectivity, Swisscom is investing in new mobile technologies such as 4G/LTE. At the end of 2014, 97% of the Swiss population had access to the latest-generation mobile network. At 0.8%, growth in mobile lines (SIM cards) in Switzerland was once again slow in 2014 due to the already high market penetration. Together, the three network operators have a combined total of more than 11 million mobile lines; penetration in Switzerland is around 136%. The technical possibilities offered by mobile communications are increasing due to the rapid spread of smartphones. Swisscom's infinity tariffs reflect customers' changing needs. These subscriptions allow Swisscom customers to make unlimited phone calls and send unlimited SMS messages to all Swiss networks, as well as unlimited Internet surfing at flat rates. The individual subscriptions mainly differ in terms of mobile data speeds. At the end of 2014, 2.1 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. 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 via the Swisscom network.

Market shares mobile subscribers in Switzerland* in %



* Estimate Swisscom

Swisscom mobile access lines in thousand



In 2014, Swisscom's market share remained relatively stable at 59% (postpaid 64%, prepaid 50%). The 60% market share reported by Swisscom for 2013 is not comparable with the 2014 figure due to the application of different measurement methods. The percentage of postpaid customers in Switzerland is around 61%. As in previous years, prices for mobile services continued to be squeezed by competition.

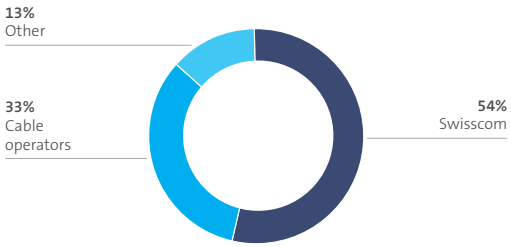
Fixed-line market

Fixed-line telephony is mainly based on lines running over the telephone network and cable networks. The number of Swisscom fixed lines is steadily declining. This trend continued in 2014, with the number of fixed lines falling by around 4% to 2.8 million mainly due to the substitution of fixed lines by mobile communications and the slight reduction in market share. At the end of 2014, the number of unbundled fixed lines totalled 180,000. As a result of rapid technological developments and the changeover to IP telephony, fixed-line telephony will in future more often be offered on the basis of a broadband access line.

Broadband market

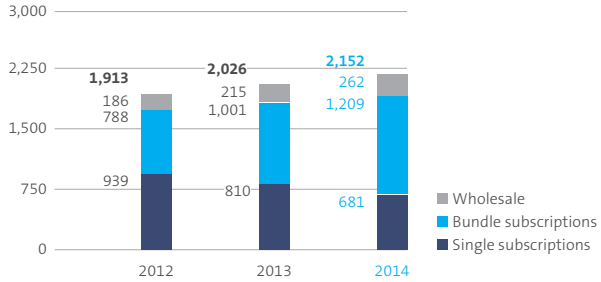
The most widespread access technologies for fixed broadband in Switzerland are telephone-network-based infrastructures and cable networks. Like in the mobile communications market, the broadband market's demands on networks are also increasing. To meet these expectations, Swisscom is upgrading its network infrastructure with state-of-the-art fibre-optic technology. At the regional level, this important technological change is attracting new market players such as municipal utilities. At the end of 2014, the number of retail broadband lines in Switzerland totalled 3.5 million or around 73% of all Swiss homes and offices. Switzerland therefore leads the way internationally in terms of broadband access market penetration. Swisscom's 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

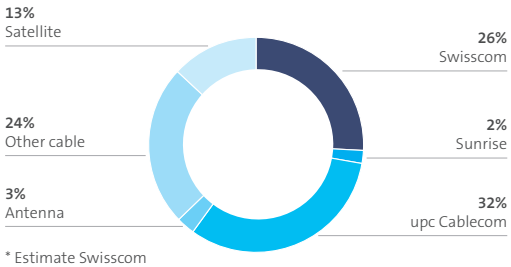


The number of broadband lines increased by around 4% in 2014 (prior year: around 4%). As in the previous year, growth in broadband access lines provided by cable network operators outpaced that of the telephone-based broadband access lines of telecoms providers. Telecoms providers accounted for more than a quarter of new broadband access lines in 2014, corresponding to a market share of all broadband lines of around 67%. Of these, 54% (prior year: 54%) were for Swisscom end customers and 13% (prior year: 15%) for Swisscom 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.

Digital TV market

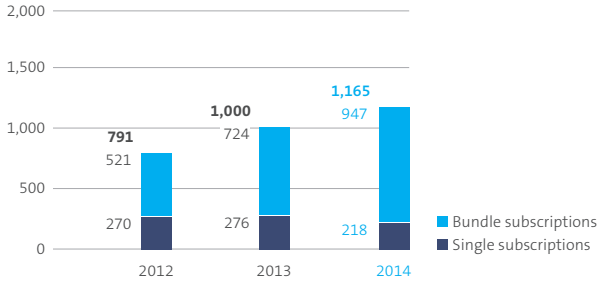
In Switzerland, TV signals are transmitted via cable, broadband, satellite, antenna (terrestrial) and mobile. The importance of digital television continues to grow, as does its market penetration. At the same time, other national and international operators are penetrating the Swiss TV market, offering TV as well as Video on Demand services which can be accessed over an existing broadband connection regardless of the Internet provider.

Market shares digital TV in Switzerland* in %



* Estimate Swisscom

Swisscom TV subscribers in thousand



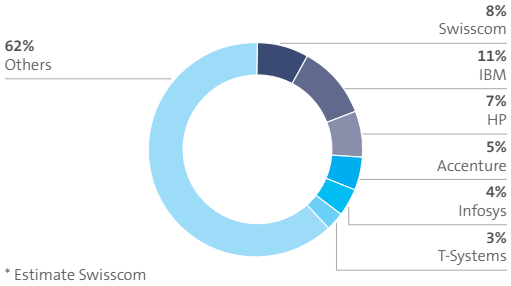
More than 80% of all digital TV connections are provided over the cable or broadband network, with cable TV and Swisscom TV commanding the largest market shares. Swisscom has been steadily growing its market share over the last few years thanks to its own digital TV offering, Swisscom TV, which at the end of 2014 had a market share of 26% (prior year: 23%). In 2014, the number of Swisscom TV subscribers rose by 165,000 to 1.2 million. Of this number, around 306,000 have signed up to the Swisscom TV 2.0 service launched in the spring of 2014, which offers extended

functionality compared to the previous version. The cloud-based recording function allows users to record an unlimited number of programmes simultaneously and play them back on different devices. Swisscom also extended the Replay TV function from 30 hours to seven days, and integrated around 50 of the most popular apps such as YouTube and Facebook in Swisscom TV 2.0. The new Teleclub Play video flat rate service launched in December 2014 offers Swisscom TV 2.0 customers unlimited access to a broad range of TV series, classic films, children's programmes, documentaries and sports content. Swisscom TV remains available in a range of packages to meet all customer needs.

IT services market in Switzerland

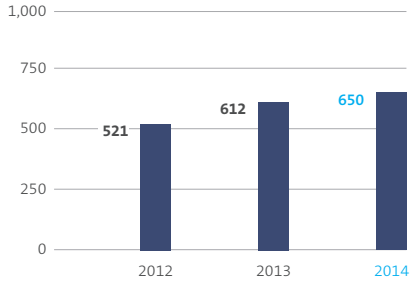
In 2014, the IT services market generated a revenue volume of CHF 8.6 billion. Swisscom expects the market volume in 2017 to total CHF 9.4 billion. Cloud services, business process outsourcing (BPO) and application-based services are expected to show the most significant growth. Customers often demand services customised to their individual sector and processes. Even the classical infrastructure services business has the potential for moderate growth over the next few years.

Market shares IT services in Switzerland* in %



* Estimate Swisscom

Swisscom net revenue IT services in CHF million



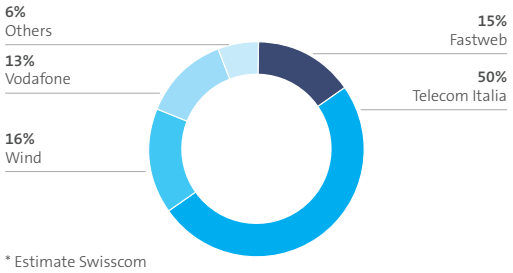
Thanks to a market share of around 8%, Swisscom remains one of the leading providers of IT services on the Swiss market. In 2014, Swisscom reported growth in all areas. In the vertical business for the banking sector, for example, it continued to substantially increase its share of the BPO market and rolled out innovative solutions such as a crowdfunding platform. Crowdfunding is a new way of connecting companies with each other and with their end customers. By bringing Swisscom IT Services and the Corporate Business division of Swisscom Switzerland under one roof at the beginning of 2014, Swisscom laid the foundations for further growth in the Swiss enterprise customers market.

Italian broadband market

Italy's fixed broadband market is Europe's fourth largest, with a revenue volume of around EUR 13 billion. In contrast to most other European countries, in Italy there are no cable network operators who offer broadband services. Half of the homes and offices in Italy have access to the broadband network; the penetration of broadband is thus well below the European average. The total number of broadband lines in Italy grew to around 14 million in 2014. Fastweb increased the number of broadband lines by 6.7% or 130,000 to more than 2 million, repeating its positive 2013 results.

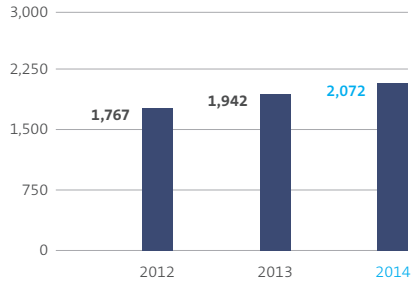
The Italian market continues to be dominated by double-play bundles that combine voice and broadband services, and is subject to significant pressure on prices due to the highly competitive environment. In 2014, the number of fixed broadband customers in Italy reached a penetration rate for fixed lines of around 70%, with ultra-fast broadband services gaining acceptance. The market leaders for fibre-optic/VDSL offerings are Telecom Italia and Fastweb.

Market shares broadband access lines in Italy* in %



* Estimate Swisscom

Fastweb broadband access lines in thousand



With a share of 50% (prior year: 51%), Telecom Italia commands a leading position on the Italian broadband market. Fastweb increased its market share year-on-year from 14% to 15%.

For service providers, a permanent countrywide presence is becoming increasingly important in view of the growing complexity of products and services. With this in mind, Fastweb is further expanding the ultra-fast broadband network and by the end of 2016 aims to cover around 7.5 million homes and offices, or 30% of the population. Fastweb has also 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.

Business model and customer relations

Swisscom is Switzerland's leading telecom provider and its subsidiary Fastweb has built up a strong position in the Italian market. 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 service and quality, and is also investing heavily in the networks of the future.

Business activities

Company profile

Swisscom is the Swiss market leader in the field of telecommunications. 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 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 increasing the deployment of ICT. Major investments in network infrastructure ensure that Swisscom will continue to satisfy all its customers' 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 consistently invests in staff training and development, and is training more than 900 apprentices in Switzerland.

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 TV throughout Switzerland, and is mandated by the federal government to provide basic telecoms services 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, workplaces, 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 any time 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.

See
www.swisscom.ch

Swisscom brand

The Swisscom brand is a strategic intangible asset for Swisscom in general, and for reputation management in particular. One of the main purposes of the brand is to optimally support Swisscom's wide variety of business activities. The brand must consistently accompany the core business while at the same time remaining sufficiently elastic for new business opportunities.
The Swisscom Group offers core-business products and services 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. The strategic management of the entire brand portfolio comes under the remit of Corporate Communications.

By merging Swisscom IT Services and the Corporate Business division of Swisscom Switzerland to create Enterprise Customers, Swisscom is consistently pursuing its strategy of positioning its brand in the core business of telecommunications and ICT. Thanks to the success of Swisscom TV, the Swisscom brand has confirmed and enhanced its credibility in the field of digital entertainment. Other key brands belonging to Swisscom are the Teleclub, Kitag and Cinetrade brands in the entertainment sector. A number of other state-of-the-art products such as iO and Docsafe help to strengthen the Swisscom brand and promote the "Best in the networked world – always and everywhere" vision, and to position Swisscom as a straightforward, inspiring and trustworthy companion in a rapidly-changing digital world.

In 2014 Swisscom was once more selected by consumers as the Most Trusted Brand in three categories in the Reader's Digest annual survey, reflecting the brand's awareness level in Switzerland. The brand thus remains well ahead of the competition in terms of "top-of-mind awareness" and is firmly anchored among consumers as a trustworthy, reliable and high-quality brand. Trust and service are among the most important factors that motivate potential customers to switch to Swisscom.
The Swisscom brand also symbolises Swisscom's close ties with and commitment to Switzerland. Swisscom is part of the modern Switzerland. It takes seriously its responsibility of fostering the common denominators that characterise Switzerland. Swisscom's consistent and manifold commitment to sustainability rounds off the brand's positive image and enriches customer relations in a variety of ways. This is one reason why the reputation values achieved by the brand are exceptionally high for the telecommunications industry.
This is confirmed by the Interbrand "Best Swiss Brands 2014" Study, in which the Swisscom brand was once again ranked as Switzerland's sixth most valuable brand with a monetary brand value of CHF 5 billion.

Swisscom's network and IT infrastructure

Network infrastructure in Switzerland

Demand for broadband in the Swiss fixed network is doubling every 16 months, and every 12 months in the case of mobile customers, who want to use applications such as HD television, video conferencing and cloud services at any time, anywhere and on different devices. The key enabling element of the network of the future is Internet protocol (IP) technology. Swisscom decided to switch over all of its products and services to this forward-looking technology by the end of 2017. All IP will make processes and operations faster and more flexible, which will make not only Swisscom more competitive but also its business customers, and increase Switzerland's attractiveness as a business hub. This will also fulfil the needs of Swisscom's residential customers to have constant access to their data from anywhere and any device.
Switzerland already has one of the best IT and telecoms infrastructures in the world. According to OECD findings, Switzerland leads the world in terms of broadband penetration (44.9%), ahead of the Netherlands and Denmark (source: OECD Broadband Portal, December 2013). This result is further supported by the "State of the Internet report" issued by technology service provider Akamai, which ranked Switzerland in first place in Europe for ultra-broadband availability, and in third place worldwide. In mobile communications, broadband LTE coverage now extends to 97% of the population, making Swisscom the largest 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 to upgrade the fixed network a number of years ago. To drive forward ultra broadband provision in Switzerland, Swisscom has opted for a broad, innovative mix of technologies. In addition to Fibre to the Home (FTTH), Swisscom operates Fibre to the Street (FTTS) and Fibre to the Building (FTTB) since 2013, laying fibre-optic cables to within a short distance of individual homes and offices or in basements so as to achieve a significant further increase in bandwidth.
Copper cables are also evolving, doubling their capacity thanks to vectoring. Moreover, thanks to G.fast, the successor to VDSL, copper cables will soon be able to provide bandwidths of up to 500 Mbps. Through this mix of technologies, Swisscom had already installed over 1.4 million ultra-broadband connections by the end of 2014.
Swisscom wants to have installed 2.3 million ultra-fast broadband connections in homes and offices by the end of 2015, and by the year 2020 have equipped 85% of all homes and offices with ultra-fast broadband. In 2014 Swisscom invested CHF 1.75 billion in the IT and network infrastructure with this objective in mind. Swisscom honours its universal service provision mandate in remote-lying regions of Switzerland. It is also seeking new solutions to deliver higher bandwidth to remote regions. For example, Swisscom is looking at DSL-LTE bonding, a technology, which, thanks to high bandwidths, can supplement or in some cases replace the fixed network in areas which are less well connected.
Swisscom completed the modernisation of the mobile network in mid-2014, creating the basis for a rapid rollout of 4G/LTE technology across all mobile sites alongside second- and third-generation mobile technology. Thanks to the new frequency bands acquired by auction in 2012, Swisscom will be able to deploy all mobile technologies over the long term and in a needs-appropriate manner. To

use the acquired frequency spectrum, Swisscom needs to switch frequencies. The first part of this switchover was carried out in 2014 as part of a coordinated project covering all Swiss mobile operators, and the second part is scheduled to take place in 2015.
In 2012 Swisscom was the first mobile provider in Switzerland to launch 4G/LTE commercially. Today Swisscom is already providing extended 4G/LTE coverage to 97% of the Swiss population, In regions with particularly high mobile traffic, along the streets and in busy public places 4G/LTE microcells ensure the required network capacity. Swisscom is increasingly installing dedicated antenna systems in large business premises and public interiors. 4G+ (LTE Advanced) installed in urban areas already provides for bandwidth speeds of up to 300 Mbps in the mobile Internet, and bandwidth speeds are set to increase to 450 Mbps by the end of 2015. Swisscom's offerings are therefore leading the way, both in Switzerland and by international standards. Mobile telephony is also keeping up with the times. Today the LTE network is a dedicated data network, while voice telephony is implemented on its forerunners 3G and 2G. By introducing Voice over LTE (VoLTE) and WLAN Interworking, Swisscom is consistently driving forward IP transformation in the mobile network. Mobile voice telephony takes place via the digital Internet Protocol (IP), offering advantages in terms of voice quality and call setup.

See
www.swisscom.ch/networkcoverage

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. It coordinates site expansions with other mobile providers wherever feasible and 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 decommissioning the earlier-generation networks.

Network infrastructure in Italy

Fastweb's network infrastructure consists of a fibre-optic network spanning a total distance of over 37,500 kilometres. Fastweb thus reaches more than half of the Italian population, with 5.5 million homes and offices equipped with ultra-broadband at speeds of up to 100 Mbps, based on Fibre to the Home (FTTH) and Fibre to the Street (FTTS).
Fastweb is continuing its expansion of the ultra-broadband network and by the end of 2016 aims to have covered around 7.5 million homes and offices, or around 30% of the population. In addition, thanks to wholesale services provided by well-established Italian operators, Fastweb reaches customers who are not directly connected to its own network.
While Fastweb does not have a mobile network of its own, it offers proprietary mobile services based on an agreement with another mobile operator (MVNO).

Swiss IT infrastructure

Swisscom operates 24 data centres around Switzerland, which currently store around 20 petabytes of data online. This volume more than doubles when taking into consideration the necessary data backups. In the Storage Area Network (SAN), more than 25,000 ports or active operating systems are provided for around 15,000 servers. Through its on-demand contracts with innovative partner companies, Swisscom is also able to ensure sufficient capacity and the deployment of efficient technologies at all times.

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

96 %

Investments in performance enhancement and security in the Swiss infrastructure and in ultra-broadband expansion
totalled

1.75 billion CHF

In the interest of sustainable resource management, Swisscom maximises energy-efficient operation of its data centres. The average annual power usage effectiveness (PUE) of Swisscom's data centre in Zollikofen (Berne) is 1.3. This value, representing the ratio of total power consumed by the data centre to the power consumed by the IT systems, means that power consumption in Zollikofen is around 33% lower than that of conventionally built data centres. With a PUE of 1.2, the data centre in Wankdorf (Berne), which was inaugurated in September 2014, is even more energy-efficient.
Cloud technology further increases the efficiency of the data centres by enabling the distributed use of the underlying infrastructure platforms for customers. Customers can choose to store or process their data and applications in the private cloud, in dedicated zones within the public cloud, or in shared clouds.
Swisscom is planning to move up to 70% of its own work and production processes to the cloud in the coming years. In this way it will further enhance the knowledge advantage it needs to fulfil its role as a trustworthy partner for business customers in the digital world.

Fastweb's IT infrastructure

Fastweb operates four main data centres in Italy with a total surface area of 8,000 square meters. The IT infrastructure consists of around 5,000 servers (virtual and physical servers in equal parts), 700 databases and 2.9 petabytes of storage capacity.
One of the data centres is managed by Ericsson on the basis of a multi-year contract which covers the setup and design of the data centre as well as the operational aspects of Fastweb's IT infrastructure. Two other data centres are used by Fastweb mainly for corporate customer services, i.e. for housing, hosting or other cloud-based services.
Fastweb is currently investing EUR 25 million in the construction of two new data centres in Milan and Rome respectively, which will be used to host ICT and cloud services for corporate customers. Construction of the new data centre in Milan has been completed. It is the first data centre in Italy to attain Tier IV certification, which is synonymous with the highest levels of reliability, security and performance.

Data protection

Data are one of the most valuable production factors in the information society. Swisscom is therefore committed to storing and transmitting information as securely and reliably as possible. Around 150 specialists work to ensure information security, data privacy and reliable network and Internet operations.
Swisscom also makes every effort to protect its customers' data during telephone calls. All calls made over the mobile network are transmitted in encrypted form. Banks, insurance companies, hospitals and public services such as the police and fire services also need their communication infrastructure to operate as reliably and securely as possible. Many companies, institutions and services working in these sensitive areas rely on Swisscom services. Swisscom also provides secure cloud-based solutions to small and medium-sized enterprises.
Customer data are subject to the Data Protection Act and the Telecommunications Act and may only be processed by individuals for whom such data are essential for the purposes of performing their tasks. Moreover, the purpose for which a customer's data is viewed or processed must be apparent to the customer at all times. In accordance with the Data Protection Act, customer data also have to be protected against unauthorised use through appropriate technical and organisational measures. Swisscom therefore ensures that only a limited number of individuals are permitted to access customer data. As a rule, customer data is hosted in Switzerland. If a service is provided by Swisscom with the involvement of third parties, Swisscom may pass on data to third parties insofar as it is necessary for the provision of the services in question. Swisscom ensures that such third parties are bound by the same data protection provisions and that they may only process such data to the same extent as Swisscom itself is entitled. In addition, only such data as are required for the provision of services, the handling and maintenance of the customer relationship, and for the security of the company and its infrastructure, may be collected from Swisscom customers, processed and stored. Swisscom also processes the data for marketing purposes aimed at the customer-driven design and development of its services and offerings tailored to end users. Customers are able to keep their data from being used in this way by opting out. The Data Protection Act also requires customer data to be protected against unauthorised use through appropriate technical and organisational measures.

Products, services, sales channels

Swisscom in Switzerland

Swisscom is committed to service and quality, and to interacting with its customers in a personalised and value-adding manner. Six million customer visits to Swisscom Shops, 3,500 customer advisors, twelve million calls and more than four million e-mails and letters per year are the basis for staying in touch with customers and providing personal service. For years now, excellence in service has been a top priority for Swisscom.

Residential Customers: In only six years Swisscom has become the most successful provider of digital TV. More than a million customers now watch Swisscom TV. Swisscom TV 2.0, launched in April 2014, offers additional functions. The cloud-based recording function allows users to record an unlimited number of programmes simultaneously and play them back on different devices. And thanks to the replay function, customers can catch up with programmes broadcast over the past seven days. Swisscom also gives customers access to other applications such as the iO communication app and Tapit. iO allows users to make calls, chat and share pictures with other iO users over the Internet free of charge, Tapit makes it possible for users to pay for purchases securely using their smartphone and in future collect loyalty points. Tapit will in future also offer a building access function. The Natel infinity and Vivo packages demonstrate Swisscom's consistent commitment to addressing changing customer needs. Natel infinity enables unlimited surfing, telephoning and SMS/MMS messaging across Switzerland and to all networks. The bundled offerings, ranging from Vivo light to XL, combine TV, Internet and fixed-line access and offer the right subscription for individual needs. Subscribers who combine Vivo and Natel infinity also benefit from a price reduction. Swisscom customers are becoming increasingly accustomed to using modern communication technology. Consequently, product presentation and expert customer advice are becoming more and more important. Swisscom's new Campus Shop concept was created with this in mind. Now the Shops provide more individual advice and allow customers to try out products on site. Between 2012 and 2014 the new concept and design was implemented in all Swisscom Shops.

Small and Medium-Sized Enterprises: Swisscom's SME, Office and Natel business infinity packages offer products tailored to the needs of small and medium-sized enterprises. Business Connect and Full Service Solution are innovative communication solutions that can be customised to meet the individual needs of SME customers.

Enterprise Customers: The digital transformation is substantially changing business processes, the working world and the way companies operate on the market. As an ICT provider with comprehensive experience in digitalisation, Swisscom drives this digital transformation forward and helps companies to find their way in the new networked world. Swisscom's range of offerings comprises comprehensive services such as cloud computing, outsourcing, workplace solutions, mobility solutions such as Natel go, networking solutions, business process optimisation, SAP solutions and a full range of services tailored to the financial industry. Every year the service desk fields 1.2 million calls and responds to 300,000 call-outs.

Healthcare market: Swisscom now delivers a full range of solutions for linking service providers and for managing the health of private individuals. These offerings range from the Evita online health dossier to networking solutions for service providers, billing services and mobile health files for hospitals, making Swisscom a leading provider of networked healthcare solutions in the Swiss market. Today more than 1,600 doctors and 100 hospitals, insurances and other service providers are already using the healthcare solutions of Swisscom to exchange over two million documents.

Net revenue
Switzerland accounts for

82 % of net revenue

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

86 % of EBITDA

Networked home: SmartLife is a range of products designed to make the home safer and more secure. The SmartLife app allows movement detectors, HD cameras, fire and water alarms and other home security technology to be controlled via smartphones, computers and tablets. Likewise, tiko, the smart electricity storage network from Swisscom Energy Solutions, allows users to optimally manage the energy consumption of their heat pumps, electrical heating systems or boilers remotely over the Internet.
Sustainability: Green ICT technologies support companies in their efforts to save energy in intelligent ways so as to boost their long-term efficiency while also reducing CO_2 emissions. This includes teleworking and virtual meetings, which save on travel costs and time, and telehousing or hosting solutions, which reduce the amount of energy consumed by data centres. Green ICT will therefore grow further in importance in the future not only for efficiency reasons but also as an image factor.

Fastweb in Italy

Fastweb offers residential and business customers voice and broadband services provided through its own broadband and ultra-fast broadband network as well as via unbundled access lines and wholesale products of Telecom Italia. A successful partnership exists with pay-TV provider Sky Italia, offering bundled products that combine voice and broadband services as well as satellite TV. Based on an agreement with a mobile operator, Fastweb offers mobile services primarily to residential customers. Furthermore, it offers a comprehensive range of ICT, cloud and security services for business customers.

Customer satisfaction

Swisscom Switzerland conducts segment-specific surveys and studies in order to measure general customer satisfaction. It measures customer satisfaction twice a year, in the second and fourth quarters of the year. The Wholesale segment measures customer satisfaction once a year. For all segments, the most important metrics are the extent to which customers are willing to recommend Swisscom to others and the related Net Promoter Score (NPS), which depicts the emotional aspects of customer loyalty as well as revealing customers' attitudes towards Swisscom. The NPA is calculated from the difference between promoters (customers who would strongly recommend Swisscom) and critics (customers who would only recommend Swisscom with reservations or would not recommend the company). Swisscom also conducts the following segment-specific surveys and studies:

- The **Residential Customers segment** conducts representative surveys to determine customer satisfaction and the extent to which customers are willing to recommend Swisscom to others. Callers to the Swisscom hotline and visitors to the Swisscom Shops are questioned regularly about waiting times and staff friendliness. Product studies also regularly survey buyers and users to determine product satisfaction, service and quality.
- The **Small and Medium-Sized Enterprises segment** conducts random interviews to gauge customers' satisfaction with Swisscom as well as dealers' satisfaction with Swisscom products and support.
- The **Enterprise Customers segment** conducts surveys among customers to measure satisfaction along the customer experience chain. Feedback instruments are also used at key customer touch points in order to determine customer satisfaction. After each interaction with the service desk or after placing orders, IT users can submit feedback to the service desk or enter their comments in the order system; customers can assess the quality and success of their projects on completion.
- The **Wholesale segment** measures customer satisfaction along the entire customer experience chain.

The results of these studies and surveys help Swisscom to improve its services and products and they influence the variable performance-related component of employees' pay.

Employees

Overall headcount at Swisscom increased by 1,017 FTEs year-on-year. In Switzerland Swisscom has 18,272 employees and is training 922 apprentices.

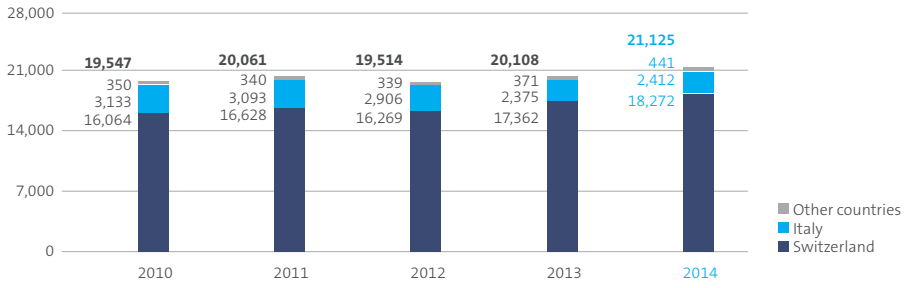
Headcount

At the end of 2014 Swisscom had 21,125 full-time equivalent employees, of which 18,272 or 86.5% of the total workforce were employed in Switzerland (prior year: 86.3%). Swisscom is also training 922 apprentices in Switzerland. The following chart shows a breakdown of full-time equivalent positions by segment:

	31.12.2012	31.12.2013	31.12.2014
Full-time equivalent employees at end of year			
Residential Customers	4,316	4,754	5,313
Small and Medium-Sized Enterprises	681	757	775
Corporate Business	2,360	2,441	2,487
Wholesale	116	107	111
Network & IT	4,389	4,404	4,599
Swisscom Switzerland	**11,862**	**12,463**	**13,285**
Fastweb	**2,893**	**2,363**	**2,391**
Swisscom IT Services	2,684	3,162	3,164
Other	1,735	1,802	1,968
Other operating segments	**4,419**	**4,964**	**5,132**
Group Headquarters	**340**	**318**	**317**
Total Group	**19,514**	**20,108**	**21,125**
Thereof employees in Switzerland	16,269	17,362	18,272

Headcount increased year-on-year by 1,017 full-time equivalents or 5.1% to 21,125. The higher headcount resulted from corporate acquisitions, the hiring of external staff and the strengthening of customer service operations. Excluding acquisitions, the increase was 282 FTEs, or 1.4%, and 375 FTEs in Switzerland, or 2.2%.
In the year under review, employees in Switzerland on open-ended contracts accounted for 99.6% of the workforce (prior year: 99.6%). Part-time employees made up 14.2% (prior year: 13.5%)- Terminations of employment by employees in Switzerland amounted to 5.8% of the workforce (prior year: 6.4%).

Development of headcount in full-time equivalent



Employment law in Switzerland

Introduction

Swisscom is one of the largest employers in Switzerland, with 18,272 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. Prior to their merger, Swisscom IT Services Ltd and Swisscom (Switzerland) Ltd had their own collective employment agreements (CEA) commensurate with the respective market environments. The terms and conditions in these agreements had to be adjusted accordingly, and the new CEA negotiated between Swisscom and the social partners enters into force on 1 April 2015. The CEA of cablex AG entered into force on 1 January 2013. At the end of December 2014, 14,596 FTEs or 84.1% 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 govern the employment law provisions applicable to 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 constitute 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)

The harmonised CEA which enters into force on 1 April 2015 retains the very good employment conditions under the old CEAs and standardises the regulations governing working hours and annual leave as well as the pay system. The working week for employees covered by the CEA is 40 hours. Among the most progressive fringe benefits defined by the CEA are five weeks' annual leave, or 27 days from age 45 (applicable from 1 January 2015) and six weeks' annual leave from age 60, 17 weeks' maternity leave and ten days' paternity leave. 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. The CEA places special emphasis on staff development while also improving the rights of part-time employees.

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) and variable working-hour models such as annual working hours, a long-term working-time account and part-time working from the age of 58. The "Holiday Purchasing" model also allows employees to purchase additional leave. 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 is a "home office friendly" employer.

Combining work with the care of relatives at home presents a major challenge to those affected. Swisscom provides special support for employees who care for a relative or closely-related individual in addition to their work duties. As part of a "Work & Care" pilot project, two new flexible working-hour models have been added to the existing models to promote the work-life balance.

Social plan

Swisscom's social plan sets out the benefits provided to employees covered by the CEA who are affected by redundancy, and offers resources aimed at improving 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 69% of those affected finding a new job in 2014 prior to the end of the social plan programme. Worklink is also committed to promoting and enhancing the employability of Swisscom employees by reviewing employees' current status and providing career advice and coaching.
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.

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 by 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. Details on remuneration paid to members of the Group Executive Board are provided in the Remuneration Report.

See report
page 115

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 regions. 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 defined by the relevant CEA.

Pay round

In January 2014 Swisscom and its social partners signed a two-year pay round agreement for 2014 and 2015. In the year under review Swisscom increased its total salary payout in Switzerland by 1.2%. This increase was used to make adjustments in salaries based on individual performance and the ratio of the salary to the benchmark. For 2015 Swisscom has earmarked 1.8% of the total salary payout for salary adjustments.

Equal pay

Swisscom takes great care to ensure equal pay for men and women. The company's salary system is structured in such a way as to award equal pay for equivalent duties, responsibilities and performance. To this end, individual functions are assigned to functional levels according to their requirements and a salary band is defined for each function level, stipulating the remuneration range for equivalent duties and responsibility. Pay is determined within this range based on the individual employee's performance. As part of its salary review, Swisscom grants employees who have per-

formed better and are lower within the respective salary band an above-average pay rise. In this way, any wage disparities are evened out on an ongoing basis. When conducting the salary review, Swisscom also checks whether there are any pay inequalities between men and women within individual organisational units and corrects them in a targeted manner.
Swisscom also uses the federal government's equal pay tool (Logib) to conduct periodic reviews of its salary structures to ascertain whether disparities exist between men's and women's pay. Previous reviews have revealed only minor pay discrepancies, well under the tolerance threshold of 5%.
In 2011, Swisscom joined the Equal Pay Dialogue, an initiative set up by the employer and employee umbrella organisations in association with the federal government to review the status of equal pay and which ran until February 2014. The positive outcome of the Equal Pay Dialogue confirms that Swisscom salaries conform to the principle of equal pay.

Staff development

Swisscom's market environment is constantly changing. the company invests in targeted professional training for employees and managers in order to retain and improve their employability and the company's competitiveness in the long term. Employees are supported in their development by a wide range of on-, near- and off-the-job training options as well as internal programmes and courses. In 2014 the various training options were brought together under the Group-wide Learning Centre and made available to all employees via their own dedicated learning space. Nearly half of all internal learning and training courses take the form of e-learning programmes which can be carried out any time and from anywhere. The courses cover technical, management and project management topics. As part of talent management, around 10% of the top performers from the target groups have completed a corresponding internal programme. On-the-job training options, including job moves and stages, are becoming increasingly important. Even now Swisscom fills almost 43% of advertised vacancies internally. It also welcomes opportunities for employees to attend external further training courses, providing financial support and granting time off for such studies. In the year under review, every Swisscom employee spent 3.8 days on training and development in Switzerland.
Swisscom management sees staff development as a crucial element of its management responsibility. Regular dialogue between employees and management is used as an orientation tool to heighten the general commitment to training and development in the digital world It also makes it easier to agree on and realise medium-term development measures. To assess and promote employee performance and development, Swisscom will continue to develop its Performance Management System in line with requirements. Performance appraisals are carried out according to fair principles and cover a wide range of criteria based on binding agreements on objectives. The ongoing dialogue between employee and management about the agreed objectives ensures they are met over the course of a year. Broad-based support for the performance and development evaluations is provided within the framework of twice-yearly calibration rounds among groups of managers, at which performance is systematically assessed and further development steps are defined. These rounds are also used to draw up succession plans for key functions and to place talents in specially-designed talent programmes and offer promising employees challenging positions beyond their individual departments so as to promote their development.
In 2014 Swisscom launched the Leadership Academy, which offers members of management the opportunity to get to grips with individual and collective management issues in a changing environment and enhance their expertise in dialogue with other managers.

Staff recruitment

As a Swiss company, Swisscom is committed to the Swiss labour market. In order to meet customer needs and remain competitive, Swisscom is prepared to work together with both domestic and international partners, on condition that they satisfy Swisscom's requirements as regards labour legislation and sustainability.
Swisscom seeks individuals who are motivated and passionate about helping customers and who want to help shape the future of the networked world. At all company locations in Switzerland, Swisscom endeavours to give priority to people from the surrounding regions. This is the reason behind the high percentage of local employees in all areas and at all hierarchical levels.
In order to attract talented and highly motivated graduates, Swisscom cultivates close contact with universities and schools of applied sciences. Attending recruitment fairs and engaging in more advanced forms of cooperation such as guest lectures and workshops is very important to Swisscom. Many students gain initial professional experience at Swisscom during their studies either by working as interns or during the practical part of their Bachelor's or Master's course.
In August 2014, 256 young people started their apprenticeship at Swisscom. Swisscom is thus Switzerland's largest trainer of ICT professionals. In 2014, Swisscom trained a total of 922 apprentices in technical and commercial apprenticeships. The Swisscom training model is designed to promote independence and personal accountability so as to support the apprentice's personal development. Apprentices take an active role in devising their training so that it fits their individual priorities, and they apply within the company for different practical placements and learn from experienced employees during such placements.

Employee satisfaction

In 2014, 83% of Swisscom employees in Switzerland took part in the job satisfaction survey. The results again revealed an above-average level of job satisfaction and a high level of employee commitment at Swisscom. The employees gave all of the areas under review a significantly better average score than in the 2012 survey, and some of the scores were above average compared to other companies in the sector. The results are all the more notable given the fact that Swisscom has undergone a major change process since the last survey, with the merger of Swisscom IT Services Ltd and Swisscom (Switzerland) Ltd as well as other organisational changes and process adjustments.

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.

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 CCNL 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 goals 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.

Innovation and development

In a dynamic environment in which the market situation and general conditions are constantly changing, a company must be innovative to ensure long-term success. With this in mind, Swisscom consistently addresses changing customer needs, and identifies growth areas in which it can sustainably defend and strengthen its position.

Innovation is an important driver in the bid to enter new markets and develop up-and-coming technologies. Due to the rapidly changing nature of Swisscom's business environment, research and development are becoming increasingly important. Swisscom wants to anticipate the strategic challenges, new growth areas and future customer needs early on, so as to help actively shape the future of telecommunications and the Internet. At Swisscom, innovation takes place in all areas of the company as well as beyond.

Open innovation: a success factor

Swisscom recognises the importance of maintaining a dialogue with customers, employees, suppliers and other partners, as it enables a permanent, open process of innovation with the focus on customers and their needs. When developing new products and services, Swisscom consistently adopts human-centred design methods to create simple, inspiring experiences which optimally help customers find their way in the networked world.

Within the company, Swisscom practices and promotes decentralised product development. As a result, new ideas are generated throughout the company. Various events and platforms provide employees with the opportunity to exchange innovative ideas and familiarise themselves with best practice examples. One example is the Innovation Week held twice a year, during which teams of employees from different divisions realise a new idea that addresses a specific customer need, is of business relevance and has potential on the market.

To identify customer needs in good time, it is essential to involve future users in the development process at the earliest stage possible. Swisscom operates its own open innovation platform called Swisscom Labs, where registered users are able to contribute their own ideas, give their own opinions on trials and take part in beta tests.

Outside the company, Swisscom promotes innovation throughout the industry. In particular, Swisscom is committed to supporting young companies that offer forward-looking new solutions in the field of IT, communications and entertainment. Swisscom participates in start-ups as a project partner and investor, and supports them by providing tailored products and services. Since 2013 Swisscom has held the StartUp Challenge competition, where winners are sent on a one-week mentoring programme in Silicon Valley.

See
www.swisscom.ch/innovation

Specific areas of innovation

End-to-end connectivity

A high-quality, reliable network infrastructure is one of the key success factors for Swisscom. Over the past few years, the standard of quality that customers expect the network to deliver has risen dramatically. Swisscom is therefore working on the next-generation network and developing solutions to give users in Switzerland even faster, more reliable networks. The main challenge here is the growing volume of data in the mobile area. Swisscom is seeking and developing innovative network solutions that allow high volumes of data to be handled efficiently and guarantee seamless mobile network provision at busy locations. One promising solution is the installation of low-power microcells that provide high capacity locally. Swisscom is working on the development of new types of antenna that will allow such microcells to be operated efficiently and integrated seamlessly in the existing architecture.

Mobile services and apps

The trend towards greater mobility is proceeding apace. Mobile devices such as smartphones and tablets are commonplace, and it is hard to imagine life nowadays without mobile Internet. Swisscom's vision is therefore to use smartphones as a bridge between the real and the digital worlds. One important step in this direction was the launch of Swisscom Tapit, the Swiss wallet of the future. Tapit is an open, non-exclusive platform for all service providers in various industries who are seeking to mobilise their business processes. For end customers, Tapit is a safe place in which to manage their bank and credit cards. Tapit is based on Near Field Communication (NFC) technology, which is already incorporated in the majority of smartphones. Swisscom also continues to operate and continually develop the iO app, which allows users to send SMS messages and make calls to Switzerland and abroad free of charge. With iO@home they can also be reached on their fixed-line number wherever they are in the world.

Security and intelligence

As data volumes continue to grow, so too do the requirements placed on products that process this data in a secure and anonymised way and analyse it according to the latest methodology. "Big data technologies" have already made inroads in various sectors and are used, for example, to measure and control traffic flows. At the same time, the number of customers who use their smartphone for mobile Internet browsing and leave behind customer data is also growing. Hackers and other parties are therefore becoming increasingly interested in customer data. Given this situation, Swisscom aims to offer its customers various applications that ensure greater transparency and control. CheckAp, for example, checks the security of programmes installed on a smartphone. In 2014, Swisscom launched DocSafe, a cloud-based solution that enables users to easily and securely store important documents, and that users can access at any time and from anywhere.

See
www.swisscom.ch/m²m

Current innovation projects

Swisscom invests in progressive solutions in a number of areas in order to continuously tap into new growth opportunities and offer its customers the best services and products:

- **Identity Access Management:** In a world full of virtual products and services, a digital identity can be a useful tool. It makes life simpler by replacing a large number of passwords with a single, simple user ID. Swisscom is currently drawing up the foundations for such a digital identity and for concrete applications.
- **Voice over LTE (VoLTE)/WLAN interworking:** The 4G/LTE network is currently a dedicated data network, with customers being transferred to the 3G network for calls. With VoLTE, Swisscom is aiming to enable the use of voice telephony via 4G, with a technical adjustment to the mobile infrastructure also allowing voice telephony via WLAN. Customers will be able to enjoy faster connection times and improved voice quality.
- **Clean Pipe:** Under the working title "Clean Pipe" Swisscom is trialling new ways of making digital life simpler for customers and protecting them against dangers and bad experiences, such as phishing. In the year under review, Swisscom launched the first product, Safe Connect: an app based on VPN technology that blocks access to websites considered to be dangerous, and to malware.
- **Cloud:** Swisscom is developing a 360-degree Cloud with a unified architecture that offers companies and private individuals a wide range of services. Thanks to state-of-the-art technologies, open source, the latest security concepts and data storage in Switzerland, Swisscom is leading the way in cloud computing.

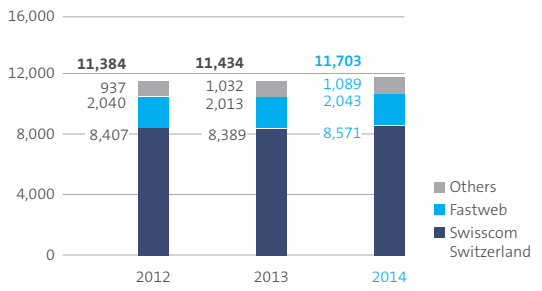
Financial review

Swisscom grows revenue (+2.4%) and operating income before depreciation and amortisation EBITDA (+2.6%). 2.1 million mobile customers benefit from unlimited usage (Natel infinity). 1.2 million customers (+16.5%) use Swisscom TV. Fastweb increases revenue and EBITDA and grows the number of broadband customers to 2.1 million.

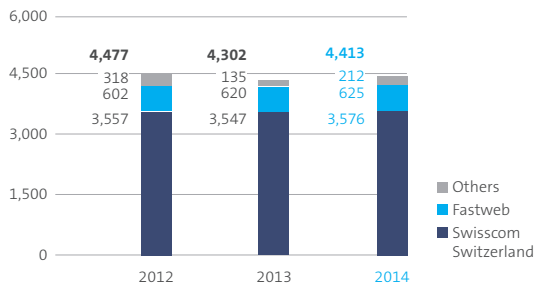
Key financial figures

In CHF million, except where indicated	2014	2013	Change
Net revenue	11,703	11,434	2.4%
Operating income before depreciation and amortisation (EBITDA)	4,413	4,302	2.6%
EBITDA as % of net revenue	37.7	37.6	
Operating income (EBIT)	2,322	2,258	2.8%
Net income	1,706	1,695	0.6%
Share of net income attributable to equity holders of Swisscom Ltd	1,694	1,685	0.5%
Earnings per share (in CHF)	32.70	32.53	0.5%
Operating free cash flow	1,860	1,978	–6.0%
Capital expenditure in property, plant and equipment and other intangible assets	2,436	2,396	1.7%
Net debt at end of period	8,120	7,812	3.9%
Full-time equivalent employees at end of year	21,125	20,108	5.1%

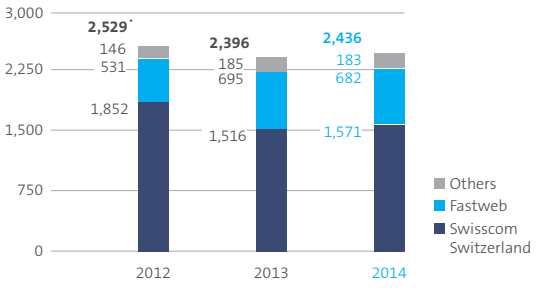
Development of net revenue in CHF million



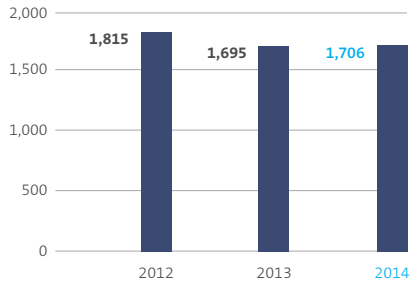
Development of EBITDA in CHF million



Development of capital expenditure in CHF million



Development of net income in CHF million



* Including expenses of CHF 360 million for mobile frequency.

Introduction

As in the prior year, the 2014 consolidated financial statements report the segments "Residential Customers", "Small and Medium-Sized Enterprises", "Corporate Business", "Wholesale" and "Network & IT", which are grouped together as "Swisscom Switzerland". Swisscom IT Services is accounted for under "Other Operating Segments". Segment reporting will be adjusted in line with the management structure from 2015. Swisscom Switzerland covers the segments Residential Customers, Small and Medium-Sized Enterprises, Enterprise Customers, Wholesale and IT, Network & Innovation. Group Headquarters, which primarily includes the Group divisions as well as the employment company Worklink AG, will continue to be reported separately.

Summary

Swisscom's net revenue rose by CHF 269 million or 2.4% to CHF 11,703 million, while operating income before depreciation and amortisation (EBITDA) was CHF 111 million or 2.6% higher at CHF 4,413 million. Net income increased by CHF 11 million or 0.6% to CHF 1,706 million.
At constant exchange rates, excluding company acquisitions and Fastweb's wholesale revenue from interconnection (hubbing), net revenue rose by 1.9% or CHF 218 million, of which Swiss business accounted for CHF 128 million. Price erosion of CHF 360 million in Swiss core business (CHF 170 million of which resulted from reduced roaming fees) was more than offset by customer and volume growth of CHF 488 million. Excluding hubbing, Fastweb's net revenue was EUR 63 million or 3.9% higher at EUR 1,660 million.
On a like-for-like basis, Swisscom's EBITDA increased by 0.9% or CHF 39 million, of which Swiss business accounted for CHF 22 million. Fastweb's EBITDA rose year-on-year by EUR 10 million or 2.0% to EUR 515 million. Net income increased year-on-year by CHF 11 million or 0.6% to CHF 1,706 million. The increase in EBITDA was offset in part by higher depreciation and amortisation and higher income tax expense.
Capital expenditure increased by CHF 40 million or 1.7% to CHF 2,436 million, and in Switzerland by CHF 65 million or 3.9% to CHF 1,751 million. The higher figures are primarily due to the expansion and upgrading of mobile and fixed network infrastructure with the latest technologies. At the end of 2014, Swisscom had connected more than 1.4 million homes and offices to ultra-fast broadband. Despite ending the year EUR 3 million or 0.5% lower at EUR 562 million, capital expenditure at Fastweb remains high due to progressive expansion and upgrading of the broadband network in Italy.
Operating free cash flow declined by CHF 118 million or 6.0% to CHF 1,860 million. Net debt increased by CHF 308 million or 3.9% over the end of 2013 to CHF 8,120 million, chiefly due to the acquisition of PubliGroupe. The ratio of net debt to EBITDA remained unchanged year-on-year at 1.8.
Headcount increased year-on-year by 1,017 FTEs or 5.1% to 21,125 FTEs. The higher headcount resulted from corporate acquisitions, the hiring of external staff and the strengthening of customer service operations. In Switzerland the number of employees increased by 910 FTEs or 5.2% to 18,272. Excluding corporate acquisitions, the number of FTEs rose by 282 or 1.4%, in Switzerland by 375 FTEs or 2.2%.
Swisscom expects to close 2015 with net revenue in excess of CHF 11.4 billion and EBITDA of around CHF 4.2 billion. This outlook is based on an assumed euro exchange rate of CHF 1.00. It does not take account of the possible negative implications of the currency situation for the economy. The negative effects of the lower euro exchange rate will amount to almost CHF 400 million on net revenue and around CHF 100 million on EBITDA. In the case of EBITDA, the All IP transformation, higher pension costs and lower gains from the sale of real estate, will result in a reduction of more than CHF 100 million. At CHF 2.3 billion, capital expenditure is expected to be some CHF 100 million lower than in 2014, due to the lower euro exchange rate and a slight reduction in investment in Fastweb. Capital expenditure in Switzerland will remain unchanged at CHF 1.75 billion. Subject to achieving its targets, Swisscom will again propose a dividend of CHF 22 per share for the 2015 financial year at the 2016 Annual General Meeting.

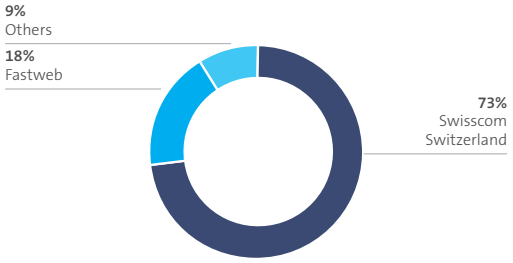
Results of operations

Income statement

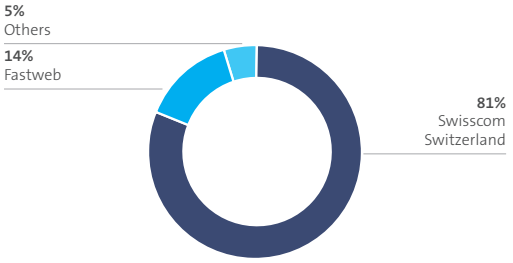
In CHF million, except where indicated	2014	2013	Change
Swisscom Switzerland	8,571	8,389	2.2%
Fastweb	2,043	2,013	1.5%
Other operating segments	1,088	1,032	5.4%
Group Headquarters	1	–	–
Revenue from external customers	**11,703**	**11,434**	**2.4%**
Swisscom Switzerland	3,576	3,547	0.8%
Fastweb	625	620	0.8%
Other operating segments	361	303	19.1%
Group Headquarters	(121)	(127)	–4.7%
Reconciliation pension cost [1]	–	(17)	–
Intersegment elimination	(28)	(24)	16.7%
Operating income before depreciation and amortisation (EBITDA)	**4,413**	**4,302**	**2.6%**
Net revenue	**11,703**	**11,434**	**2.4%**
Goods and services purchased	(2,369)	(2,338)	1.3%
Personnel expense	(2,751)	(2,706)	1.7%
Other operating expense	(2,540)	(2,476)	2.6%
Capitalised self-constructed assets and other income	370	388	–4.6%
Operating expenses	**(7,290)**	**(7,132)**	**2.2%**
Operating income before depreciation and amortisation (EBITDA)	**4,413**	**4,302**	**2.6%**
Depreciation, amortisation and impairment losses	(2,091)	(2,044)	2.3%
Operating income (EBIT)	**2,322**	**2,258**	**2.8%**
Net interest expense	(218)	(251)	–13.1%
Other financial result	(42)	(8)	425.0%
Share of results of associates	26	30	–13.3%
Income before income taxes	**2,088**	**2,029**	**2.9%**
Income tax expense	(382)	(334)	14.4%
Net income	**1,706**	**1,695**	**0.6%**
Share of net income attributable to equity holders of Swisscom Ltd	1,694	1,685	0.5%
Share of net income attributable to non-controlling interests	12	10	20.0%
Average number of shares outstanding (in millions of shares)	51.801	51.801	–
Earnings per share (in CHF)	32.70	32.53	0.5%

[1] The operating income of segments consists 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 269 million or 2.4% to CHF 11,703 million. On a like-for-like basis, net revenue increased by 1.9%. At Swisscom Switzerland, revenue from external customers was CHF 182 million or 2.2% higher at CHF 8,571 million, resulting in a like-for-like growth in net revenue of 1.4%. Price erosion and reductions in roaming fees totalling CHF 360 million (of which roaming fee reductions accounted for CHF 170 million) were outweighed by customer and volume growth. Fastweb's net revenue increased by EUR 46 million or 2.8% to EUR 1,688 million, or by 1.5% in Swiss francs. Excluding wholesale revenue from interconnection services (hubbing business), net revenue at Fastweb was EUR 63 million or 3.9% higher at EUR 1,660 million. Fastweb's broadband customer base grew year-on-year by 130,000 or 6.7% to 2.07 million. Primarily as a result of corporate acquisitions, revenue from external customers generated by other operating segments increased by CHF 56 million or 5.4% to CHF 1,088 million.

Goods and services purchased

Goods and services purchased rose year-on-year by CHF 31 million or 1.3% to CHF 2,369 million. The lower expenditure at Fastweb is attributable to the shrinking hubbing business and lower termination rates. Expenditure at Swisscom Switzerland rose due to higher costs for subscriber acquisition and retention.

Personnel expense

Personnel expense increased by CHF 45 million or 1.7% year-on-year to CHF 2,751 million, largely as a result of corporate acquisitions. Headcount rose year-on-year by 1,017 FTEs or 5.1% to 21,125 FTEs. Adjusted for corporate acquisitions, the increase amounts to 1.4%, which is largely attributable to measures to strengthen customer service operations and the insourcing of external staff.

Other operating expense

Other operating expense increased by CHF 64 million or 2.6% year-on-year to CHF 2,540 million. The increase is mainly attributable to corporate acquisitions, the purchase of services for call centre operations and higher spending on advertising.

Capitalised costs of self-constructed assets and other income

Capitalised self-constructed assets and other income fell by CHF 18 million or 4.6% year-on-year to CHF 370 million, and includes gains on the sale of real estate of CHF 59 million (prior year: CHF 9 million). Capitalised self-constructed assets were CHF 11 million or 4.3% higher year-on-year at CHF 267 million.

Operating income before depreciation and amortisation (EBITDA)

Operating income before depreciation and amortisation (EBITDA) rose by CHF 111 million or 2.6% to CHF 4,413 million. The figure was positively influenced by higher gains on the sale of real estate, lower pension costs and corporate acquisitions. Adjusted EBITDA rose by 0.9% due to the higher revenue and as a result of cost management.

Depreciation and amortisation

Depreciation and amortisation rose by CHF 47 million or 2.3% year-on-year to CHF 2,091 million, due to higher depreciation and amortisation related to the increase in capital expenditure. 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 (for example, brands and customer relationships) totalling CHF 140 million (prior year: CHF 156 million).

Net interest expense and other financial result

Net financial expense in 2014 amounted to CHF 260 million (prior year: CHF 259 million). Net interest expense declined by CHF 33 million to CHF 218 million as a result of lower average interest costs. The other financial result declined by CHF 34 million year-on-year, chiefly as a result of negative effects of CHF 76 million arising from the fair value adjustment of interest rate derivatives.

Associates

The share of results of associates fell year-on-year by CHF 4 million to CHF 26 million, primarily due to the acquisition of majority stakes in LTV Yellow Pages and Cinetrade in the prior year. Dividends received, amounting to CHF 30 million (prior year: CHF 43 million), largely concern dividends paid by LTV Yellow Pages, Belgacom International Carrier Services and Cinetrade.

Income tax expense

Income tax expense amounted to CHF 382 million (prior year: CHF 334 million), corresponding to an effective income tax rate of 18.3% (prior year: 16.5%). The higher income tax expense is largely a result of using and recognising tax loss carry-forwards in the prior year 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 108 million higher than a year earlier at CHF 386 million.

Net income and earnings per share

Net income rose by 0.6% or CHF 11 million to CHF 1,706 million. The increase in EBITDA was offset in part by higher depreciation and amortisation and higher income tax expense. Earnings per share increased by 0.5% from CHF 32.53 to CHF 32.70.

Excluding non-recurring items, revenue increased by 1.9% year-on-year.
Revenue in 2014 totalled

11.7 billion CHF

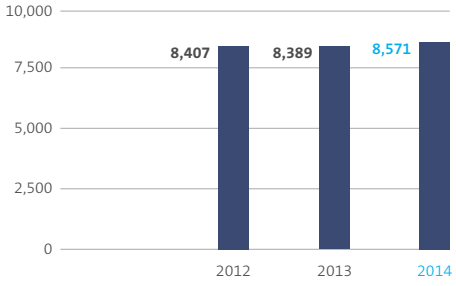
Excluding non-recurring items, EBITDA increased by 0.9% year-on-year.
EBITDA in 2014 totalled

4.4 billion CHF

Segment revenue and results

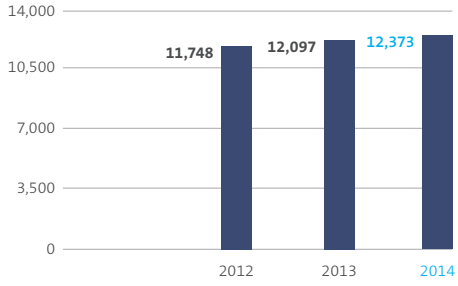
Reporting is broken down into the segments Swisscom Switzerland, Fastweb and Other operating segments. Group Headquarters is disclosed separately.

Development of revenue from external customers
Swisscom Switzerland in CHF million



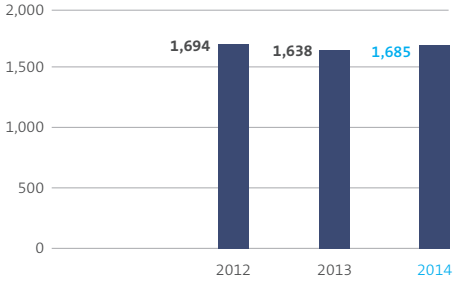
	2012	2013	2014
Revenue mobile single subscriptions	2,932	2,782	2,776
Revenue fixed-line single subscriptions	2,470	2,215	1,967
Revenue bundle subscriptions	1,172	1,553	1,921
Revenue others	1,833	1,839	1,907
Total	**8,407**	**8,389**	**8,571**

Development of revenue generating units (RGU)
Swisscom Switzerland in thousand



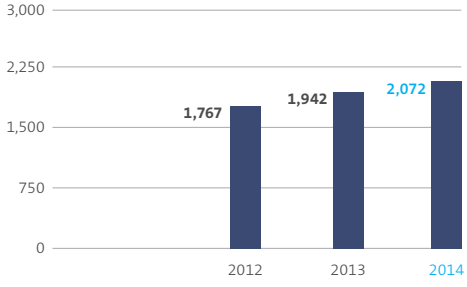
	2012	2013	2014
Fixed access lines	3,013	2,879	2,778
Broadband access lines retail	1,727	1,811	1,890
Swisscom TV access lines	791	1,000	1,165
Mobile access lines	6,217	6,407	6,540
Total revenue generating units (RGU)	**11,748**	**12,097**	**12,373**

Development of revenue from external customers
Fastweb in EUR million



	2012	2013	2014
Residential Customers	724	744	753
Small and Medium-Sized Enterprises	791	771	789
Wholesale hubbing	87	45	28
Wholesale others	92	78	115
External revenue	**1,694**	**1,638**	**1,685**

Development of broadband access lines
Fastweb in thousand



Swisscom Switzerland

In CHF million, except where indicated	2014	2013	Change
Net revenue and results			
Residential Customers	5,326	5,145	3.5%
Small and Medium-Sized Enterprises	1,159	1,151	0.7%
Corporate Business	1,788	1,787	0.1%
Wholesale	929	966	–3.8%
Elimination	(571)	(600)	–4.8%
Net revenue	**8,631**	**8,449**	**2.2%**
Residential Customers	2,951	2,898	1.8%
Small and Medium-Sized Enterprises	856	864	–0.9%
Corporate Business	900	907	–0.8%
Wholesale	381	384	–0.8%
Network & IT	(1,512)	(1,506)	0.4%
Segment result before depreciation and amortisation (EBITDA)	**3,576**	**3,547**	**0.8%**
Margin as % of net revenue	41.4	42.0	
Depreciation, amortisation and impairment losses	(1,173)	(1,104)	6.3%
Segment result	**2,403**	**2,443**	**–1.6%**
Capital expenditure and headcount			
Capital expenditure in property, plant and equipment and other intangible assets	1,571	1,516	3.6%
Full-time equivalent employees at end of year	13,285	12,463	6.6%

Swisscom Switzerland's net revenue grew year-on-year by CHF 182 million or 2.2% to CHF 8,631 million, while operating income before depreciation and amortisation (EBITDA) was CHF 29 million or 0.8% higher at CHF 3,576 million. Adjusted for corporate acquisitions and non-recurring costs for restructuring, revenue increased by 1.4% and EBITDA by 0.3%. Price erosion of some CHF 360 million (of which CHF 170 million resulted from reductions in roaming fees) was more than offset by customer and volume growth. At CHF 1,571 million, capital expenditure was CHF 55 million or 3.6% higher than in the previous year due to higher spending on network infrastructure. Headcount increased by 822 FTEs or 6.6% year-on-year to 13,285 FTEs. Adjusted for company acquisitions, the increase amounted to 336 FTEs, mainly as a consequence of measures to strengthen customer service operations and the insourcing of external staff.

The trend towards bundled offerings and new pricing models such as flat-rate tariffs continues unabated. Natel infinity mobile subscriptions, which offer customers unlimited calls and SMS messages to all Swiss networks as well as unlimited web browsing, remain very popular. The customer base grew year-on-year by 0.4 million to around 2.1 million. By the end of 2014, 1.2 million customers were subscribing to packages such as the Vivo range of offerings which combine fixed-line access with telephony, Internet and TV or also include a mobile line. This corresponds to an increase of 208,000 customers or 20.8% versus the prior year. Revenue from contracts for bundled offerings rose by CHF 368 million or 23.7% to CHF 1,921 million.

Swisscom Switzerland/net revenue

In CHF million, except where indicated	2014	2013	Change
Revenue by services			
Revenue mobile single subscriptions	2,776	2,782	–0.2%
Revenue fixed-line single subscriptions	1,967	2,215	–11.2%
Revenue bundles	1,921	1,553	23.7%
Revenue wholesale	570	588	–3.1%
Other net revenue	1,337	1,251	6.9%
Revenue from external customers	**8,571**	**8,389**	**2.2%**
Operational data at end of period in thousand			
Fixed access lines	2,778	2,879	–3.5%
Broadband access lines retail	1,890	1,811	4.4%
Swisscom TV access lines	1,165	1,000	16.5%
Mobile access lines	6,540	6,407	2.1%
Bundles	1,209	1,001	20.8%
Unbundled fixed access lines	180	256	–29.7%
Broadband access lines wholesale	262	215	21.9%
Revenue generating units (RGU)	12,373	12,097	2.3%

Revenue from external customers increased year-on-year by CHF 182 million or 2.2% to CHF 8,571 million. The decrease of CHF 190 million due to price erosion and the price reductions for roaming amounting to CHF 170 million were more than offset by customer and volume growth. Swisscom Switzerland's revenue also increased thanks to the acquisition of LTV Yellow Pages Ltd in September 2014, and to the majority stake in Cinetrade acquired in the prior year. The number of revenue generating units (RGU) with end customers grew by 276,000 or 2.3% to 12.4 million. Natel infinity mobile subscriptions, which offer customers unlimited phone calls and SMS messages to all Swiss networks as well as surfing, continue to grow in popularity. At the end of 2014, 2.1 million customers, or 63% of the customer base (excluding corporate customers), were using the Natel infinity offerings. Figures from recent quarters show that customers switching to Natel infinity continue to generate higher revenues (ARPU). The number of postpaid mobile customers grew by 146,000, while the number of prepaid customers dropped by 13,000. In 2014, Swisscom sold a total of 1.5 million mobile handsets (–3.6%). The number of smartphone users has further increased, with the share of postpaid subscribers rising from 69% to 74% within the space of a year.

Demand remains high for bundled offerings such as the Vivo range, which combines fixed-line access with telephony, Internet and TV or also includes a mobile line. The number of customers using bundled offerings rose year-on year by 208,000 or 20.8% to 1.21 million. Revenue from contracts for bundled offerings rose by CHF 368 million or 23.7% to CHF 1,921 million. The number of Swisscom TV connections increased by 165,000 or 16.5% to 1.17 million, of which 1.06 million subscribed to the basic packages. Swisscom TV 2.0, which offers additional functions, was launched at the beginning of April 2014 and by the end of 2014 had already attracted 306,000 customers, most of whom had upgraded from a previous Swisscom offering to a higher-quality bundled offering. 2014 saw a decline of the number of fixed lines for voice telephony by 101,000 or 3.5% to 2.78 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 79,000 or 4.4% to 1.89 million, while the number of unbundled subscriber access lines fell by 76,000 or 29.7% to 180,000. The number of wholesale broadband access lines rose by 47,000 or 21.9% year-on-year to 262,000.

Swisscom Switzerland/operating expenses and segment result

In CHF million, except where indicated	2014	2013	Change
Segment expenses by nature of cost			
Traffic fees	(424)	(449)	–5.6%
Subscriber acquisition and retention costs	(520)	(463)	12.3%
Other direct costs	(925)	(892)	3.7%
Direct costs	**(1,869)**	**(1,804)**	**3.6%**
Personnel expense	(1,765)	(1,691)	4.4%
Other indirect costs	(1,590)	(1,581)	0.6%
Capitalised self-constructed assets and other income	169	174	–2.9%
Indirect costs	**(3,186)**	**(3,098)**	**2.8%**
Segment expenses	**(5,055)**	**(4,902)**	**3.1%**
Segment result			
Segment result before depreciation and amortisation (EBITDA)	**3,576**	**3,547**	**0.8%**
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Capital expenditure in property, plant and equipment and other intangible assets	1,571	1,516	3.6%
Full-time equivalent employees at end of year	13,285	12,463	6.6%

Segment expense rose by CHF 153 million or 3.1% to CHF 5,055 million. At CHF 1,869 million, direct costs were CHF 65 million or 3.6% higher year-on-year. The higher subscriber acquisition and retention costs as well as additional costs related to corporate acquisitions were partly offset by the reduction in mobile termination rates and outbound roaming fees. Indirect costs increased by CHF 88 million or 2.8% to CHF 3,186 million. Adjusted for company acquisitions and restructuring costs, indirect costs rose by 1.2%. The higher personnel expense as a result of the increase in headcount was partly offset by savings on other operating costs. Personnel expense increased by CHF 74 million or 4.4% to CHF 1,765 million, adjusted personnel expense was 2.4% higher. Headcount rose by 822 FTEs or 6.6% to 13,285 FTEs as a result of acquisitions, the insourcing of external personnel and an increase in customer service staff. Adjusted for corporate acquisitions, headcount was 2.7% higher year-on-year. The segment result before depreciation and amortisation was CHF 29 million or 0.8% higher at CHF 3,576 million, resulting in like-for-like growth in EBITDA of 0.3%. The profit margin was down 0.6 percentage points at 41.4%. Depreciation and amortisation increased year-on-year by CHF 69 million or 6.3% to CHF 1,173 million, largely due to the high level of capital expenditure. The segment result ended the year CHF 40 million or 1.6% lower at CHF 2,403 million. Capital expenditure rose year-on-year by CHF 55 million or 3.6% to CHF 1,571 million due to increased investment in the expansion and upgrading of mobile and fixed network infrastructure with the latest technologies.

Number of infinity subscribers
at the end of 2014 was

2.1 million

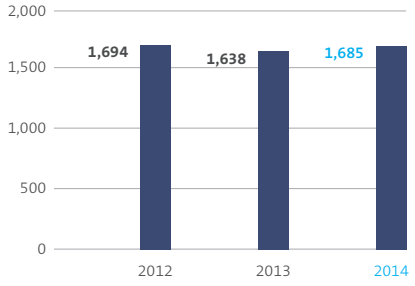
Revenue from bundle contracts
increased year-on-year by

23.7 %

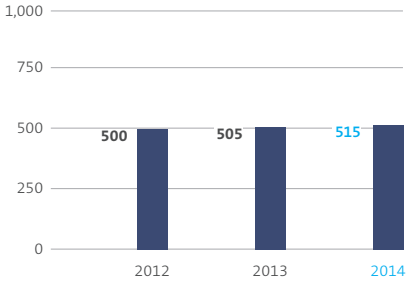
Fastweb

In EUR million, except where indicated	2014	2013	Change
Residential Customers	753	744	1.2%
Corporate Business	789	771	2.3%
Wholesale hubbing	28	45	–37.8%
Wholesale other	115	78	47.4%
Revenue from external customers	**1,685**	**1,638**	**2.9%**
Intersegment revenue	3	4	–25.0%
Net revenue	**1,688**	**1,642**	**2.8%**
Segment expenses	(1,173)	(1,137)	3.2%
Segment result before depreciation and amortisation	**515**	**505**	**2.0%**
Margin as % of net revenue	30.5	30.8	
Capital expenditure in property, plant and equipment and other intangible assets	562	565	–0.5%
Full-time equivalent employees at end of year	2,391	2,363	1.2%
Broadband access lines at end of year in thousand	2,072	1,942	6.7%

Development of revenue from external customers in EUR million



Development of EBITDA in EUR million

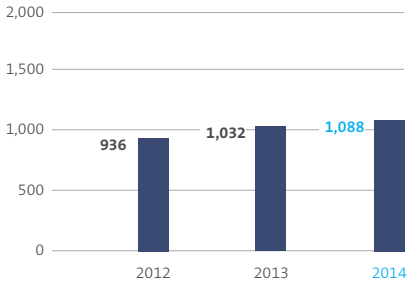


Fastweb's net revenue grew by EUR 46 million or 2.8% to EUR 1,688 million compared to the previous year. Wholesale revenue from low-margin interconnection services (hubbing) dropped as expected. Excluding hubbing, Fastweb's revenue was EUR 63 million or 3.9% higher at EUR 1,660 million. Despite difficult market conditions, Fastweb's broadband customer base grew year-on-year by 130,000 or 6.7% to 2.07 million. In the residential customer segment, fierce competition drove down average revenue per broadband customer by around 6% versus the previous year. This decline was offset by customer growth, with revenue from residential customers rising by EUR 9 million or 1.2% to EUR 753 million. Revenue from business customers increased by EUR 18 million or 2.3% to EUR 789 million, while other wholesale business revenue was EUR 37 million or 47.4% higher at EUR 115 million.
The segment result before depreciation and amortisation totalled EUR 515 million. This corresponds to a year-on-year rise of EUR 10 million or 2.0%, mainly as a result of higher revenues. The profit margin fell year-on-year by 0.3 percentage points to 30.5%.
Headcount at the end of 2014 totalled 2,391 FTEs, representing an increase of 28 FTEs or 1.2% compared to a year earlier. Capital expenditure dropped by EUR 3 million or 0.5% to EUR 562 million due to lower spending on the network infrastructure. The ratio of capital expenditure to net revenue was 33.3% (prior year: 34.4%).

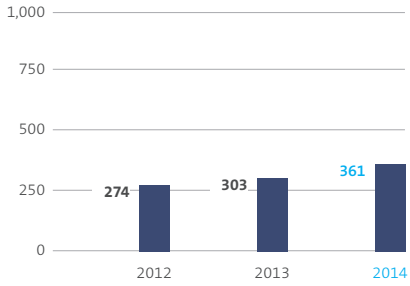
Other operating segments

In CHF million, except where indicated	2014	2013	Change
Revenue from external customers	1,088	1,032	5.4%
Intersegment revenue	801	787	1.8%
Net revenue	**1,889**	**1,819**	**3.8%**
Segment expenses	(1,528)	(1,516)	0.8%
Segment result before depreciation and amortisation	**361**	**303**	**19.1%**
Margin as % of net revenue	19.1	16.7	
Capital expenditure in property, plant and equipment and other intangible assets	211	195	8.2%
Full-time equivalent employees at end of year	5,132	4,964	3.4%

Development of revenue from external customers in CHF million



Development of EBITDA in CHF million



At CHF 1,088 million, revenue from external customers was CHF 56 million or 5.4% higher year-on-year, largely due to acquisitions. Swisscom's takeover of the PubliGroupe was completed in September 2014, following which LTV Yellow Pages Ltd was assigned to the Swisscom Switzerland segment, while other interests were assigned to Other operating segments. 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. Revenue from external customers generated by Swisscom IT Services grew by CHF 38 million or 6.2% to CHF 650 million, largely as a result of acquisitions. Intersegment revenue grew year-on-year by CHF 14 million or 1.8% to CHF 801 million, chiefly due to the higher volume of construction services performed for Swisscom Switzerland.
Segment expense rose by CHF 12 million or 0.8% to CHF 1,528 million. The increase is a result of higher costs related to acquisitions and revenue growth and was partially offset by higher gains on the sale of real estate, which in 2014 rose by CHF 50 million year-on-year. The segment result before depreciation and amortisation rose accordingly by CHF 58 million or 19.1% to CHF 361 million. At 5,132 FTEs, headcount at the end of 2014 was 168 FTEs or 3.4% higher than the previous year, due primarily to acquisitions. Capital expenditure rose by CHF 16 million or 8.2% to CHF 211 million as a result of the higher volume of investment by Swisscom IT Services in IT infrastructure.

Group Headquarters and reconciliation of pension cost

The segment result before depreciation and amortisation improved by CHF 6 million or 4.7% to CHF –121 million, largely on account of the lower cost of restructuring measures compared to the prior year. At 317 FTEs, headcount was on a par with the prior year.
No expenses are disclosed as a pension cost reconciliation item (prior year: CHF 17 million).

Quarterly review 2013 and 2014

In CHF million, except where indicated	1. quarter	2. quarter	3. quarter	4. quarter	2013	1. quarter	2. quarter	3. quarter	4. quarter	2014
Income statement										
Net revenue	**2,734**	**2,862**	**2,867**	**2,971**	**11,434**	**2,821**	**2,879**	**2,929**	**3,074**	**11,703**
Goods and services purchased	(552)	(604)	(561)	(621)	(2,338)	(552)	(558)	(583)	(676)	(2,369)
Personnel expense	(671)	(691)	(638)	(706)	(2,706)	(692)	(684)	(655)	(720)	(2,751)
Other operating expenses	(557)	(599)	(596)	(724)	(2,476)	(597)	(599)	(620)	(724)	(2,540)
Capitalised costs and other income	77	103	74	134	388	81	83	119	87	370
Operating income (EBITDA)	**1,031**	**1,071**	**1,146**	**1,054**	**4,302**	**1,061**	**1,121**	**1,190**	**1,041**	**4,413**
Depreciation and amortisation	(491)	(501)	(509)	(543)	(2,044)	(510)	(512)	(511)	(558)	(2,091)
Operating income (EBIT)	**540**	**570**	**637**	**511**	**2,258**	**551**	**609**	**679**	**483**	**2,322**
Net interest expense	(63)	(63)	(59)	(66)	(251)	(61)	(53)	(51)	(53)	(218)
Other financial result	(2)	5	(14)	3	(8)	(23)	(11)	25	(33)	(42)
Result of associates	6	6	6	12	30	3	10	8	5	26
Income before income taxes	**481**	**518**	**570**	**460**	**2,029**	**470**	**555**	**661**	**402**	**2,088**
Income tax expense	(91)	(89)	(116)	(38)	(334)	(97)	(122)	(118)	(45)	(382)
Net income	**390**	**429**	**454**	**422**	**1,695**	**373**	**433**	**543**	**357**	**1,706**
Share attributable to equity holders of Swisscom Ltd	388	427	450	420	1,685	369	430	540	355	1,694
Share attributable to non-controlling interests	2	2	4	2	10	4	3	3	2	12
Earnings per share (in CHF)	7.49	8.24	8.69	8.11	32.53	7.12	8.30	10.43	6.85	32.70
Net revenue										
Swisscom Switzerland	2,041	2,109	2,122	2,177	8,449	2,089	2,114	2,167	2,261	8,631
Fastweb	487	509	494	528	2,018	483	499	513	552	2,047
Other operating segments	412	454	460	493	1,819	450	476	474	489	1,889
Group Headquarters	–	1	–	–	1	–	1	–	1	2
Intersegment elimination	(206)	(211)	(209)	(227)	(853)	(201)	(211)	(225)	(229)	(866)
Total net revenue	**2,734**	**2,862**	**2,867**	**2,971**	**11,434**	**2,821**	**2,879**	**2,929**	**3,074**	**11,703**
Segment result before depreciation and amortisation										
Swisscom Switzerland	877	888	948	834	3,547	894	902	941	839	3,576
Fastweb	119	139	155	207	620	132	155	163	175	625
Other operating segments	73	86	78	66	303	68	98	126	69	361
Group Headquarters	(29)	(30)	(27)	(41)	(127)	(25)	(31)	(27)	(38)	(121)
Reconciliation pension cost	(5)	(7)	(4)	(1)	(17)	(2)	2	(4)	4	–
Intersegment elimination	(4)	(5)	(4)	(11)	(24)	(6)	(5)	(9)	(8)	(28)
Total segment result (EBITDA)	**1,031**	**1,071**	**1,146**	**1,054**	**4,302**	**1,061**	**1,121**	**1,190**	**1,041**	**4,413**
Capital expenditure in property, plant and equipment and other intangible assets										
Swisscom Switzerland	284	354	361	517	1,516	299	378	422	472	1,571
Fastweb	155	160	168	212	695	173	173	148	188	682
Other operating segments	38	38	56	63	195	52	54	49	56	211
Intersegment elimination	(3)	(5)	(6)	4	(10)	(5)	(7)	(9)	(7)	(28)
Total capital expenditure	**474**	**547**	**579**	**796**	**2,396**	**519**	**598**	**610**	**709**	**2,436**
Full-time equivalent employees at end of year										
Swisscom Switzerland	12,018	12,344	12,513	12,463	12,463	12,522	12,622	13,215	13,285	13,285
Fastweb	2,389	2,379	2,370	2,363	2,363	2,362	2,373	2,378	2,391	2,391
Other operating segments	4,505	4,802	4,991	4,964	4,964	4,883	4,917	5,164	5,132	5,132
Group Headquarters	335	334	320	318	318	314	316	318	317	317
Total headcount	**19,247**	**19,859**	**20,194**	**20,108**	**20,108**	**20,081**	**20,228**	**21,075**	**21,125**	**21,125**
Operating free cash flow	245	615	528	590	1,978	334	496	640	390	1,860
Net debt	7,931	8,622	8,263	7,812	7,812	7,676	8,502	8,398	8,120	8,120

In CHF million, except where indicated	1. quarter	2. quarter	3. quarter	4. quarter	2013	1. quarter	2. quarter	3. quarter	4. quarter	2014
Swisscom Switzerland Net revenue and results										
Residential Customers	428	442	469	444	1,783	435	448	465	447	1,795
Small and Medium-Sized Enterprises	104	109	109	107	429	103	107	104	105	419
Corporate Business	141	145	142	142	570	135	141	142	144	562
Revenue mobile single subscriptions	**673**	**696**	**720**	**693**	**2,782**	**673**	**696**	**711**	**696**	**2,776**
Residential Customers	304	289	284	280	1,157	257	245	233	226	961
Small and Medium-Sized Enterprises	124	121	119	117	481	115	111	109	107	442
Corporate Business	146	146	143	142	577	143	141	139	141	564
Revenue fixed-line single subscriptions	**574**	**556**	**546**	**539**	**2,215**	**515**	**497**	**481**	**474**	**1,967**
Residential Customers	309	330	352	369	1,360	381	408	430	449	1,668
Small and Medium-Sized Enterprises	40	46	52	55	193	58	62	66	67	253
Revenue bundles	**349**	**376**	**404**	**424**	**1,553**	**439**	**470**	**496**	**516**	**1,921**
Total revenue single subscriptions and bundles	**1,596**	**1,628**	**1,670**	**1,656**	**6,550**	**1,627**	**1,663**	**1,688**	**1,686**	**6,664**
Solution business	84	87	90	99	360	85	92	88	103	368
Hardware sales	128	143	143	181	595	153	153	172	208	686
Wholesale	149	146	148	145	588	145	139	144	142	570
Revenue other	68	90	56	82	296	65	53	59	106	283
Total revenue from external customers	**2,025**	**2,094**	**2,107**	**2,163**	**8,389**	**2,075**	**2,100**	**2,151**	**2,245**	**8,571**
Residential Customers	1,190	1,247	1,254	1,294	4,985	1,234	1,258	1,299	1,377	5,168
Small and Medium-Sized Enterprises	274	282	286	286	1,128	282	286	284	287	1,139
Corporate Business	412	419	419	438	1,688	414	417	424	439	1,694
Wholesale	149	146	148	145	588	145	139	144	142	570
Revenue from external customers	**2,025**	**2,094**	**2,107**	**2,163**	**8,389**	**2,075**	**2,100**	**2,151**	**2,245**	**8,571**
Segment result before depreciation and amortisation										
Residential Customers	710	731	759	698	2,898	730	742	762	717	2,951
Small and Medium-Sized Enterprises	213	216	222	213	864	215	220	215	206	856
Corporate Business	220	226	231	230	907	217	223	227	233	900
Wholesale	96	96	97	95	384	95	92	98	96	381
Network & IT	(362)	(380)	(363)	(401)	(1,506)	(364)	(374)	(361)	(413)	(1,512)
Intersegment elimination	–	(1)	2	(1)	–	1	(1)	–	–	–
Total segment result (EBITDA)	**877**	**888**	**948**	**834**	**3,547**	**894**	**902**	**941**	**839**	**3,576**
Margin as % of net revenue	43.0	42.1	44.7	38.3	42.0	42.8	42.7	43.4	37.1	41.4
Fastweb, in EUR million										
Residential Customers	186	186	186	186	744	188	188	187	190	753
Corporate Business	178	193	188	212	771	177	188	202	222	789
Wholesale hubbing	14	11	9	11	45	7	7	7	7	28
Wholesale other	19	21	19	19	78	23	26	28	38	115
Revenue from external customers	**397**	**411**	**402**	**428**	**1,638**	**395**	**409**	**424**	**457**	**1,685**
Segment result (EBITDA)	97	113	126	169	505	108	128	134	145	515
Margin as % of net revenue	24.4	27.4	31.3	39.4	30.8	27.3	31.3	31.6	31.7	30.5
Capital expenditure	126	130	137	172	565	142	142	122	156	562
Broadband access lines in thousand	1,861	1,887	1,911	1,942	1,942	1,984	1,994	2,016	2,072	2,072

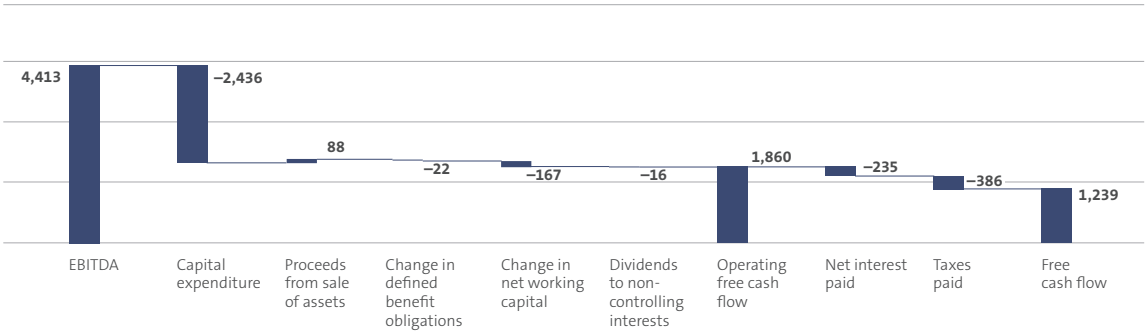
In thousand, except where indicated	1. quarter	2. quarter	3. quarter	4. quarter	2013	1. quarter	2. quarter	3. quarter	4. quarter	2014
Swisscom Switzerland Operational data										
Access lines										
Single subscriptions	2,272	2,207	2,142	2,073	2,073	2,007	1,948	1,902	1,840	1,840
Bundles	698	729	763	806	806	849	882	909	938	938
Fixed access lines	**2,970**	**2,936**	**2,905**	**2,879**	**2,879**	**2,856**	**2,830**	**2,811**	**2,778**	**2,778**
Single subscriptions	909	878	843	810	810	773	745	718	681	681
Bundles	842	889	938	1,001	1,001	1,060	1,110	1,154	1,209	1,209
Broadband access lines retail	**1,751**	**1,767**	**1,781**	**1,811**	**1,811**	**1,833**	**1,855**	**1,872**	**1,890**	**1,890**
Single subscriptions	291	289	281	276	276	271	259	246	218	218
Bundles	569	613	662	724	724	781	832	879	947	947
Swisscom TV access lines	**860**	**902**	**943**	**1,000**	**1,000**	**1,052**	**1,091**	**1,125**	**1,165**	**1,165**
Prepaid single subscriptions	2,196	2,180	2,173	2,176	2,176	2,173	2,165	2,165	2,163	2,163
Postpaid single subscriptions	3,741	3,763	3,783	3,812	3,812	3,812	3,828	3,850	3,872	3,872
Mobile access lines single subscriptions	**5,937**	**5,943**	**5,956**	**5,988**	**5,988**	**5,985**	**5,993**	**6,015**	**6,035**	**6,035**
Bundles	333	364	390	419	419	444	467	484	505	505
Mobile access lines	**6,270**	**6,307**	**6,346**	**6,407**	**6,407**	**6,429**	**6,460**	**6,499**	**6,540**	**6,540**
Revenue generating units (RGU)	**11,851**	**11,912**	**11,975**	**12,097**	**12,097**	**12,170**	**12,236**	**12,307**	**12,373**	**12,373**
Broadband access lines wholesale	196	201	208	215	215	221	224	241	262	262
Unbundled fixed access lines	290	280	268	256	256	241	228	204	180	180
Bundles										
2play bundles	257	264	270	279	279	287	294	302	304	304
3play bundles	428	451	479	517	517	555	584	609	646	646
4play bundles	157	174	189	205	205	218	231	242	255	255
nplay bundles	–	–	–	–	–	–	1	1	4	4
Total bundles	**842**	**889**	**938**	**1,001**	**1,001**	**1,060**	**1,110**	**1,154**	**1,209**	**1,209**
Data traffic in million										
Fixed-line traffic in minutes	1,918	1,889	1,728	1,830	7,365	1,716	1,482	1,498	1,535	6,231
Mobile traffic in minutes	1,728	1,817	1,770	1,831	7,146	1,894	2,026	2,065	2,133	8,118
Data SMS mobile	628	607	598	552	2,385	509	510	517	483	2,019
Swisscom Group Information by geographical regions										
Net revenue in Switzerland	2,235	2,337	2,358	2,428	9,358	2,323	2,361	2,401	2,501	9,586
Net revenue in other countries	499	525	509	543	2,076	498	518	528	573	2,117
Total net revenue	**2,734**	**2,862**	**2,867**	**2,971**	**11,434**	**2,821**	**2,879**	**2,929**	**3,074**	**11,703**
EBITDA Switzerland	910	933	993	849	3,685	924	966	1,028	870	3,788
EBITDA in other countries	121	138	153	205	617	137	155	162	171	625
Total EBITDA	**1,031**	**1,071**	**1,146**	**1,054**	**4,302**	**1,061**	**1,121**	**1,190**	**1,041**	**4,413**
Capital expenditure in Switzerland	319	387	409	571	1,686	345	424	463	519	1,751
Capital expenditure in other countries	155	160	170	225	710	174	174	147	190	685
Total capital expenditure	**474**	**547**	**579**	**796**	**2,396**	**519**	**598**	**610**	**709**	**2,436**
Full-time equivalent employees in Switzerland	16,483	17,099	17,449	17,362	17,362	17,395	17,545	18,220	18,272	18,272
Full-time equivalent employees in other countries	2,764	2,760	2,745	2,746	2,746	2,686	2,683	2,855	2,853	2,853
Total headcount	**19,247**	**19,859**	**20,194**	**20,108**	**20,108**	**20,081**	**20,228**	**21,075**	**21,125**	**21,125**

Cash flows

In CHF million	2014	2013	Change
Operating income before depreciation and amortisation (EBITDA)	4,413	4,302	111
Capital expenditure in property, plant and equipment and other intangible assets	(2,436)	(2,396)	(40)
Change in net working capital and other cash flows from operating activities	(117)	72	(189)
Operating free cash flow	**1,860**	**1,978**	**(118)**
Net interest paid	(235)	(243)	8
Income taxes paid	(386)	(278)	(108)
Free cash flow	**1,239**	**1,457**	**(218)**
Net cash outflow from acquisition of PubliGroupe[1]	(385)	–	(385)
Other cash flows from investing activities, net	147	(152)	299
Issuance and repayment of financial liabilities, net	(265)	37	(302)
Dividends paid to equity holders of Swisscom Ltd	(1,140)	(1,140)	–
Other cash flows	(19)	(18)	(1)
(Net decrease) Net increase in cash and cash equivalents	**(423)**	**184**	**(607)**

[1] Acquisition cost of CHF 474 million less remaining minority interests of CHF 8 million, acquired cash and cash equivalents of CHF 16 million and proceeds of CHF 65 million from sale of securities and media participations.

Free cash flow in CHF million



Free cash flow dropped by CHF 218 million or 15.0% to CHF 1,239 million as a result of the lower operating free cash flow and higher income tax payments, which increased by CHF 108 million year-on-year to CHF 386 million.

The reduction of CHF 118 million or 6.0% in operating free cash flow to CHF 1,860 million is chiefly a result of the increase in net working capital, which could not be offset by the improvement in EBITDA and higher income from the sale of property, plant and equipment. After deducting payments already received, proceeds from the sale of real estate in 2014 amounted to CHF 85 million (prior year: 25 million). Net working capital grew by CHF 167 million compared to the end of 2013 (prior year: reduction of CHF 78 million), chiefly due to lower trade payables. Capital expenditure was CHF 40 million or 1.7% higher at CHF 2,436 million, mainly as a result of the expansion of network infrastructure in Switzerland.

In September 2014, Swisscom acquired PubliGroupe Ltd for a purchase price of CHF 474 million. Less the acquired cash and cash equivalents, the deferred payment of the purchase price for outstanding shares and the sale of securities and media interests, the net outflow for this transaction amounted to CHF 385 million. Total dividends paid by Swisscom to its shareholders in 2014 remained unchanged from the prior year at CHF 1,140 million.

Net asset position

Balance sheet

In CHF million	31.12.2014	31.12.2013	Change
Assets			
Cash and cash equivalents and current financial assets	342	883	–61.3%
Trade and other receivables	2,586	2,516	2.8%
Property, plant and equipment	9,720	9,156	6.2%
Goodwill	4,987	4,809	3.7%
Other intangible assets	1,921	2,053	–6.4%
Associates and non-current financial assets	404	346	16.8%
Income tax assets	434	301	44.2%
Other current and non-current assets	538	432	24.5%
Total assets	**20,932**	**20,496**	**2.1%**
Liabilities and equity			
Financial liabilities	8,604	8,823	–2.5%
Trade and other payables	1,876	1,870	0.3%
Defined benefit obligations	2,441	1,293	88.8%
Provisions	932	799	16.6%
Income tax liabilities	529	640	–17.3%
Other current and non-current liabilities	1,093	1,069	2.2%
Total liabilities	**15,475**	**14,494**	**6.8%**
Share of equity attributable to equity holders of Swisscom Ltd	5,454	5,973	–8.7%
Share of equity attributable to non-controlling interests	3	29	–89.7%
Total equity	**5,457**	**6,002**	**–9.1%**
Total liabilities and equity	**20,932**	**20,496**	**2.1%**
Equity ratio at end of year	26.1%	29.3%	

Total assets rose by CHF 0.4 billion or 2.1% to CHF 20.9 billion, mainly due to the higher investment activity and acquisitions of subsidiaries.

In CHF million	31.12.2012	31.12.2013	31.12.2014	Change
Property, plant and equipment	8,549	9,156	9,720	564
Goodwill	4,662	4,809	4,987	178
Other intangible assets	2,121	2,053	1,921	(132)
Receivables	3,081	2,948	3,124	176
Liabilities	(3,763)	(3,738)	(3,901)	(163)
Other net operating assets	**14,650**	**15,228**	**15,851**	**623**
Cash and cash equivalents and financial assets	712	883	342	(541)
Financial liabilities	(8,783)	(8,823)	(8,604)	219
Defined benefit obligations	(2,108)	(1,293)	(2,441)	(1,148)
Income tax assets and liabilities, net	(85)	(339)	(95)	244
Investments in associates	268	153	171	18
Other assets, net	63	193	233	40
Equity	**4,717**	**6,002**	**5,457**	**(545)**

Fastweb

As at 31 December 2014, the book value of Fastweb in Swisscom's consolidated financial statements amounted to EUR 2.8 billion (CHF 3.4 billion; CHF/EUR end-of-period exchange rate of 1.202). This includes goodwill with a net carrying amount of EUR 0.5 billion. In 2013 and 2014 Swisscom raised financing totalling EUR 1.3 billion, which was intended as an instrument for hedging Fastweb's net assets. Fastweb's cumulative currency translation losses of CHF 1.6 billion (after tax) as at 31 December 2014 are recognised in equity in Swisscom's consolidated financial statements.

Goodwill

The net carrying amount of goodwill is CHF 4,987 million, the bulk of which relates to Swisscom Switzerland (CHF 4,223 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's goodwill is EUR 492 million (CHF 592 million). Goodwill in respect of Other operating segments amounts to CHF 172 million.

Post-employment benefits

Defined benefit obligations presented in the consolidated financial statements are measured in accordance with International Financial Reporting Standards (IFRS). Net obligations recognised in the balance sheet amounted to CHF 2,441 million, corresponding to an increase of CHF 1,148 million compared to the prior year. This is largely due to a lower discount rate, which was only partly offset by plan asset performance. In accordance with Swiss accounting standards (Swiss GAAP ARR), the surplus amounts to CHF 1.0 billion corresponding to a coverage ratio of 111%. The main reasons for the differences in accordance with IFRS of CHF 3.4 billion are the application of differing actuarial assumptions with regard to the discount rate (CHF 2.7 billion) and life expectancy (CHF 0.4 billion), and a different actuarial measurement method (CHF 0.3 billion). IFRS measurement takes into account future salary, contribution and pension increases and early retirements. By contrast, the equal distribution of risk prescribed by law and in the regulations in the event of a funding deficit is not taken into account.

Equity

Equity declined by CHF 545 million or 9.1% to CHF 5,457 million, bringing the ratio of consolidated equity to total assets down from 29.3% to 26.1%. The dividend payments of CHF 1,140 million to the equity holders of Swisscom Ltd and net losses of CHF 938 million recognised directly in equity were not offset by the CHF 1,706 million in net income. Net losses recognised directly in equity include non-cash actuarial losses from pension plans totalling CHF 1,161 million as well as unrealised losses of CHF 46 million resulting from currency translation of foreign Group companies. The CHF/EUR exchange rate fell from 1.228 at the end of 2013 to 1.202 at the end of 2014. At 31 December 2014, cumulative currency translation losses recognised in equity amounted to CHF 1,590 million (after tax).

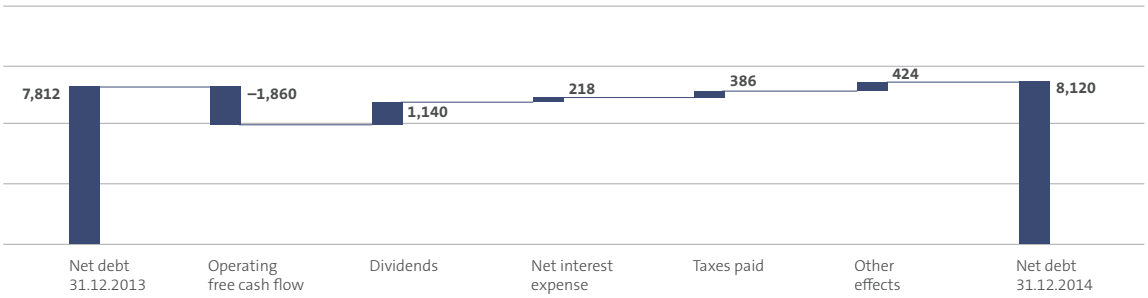
Distributable reserves are calculated on the basis of equity reported in the separate financial statements of Swisscom Ltd in accordance with statutory accounting provisions, rather than on the basis of equity as disclosed in the consolidated balance sheet prepared in accordance with International Financial Reporting Standards (IFRS). At 31 December 2014, the equity of Swisscom Ltd amounted to CHF 5,575 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 2014, Swisscom Ltd had distributable reserves of CHF 5,513 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 2.1. This value may be exceeded temporarily. Financial leeway exists if the target is not reached.

In CHF million, except where indicated	31.12.2012	31.12.2013	31.12.2014
Net debt	8,071	7,812	8,120
Ratio total liabilities/total assets	76.2%	70.7%	73.9%
Ratio net debt/equity	1.7	1.3	1.5
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 29%.

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 2014:

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	998	300	130	361	96	1,885
Debenture bonds	500	–	2,025	2,202	360	5,087
Private placements	–	350	600	–	–	950
Finance lease liabilities	14	14	24	30	479	561
Other financial liabilities	2	–	1	2	–	5
Total	**1,514**	**664**	**2,780**	**2,595**	**935**	**8,488**

Capital expenditure

See report
pages 45–47

Swisscom remains committed to maintaining the high quality and availability of its network infrastructures. In Switzerland this involves making targeted investments in ultra-fast broadband network expansion, migrating 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. Fastweb is also systematically expanding this network infrastructure.

In CHF million, except where indicated	2012	2013	2014	Change
Fixed access & Infrastructure	425	410	406	–1.0%
Mobile access	226	271	235	–13.3%
Expansion of the fibre-optic network	317	292	440	50.7%
Customer driven	162	159	186	17.0%
Projects and others [1]	362	384	304	–20.8%
Mobile frequencies	360	–	–	–
Swisscom Switzerland	**1,852**	**1,516**	**1,571**	**3.6%**
Fastweb	531	695	682	–1.9%
Other operating segments	167	195	211	8.2%
Group Headquarters and elimination	(21)	(10)	(28)	180.0%
Total capital expenditure	**2,529**	**2,396** [2]	**2,436** [2]	**1.7%**
Thereof Switzerland	1,994	1,686	1,751	3.9%
Thereof foreign country	535	710	685	–3.5%
Total capital expenditure as % of net revenue	22.2	21.0	20.8	

[1] Including All IP migration.
[2] Excluding capital expenditure of CHF 24 million (2013: CHF 49 million; 2012: CHF 32 million) in real estate projects, for which sales contracts were concluded and the purchasers made payments in the same amount.

Capital expenditure incurred by Swisscom rose year-on-year by CHF 40 million or 1.7% to CHF 2,436 million, corresponding to 20.8% of net revenue (prior year: 21.0%). Swisscom Switzerland accounted for 64% of 2014 capital expenditure, while Fastweb accounted for 28% and other operating segments 8%.
Capital expenditure incurred by Swisscom Switzerland rose year-on-year by CHF 55 million or 3.6% to CHF 1,571 million, corresponding to 18.2% of net revenue (prior year: 17.9%). The increase is due to the expansion and upgrading of mobile and fixed network infrastructure with the latest technologies. By the end of 2014, Swisscom had connected more than 1.4 million homes and offices with ultra-fast broadband – from fibre-to-the-home (FTTH) to the latest fibre-optic technology such as fibre-to-the-street (FTTS), fibre-to-the-building (FTTB) and vectoring technology – and extended 4G/LTE coverage to 97% of the Swiss population.
By contrast, Fastweb reduced its capital expenditure year-on-year by CHF 13 million or 1.9% to CHF 682 million. This corresponds to a reduction of EUR 3 million or 0.5% to EUR 562 million in local currency terms and is mainly due to lower investment in the network infrastructure resulting in a ratio of capital expenditure to revenue of 33.3% (prior year: 34.4%). Around 33% of total capital expenditure is directly related to customer growth.
At CHF 211 million, capital expenditure incurred by other operating segments was CHF 16 million or 8.2% higher year-on-year, largely as a result of higher investment in the IT infrastructure of Swisscom IT Services.

Statement of added value

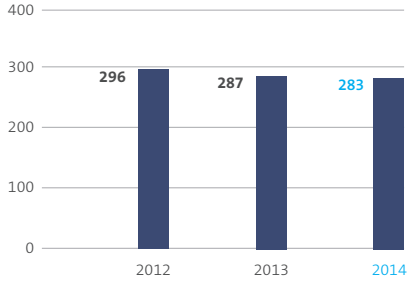
Operating added value is equivalent to net revenue less goods and services purchased, other operating expenses, and depreciation and amortisation. Personnel expense is treated as use of added value rather than as an intermediate input. Swisscom generates the bulk of its added value in Switzerland, with activities abroad accounting for 4% of the Group's added value from operations in the year under review (prior year: 5%).

	2014			2013		
In CHF million	Switzerland	Abroad	Total	Switzerland	Abroad	Total
Added value						
Net revenue	**9,586**	**2,117**	**11,703**	**9,358**	**2,076**	**11,434**
Capitalised self-constructed assets and other income	(290)	(80)	(370)	(229)	(159)	(388)
Goods and services purchased	1,789	580	2,369	1,712	626	2,338
Other operating expenses [1]	1,783	738	2,521	1,736	723	2,459
Depreciation [2]	1,322	646	1,968	1,281	607	1,888
Intermediate inputs	**4,604**	**1,884**	**6,488**	**4,500**	**1,797**	**6,297**
Operating added value	**4,982**	**233**	**5,215**	**4,858**	**279**	**5,137**
Other non-operating result [3]			(139)			(83)
Total added value			**5,076**			**5,054**
Allocation of added value						
Employees [4]	2,520	253	2,773	2,460	266	2,726
Public sector [5]	390	8	398	322	(3)	319
Shareholders (dividends)			1,156			1,154
External investors (net interest expense)			218			251
Company (retained earnings) [6]			531			604
Total added value			**5,076**			**5,054**

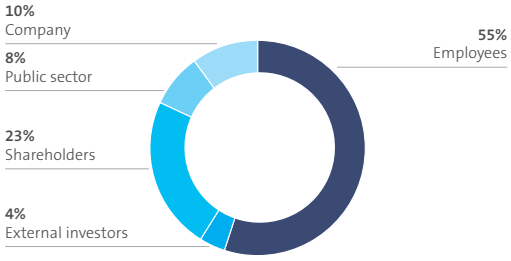
[1] Other operating expense: excluding taxes on capital and other taxes not based on income.
[2] Depreciation and amortisation: excluding depreciation and amortisation of acquisition-related assets such as brands or customer relations.
[3] Other non-operating result: financial result excluding net interest 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] Company: including changes in deferred income taxes and defined benefit obligations.

Operating added value amounted to CHF 5,076 million in 2014, an increase of 0.4% compared with the previous year. As in the prior year, some 95% of operating added value was generated in Switzerland. Added value from international operations declined by CHF 46 million to CHF 233 million on account of higher depreciation and amortisation costs.
Although operating added value in Switzerland was virtually unchanged year-on-year at CHF 4,982 million, added value from operations per FTE was 1.4% lower at CHF 283,000 (prior year: CHF 287,000).

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



Allocation of added value in %



Energy efficiency and CO_2 emissions

In % except where indicated	2014	2013	Change
Energy consumption (in GWh)	497	498	–0.2%
Increase of the efficiency of energy to 1 January 2010	26.4	21.1	
Direct CO_2-emissions (in tons)	21,380	23,835	–10.3%
Reduction of direct CO_2-emissions to 1 January 2010	17.0	3.9	

Swisscom is striving to boost energy efficiency and rely more on renewable energies in order to minimise the environmental impact of its business activities. In Switzerland Swisscom is aiming, by the end of 2015, to increase its energy efficiency by 25% from the levels of 1 January 2010 and then by a further 35% between 1 January 2016 and 2020. The increase will be achieved primarily by measures in the network infrastructure area. Swisscom is also aiming for a 12% reduction in direct CO_2 emissions in Switzerland by the end of 2015. This reduction is to be achieved primarily through measures related to employee mobility and the infrastructure.
In 2014 total energy consumption in Switzerland fell by 1 GWh or 0.2% to 497 GWh, while energy efficiency increased versus 1 January 2010 to 26.4% (prior year: 21.1%). This improvement was achieved by efficiency enhancements in computer centres and the Mistral energy saving project (the use of fresh air to cool telephone exchanges). In 2014, direct CO_2 emissions in Switzerland fell by 2,455 tonnes or 10.3% to 21,380 tonnes, chiefly due to reduced consumption of heating oil. This results in a reduction of 17% in direct CO_2 emissions versus 1 January 2010.

Outlook for net revenue
Expectation for 2015 of more than

11.4 billion CHF

Outlook for EBITDA
Expectation for 2015 of around

4.2 billion CHF

Financial outlook

	2014 reported CHF/EUR 1.212 in CHF mio.	Effect revaluation CHF in CHF bn.	2014 pro-forma CHF/EUR 1.00 in CHF mio.	2015 Change Swisscom without Fastweb in CHF bn.	2015 Change Fastweb in CHF bn.	2015 outlook (CHF/EUR 1.00) in CHF bn.
Net revenue	11,703	(0.4)	11,331	0.1	0	> 11.4
Operating income before depreciation and amortisation (EBITDA)	4,413	(0.1)	4,315	(0.1)	> 0	~ 4.2
Capital expenditure	2,436	(0.1)	2,313	0	< 0	2.3

The financial outlook for 2015 is influenced to a substantial degree by the CHF/EUR exchange rate. The Swiss National Bank's decision to abandon the euro currency peg in January 2015 has increased the volatility of the exchange rate. The forecast of the future currency development and the effects on the economy is subject to uncertainty. The following outlook is predicated on a parity CHF/EUR exchange rate of 1.00 for 2015, corresponding to an exchange rate reduction in the euro of 17% versus 2014 (average 2014 EUR exchange rate: CHF 1.21). It does not take account of the possible negative implications of the currency situation for the economy.

On the basis of the assumed parity with the euro, Swisscom expects for 2015 net revenue of more than CHF 11.4 billion, EBITDA of around CHF 4.2 billion and capital expenditure of CHF 2.3 billion.

Calculated at the same exchange rate as 2014, net revenue is expected to end 2015 CHF 100 million higher as compared to 2014. Excluding Fastweb, Swisscom expects net revenue to grow by CHF 100 million. In local currency terms (euro), Fastweb's net revenue for 2015 is expected to be on a par with the prior year, which corresponds, however, to a decline of almost CHF 400 million in the reporting currency.

EBITDA is expected to end 2015 at around CHF 4.2 billion, or some CHF 200 million below the 2014 figure. CHF 100 million of this decline is attributable to the appreciation of the Swiss franc, and the other CHF 100 million is due to the following effects: The change in network infrastructure and services to Internet protocol (All IP) will result in higher costs in 2015. In addition, gains from the sale of real estate will be lower and, due to lower interest rates, pension costs in accordance with IFRS will be higher. These effects cannot be offset by additional contributions to results from recent acquisitions and the related synergies.

In local currency terms, Fastweb's EBITDA is expected to be higher, primarily as a result of lower usage fees for regulated services from other network operators. Regulated prices are expected to drop further and the volume of services purchased will decline due to customers migrating to their own ultra-fast broadband network.

Swisscom expects capital expenditure for 2015 to be CHF 2.3 billion. In Switzerland capital expenditure will remain the same as last year at CHF 1.75 billion due to further expansion of the ultra-fast broadband network and investments in the IT platform for banking. At Fastweb the volume of capital expenditure reached its peak in 2014, and in local currency terms will decline slightly in 2015, corresponding to a currency-related reduction of CHF 100 million.

If all targets are met, Swisscom will again propose to the Annual General Meeting of Shareholders an unchanged ordinary dividend of CHF 22 per share for the 2015 financial year.

Capital market

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

Swisscom share

Swisscom's market capitalisation as at 31 December 2014 amounted to CHF 27.1 billion (previous year: 24.4 billion). The number of shares outstanding remained the same 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

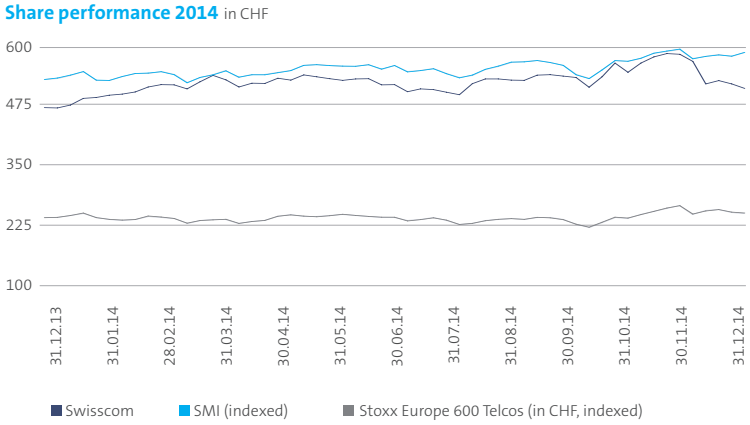
	31.12.2014			31.12.2013		
	Number of Shareholders	Number of Shares	Share in %	Number of Shareholders	Number of Shares	Share in %
Confederation	1	26,394,000	51.0%	1	26,535,500	51.2%
Natural person	62,359	4,260,624	8.2%	63,531	4,453,496	8.6%
Institution	2,699	21,147,319	40.8%	2,614	20,812,947	40.2%
Total	**65,059**	**51,801,943**	**100.0%**	**66,146**	**51,801,943**	**100.0%**

The majority shareholder as at 31 December 2014 was the Swiss Confederation, with 51.0% of the voting rights and capital. The Confederation is obligated by current law to hold the majority of the capital and voting rights. As at 31 December 2014, around 95% 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



See
www.swisscom.ch/
shareprice

The Swiss Market Index (SMI) gained 9.5% compared with the previous year. The Swisscom share price increased by 11.0% to CHF 522.50, performing better than the European Stoxx Europe 600 Telecommunications Index (5.6% in CHF; 7.5% in EUR). Average daily trading volume fell by 5.8% to 97,881 units. Total trading volume of Swisscom shares in 2014 amounted to CHF 12.9 billion.

Shareholder return

On 14 April 2014 Swisscom paid out an ordinary dividend of CHF 22 per share. Based on the closing price at the end of 2013, this equates to a return of 4.7%. Taking into account the rise in share price, Swisscom achieved a total shareholder return (TSR) of 15.7% in 2014. The TSR for the SMI was 12.0% and for the Stoxx Europe 600 Telecommunications Index 10.6% in CHF and 12.7% in EUR.

Swisscom share performance indicators

		2010	2011	2012	2013	2014
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	21,296	18,436	20,400	24,394	27,067
Closing price at end of period	CHF	411.10	355.90	393.80	470.90	522.50
Closing price highest	CHF	420.80	433.50	400.00	474.00	587.50
Closing price lowest	CHF	358.00	323.10	334.40	390.20	467.50
Earnings per share	CHF	35.00	13.19	34.90	32.53	32.70
Ordinary dividend per share	CHF	21.00	22.00	22.00	22.00	22.00 [1]
Ratio payout/earnings per share	%	60.00	166.79	63.04	67.63	67.27
Equity per share at end of year	CHF	102.89	82.47	79.77	115.30	105.29

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

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. 29 analysts regularly publish studies on Swisscom. At the end of 2014, 31% of the analysts recommended a buy rating for the Swisscom share, 48% a hold rating and 21% a sell rating. The average price target at 31 December 2014, according to the analysts' estimates, was CHF 559 per share.

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 8 April 2015, the Board of Directors will propose an ordinary dividend of CHF 22 per share (prior year: CHF 22 per share). This is equivalent to a total dividend payout of CHF 1,140 million.
Since going public in 1998 Swisscom has distributed a total of CHF 27.3 billion to its shareholders: CHF 15.3 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 301 per share since the initial public offering. Together with the overall increase in share price of CHF 182.50 per share, this amounts to an average annual total return of 5.6%.

Indebtedness

Level of indebtedness

Swisscom pursues a finance policy which limits the net debt / EBITDA ratio to a maximum of around 2.1. Net debt comprises financial liabilities less cash and cash equivalents, current financial assets and non-current, fixed-interest-bearing deposits.
As at 31 December 2014, net debt amounted to CHF 8.1 billion (prior year: CHF 7.8 billion), corresponding versus the prior year to an unchanged net debt / EBITDA ratio of 1.8.

Dividend per share
in the 2014 financial year

22 CHF

Total shareholder return
in the 2014 financial year

15.7 %

Credit ratings and financing

With an 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 to have a broadly diversified debt portfolio. This involves paying particular attention to balancing maturities and a diversification of financing instruments, markets and currencies. Swisscom's solid financial standing enabled unrestricted access to money and capital markets also in 2014.
As at 31 December 2014, Swisscom's financial liabilities amounted to CHF 8.6 billion. Around 80% of financial liabilities have a term to maturity of more than one year. As at 31 December 2014, financial liabilities with a term of one year or less amounted to CHF 1.6 billion. 2014 average interest expense on all financial liabilities were 2.5%, 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.

Listed debenture bonds

Swisscom has issued debenture bonds which are listed on the SIX Swiss Exchange (SIX) or the Irish stock exchange (ISE).

Bonds listed on the Six Swiss Exchange

In CHF million	Coupon	Payment	Expiring	Security number
Par value				
600	3.75%	19.07.2007 22.10.2007 [1]	19.07.2007	3,225,473
500	4.00%	17.09.2008	17.09.2015	4,515,633
1,425	3.25%	14.09.2009	14.09.2018	10,469,162
500	2.63%	31.08.2010	31.08.2022	11,469,537
500	1.75%	10.07.2012	10.07.2024	188,335,365
200	1.50%	14.07.2014	14.07.2026	24,777,613
160	1.50%	30.09.2014	28.09.2029	2,514,750

[1] Reopening.

Bonds listed on the Irish Stock Exchange (ISE)

In EUR million	Coupon	Payment	Expiring	ISIN–no. [1]
Par value				
500	2.00%	30.09.2013 [1]	30.09.2020	XS0972165848
500	1.88%	08.04.2014	08.09.2021	XS1051076922

[1] The bonds have been issued through Lunar Funding V, an independent Irish repackaging-vehicle, and are secured by loan notes granted from Lunar V to Swisscom.

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 complies with the established COSO II and ISO 31000 risk management standards and thus has a risk management system in place that meets the requirements of its own corporate governance policy as well as those of 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, should they occur, could potentially jeopardise the company's ability to achieve its objectives.

Organisation

The Board of Directors delegates responsibility for implementing the risk management system to the CEO Swisscom Ltd. A central Risk Management unit reports to the CFO Swisscom Ltd, coordinates all organisational units charged with risk management 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. Specialised central organisational units monitor the legal compliance risks and financial reporting risks (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 on a quarterly basis. 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 quarterly. Information on the internal control system, compliance management and internal auditing is provided in the Corporate Governance Report, Section 3.8, Controlling instruments of the Board of Directors vis-à-vis the Group Executive Board.

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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 has to be compensated by promoting customer and volume growth and offering new services. 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 impact Swisscom's financial development, as illustrated by the following selected key risk factors. The main risk factors in the supply chain are reported separately in the Sustainability Report.

Risk factors

Telecommunications market

Changes within the telecoms market, structural adjustments and competition from service providers who do not maintain their own telecoms infrastructure (e.g. OTTs) are exerting transformation pressure on the business. It remains to be seen which technologies and services will emerge the winners. There is a risk that revenue from classical telecoms business will not be secured sustainably during the transformation process. 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 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 manage these risks.

Politics and regulation

Telecommunications and antitrust legislation entail risks which could have a negative impact on the company's financial position and results of operations. The main risks concern the possibility of stricter price regulations on mobile communications (mobile termination) which would further reduce Swisscom's income and restrict the company's room for manoeuvre; or sanctions by the Competition Commission, which could reduce Swisscom's operating results and damage the company's good reputation. The forthcoming revision of the Telecommunications Act also heightens regulatory risk. Finally, excessively high demands imposed on universal service provision by political groups, for instance supporters of the "Public Service" initiative, threaten to fundamentally undermine the current competitive system.

Increased bandwidth in the access network

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. To mitigate financial risks and ensure optimum network coverage, expansion is determined by population density and customer demand. Substantial risks would arise if Swisscom were forced to spend more on network expansion than planned, or if projected long-term earnings were to fall. Swisscom aims to minimise such risks by adapting broadband 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 that 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 2014 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 the 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) and 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 that Swisscom can deliver the level of service 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 roll out new products more flexibly and efficiently than before. The experience acquired with IP technology to date has been positive. Swisscom's complex IT architecture entails risks during both the implementation and operating phases. These risks have the potential to delay the rollout of new services, increase costs and impact competitiveness. The transformation is being monitored by the Group Executive 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 those imposed by the EU. 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. 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 the risks posed by climate change is based on the official report of the Federal Office for the Environment (FOEN) on climate change, published in October 2011.

See
www.cdproject.net/en-us

"We have set up an independent mobile network in the laboratory, which we use for development, testing and making optimisations with the aim of providing our customers with the best network well into the future."

Christian Rüger
ICT system engineer
IT, Network & Innovation