

Financial Statements

Through targeted investments we are providing the very best infrastructure for our customers.

1.75 billion CHF

was invested by Swisscom in 2014
in Switzerland's network and
IT infrastructure.



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financial statements**

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of Swisscom Ltd**

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Consolidated income statement

In CHF million, except for per share amounts

	Note	2014	2013
Net revenue	6, 7	11,703	11,434
Goods and services purchased	8	(2,369)	(2,338)
Personnel expense	9, 10, 11	(2,751)	(2,706)
Other operating expense	12	(2,540)	(2,476)
Capitalised self-constructed assets and other income	13	370	388
Operating income before depreciation, amortisation and impairment losses (EBITDA)		4,413	4,302
Depreciation, amortisation and impairment losses on tangible and intangible assets	23, 24	(2,091)	(2,044)
Operating income (EBIT)		2,322	2,258
Financial income	14	112	81
Financial expense	14	(372)	(340)
Share of results of associates	25	26	30
Income before income taxes		2,088	2,029
Income tax expense	15	(382)	(334)
Net income		1,706	1,695
Share of net income attributable to equity holders of Swisscom Ltd		1,694	1,685
Share of net income attributable to non-controlling interests		12	10
Basic and diluted earnings per share (in CHF)	16	32.70	32.53

Consolidated statement of comprehensive income

In CHF million	Note	2014	2013
Net income		1,706	1,695
Other comprehensive income			
Actuarial gains and losses from defined benefit pension plans	10, 31	(1,161)	847
Income tax expense	15, 31	242	(169)
Items that will not be reclassified to income statement, net of tax		(919)	678
Foreign currency translation adjustments of foreign subsidiaries	31	(46)	63
Change in fair value of available-for-sale financial assets	31	–	1
Change in fair value of cash flow hedges	31	10	7
Gains and losses from cash flow hedges transferred to income statement	31	5	6
Income tax expense	15, 31	12	(15)
Items that are or may be reclassified subsequently to income statement, net of tax		(19)	62
Other comprehensive income		(938)	740
Comprehensive income		768	2,435
Share of comprehensive income attributable to equity holders of Swisscom Ltd		757	2,423
Share of comprehensive income attributable to non-controlling interests		11	12

Consolidated balance sheet

In CHF million	Note	31.12.2014	31.12.2013
Assets			
Cash and cash equivalents	17	302	723
Trade and other receivables	18	2,586	2,516
Other financial assets	19	40	160
Inventories	20	149	152
Current income tax assets	15	17	22
Other non-financial assets	21	252	210
Non-current assets held for sale	22	80	13
Total current assets		3,426	3,796
Property, plant and equipment	23	9,720	9,156
Goodwill	24	4,987	4,809
Other intangible assets	24	1,921	2,053
Investments in associates	25	171	153
Other financial assets	19	233	193
Deferred tax assets	15	417	279
Other non-financial assets	21	57	57
Total non-current assets		17,506	16,700
Total assets		20,932	20,496
Liabilities and equity			
Financial liabilities	26	1,580	1,656
Trade and other payables	27	1,876	1,870
Current income tax liabilities	15	172	184
Provisions	28	112	132
Other non-financial liabilities	30	718	759
Total current liabilities		4,458	4,601
Financial liabilities	26	7,024	7,167
Defined benefit obligations	10	2,441	1,293
Provisions	28	820	667
Deferred tax liabilities	15	357	456
Other non-financial liabilities	30	375	310
Total non-current liabilities		11,017	9,893
Total liabilities		15,475	14,494
Share capital	31	52	52
Capital reserves		136	136
Retained earnings		6,856	7,356
Other reserves	31	(1,590)	(1,571)
Share of equity attributable to equity holders of Swisscom Ltd		5,454	5,973
Share of equity attributable to non-controlling interests		3	29
Total equity		5,457	6,002
Total liabilities and equity		20,932	20,496

Consolidated statement of cash flows

In CHF million	Note	2014	2013
Net income		1,706	1,695
Share of results of associates	25	(26)	(30)
Income tax expense	15	382	334
Depreciation, amortisation and impairment losses	23, 24	2,091	2,044
Expense for share-based payments	11	5	6
Gain on sale of property, plant and equipment	13	(60)	(16)
Loss on disposal of property, plant and equipment	12	11	13
Financial income	14	(112)	(81)
Financial expense	14	372	340
Change in net operating assets and liabilities	34	(213)	104
Income taxes paid	15	(386)	(278)
Cash flow provided by operating activities		3,770	4,131
Capital expenditure for tangible and other intangible assets	23, 24, 34	(2,460)	(2,445)
Proceeds from sale of tangible and other intangible assets		35	23
Proceeds from sale of non-current assets held for sale	22	205	5
Acquisition of subsidiaries, net of cash and cash equivalents acquired	5	(305)	(60)
Investments in associates	25	(3)	(1)
Purchase of other financial assets		(25)	(158)
Proceeds from other financial assets		167	24
Interest received		10	10
Dividends received	25	30	43
Cash flow used in investing activities		(2,346)	(2,559)
Issuance of financial liabilities	26	1,500	993
Repayment of financial liabilities	26	(1,765)	(956)
Interest paid		(245)	(253)
Dividends paid to equity holders of Swisscom Ltd	32	(1,140)	(1,140)
Dividends paid to non-controlling interests		(16)	(14)
Acquisition of non-controlling interests	31	(162)	–
Purchase of treasury shares for share-based payments	11, 31	(5)	(6)
Other cash flows from financing activities	34	(14)	(12)
Cash flow used in financing activities		(1,847)	(1,388)
(Net decrease) Net increase in cash and cash equivalents		(423)	184
Cash and cash equivalents at 1 January		723	538
Foreign currency translation adjustments in respect of cash and cash equivalents		2	1
Cash and cash equivalents at 31 December		302	723

Consolidated statement of changes in equity

In CHF million	Share capital	Capital reserves	Retained earnings	Treasury shares	Other reserves	Equity attributable to equity holders of Swisscom	Non-controlling interests	Total equity
Balance at 31 December 2012	52	136	6,135	–	(1,633)	4,690	27	4,717
Net income	–	–	1,685	–	–	1,685	10	1,695
Other comprehensive income	–	–	676	–	62	738	2	740
Comprehensive income	–	–	2,361	–	62	2,423	12	2,435
Dividends paid ³²	–	–	(1,140)	–	–	(1,140)	(14)	(1,154)
Purchase of treasury shares for share-based payments ³¹	–	–	–	(6)	–	(6)	–	(6)
Allocation of treasury shares for share-based payments ^{11,31}	–	–	–	6	–	6	–	6
Additions from acquisition of subsidiaries ⁵	–	–	–	–	–	–	19	19
Transactions with non-controlling interests	–	–	–	–	–	–	(15)	(15)
Balance at 31 December 2013	52	136	7,356	–	(1,571)	5,973	29	6,002
Net income	–	–	1,694	–	–	1,694	12	1,706
Other comprehensive income	–	–	(918)	–	(19)	(937)	(1)	(938)
Comprehensive income	–	–	776	–	(19)	757	11	768
Dividends paid ³²	–	–	(1,140)	–	–	(1,140)	(16)	(1,156)
Purchase of treasury shares for share-based payments ³¹	–	–	–	(5)	–	(5)	–	(5)
Allocation of treasury shares for share-based payments ^{11,31}	–	–	–	5	–	5	–	5
Transactions with non-controlling interests ³¹	–	–	(136)	–	–	(136)	(21)	(157)
Balance at 31 December 2014	52	136	6,856	–	(1,590)	5,454	3	5,457

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

Notes to the consolidated financial statements

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

1 General information

The Swisscom Group (hereinafter referred to as “Swisscom”) provides telecommunication services and is active primarily in Switzerland and Italy. A more detailed description of Swisscom’s business activities is to be found in Notes 3.16 and 6. The consolidated financial statements as of and for the year ended 31 December 2014 comprise Swisscom Ltd, the parent company, and its subsidiaries. A table of the Group subsidiaries is set out in Note 41. Swisscom Ltd is a limited-liability company incorporated in Switzerland under a private statute and has its registered office in Ittigen (Berne). Its address is: Swisscom Ltd, Alte Tiefenaustrasse 6, 3048 Worblaufen. Swisscom Ltd is listed on the SIX Swiss Exchange. As of 31 December 2014, the Swiss Confederation (“Confederation”), as majority shareholder, held 51.0% of the voting rights and issued capital of Swisscom Ltd. The Confederation is obligated by current law to hold the majority of the capital and voting rights. The Board of Directors of Swisscom has approved the issuance of these consolidated financial statements on 4 February 2015. The consolidated financial statements must be approved at the Annual General Meeting of Shareholders of Swisscom Ltd to be held on 8 April 2015.

2 Basis of preparation

The consolidated financial statements of Swisscom have been prepared in accordance with International Financial Reporting Standards (IFRS) and in compliance with the provisions of Swiss law. The reporting period covers twelve months. The consolidated financial statements are presented in Swiss francs (CHF). Unless otherwise indicated, all amounts are stated in millions of Swiss francs. The balance sheet is classified according to maturities. Assets and liabilities due within one year are classified as current. The income statement is classified based upon the nature of the income/expense. The consolidated financial statements have been prepared on the historical cost basis, unless a Standard or Interpretation prescribes another measurement basis for a particular caption in the consolidated financial statements. Certain financial-statement captions are measured at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is determined on the basis of stock exchange quotations or by using recognised valuation models, such as the discounting of anticipated future cash flows. Unless otherwise indicated in the notes to the consolidated financial statements, fair values correspond approximately to the carrying values reported in the balance sheet at the time of drawing up the financial statements.

3 Summary of significant accounting policies

3.1 Consolidation

Subsidiaries

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

Investments in associates

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

3.2 Foreign currency translation

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

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

Currency	Closing rate			Average rate	
	31.12.2014	31.12.2013	31.12.2012	2014	2013
1 EUR	1.202	1.228	1.207	1.213	1.229
1 USD	0.990	0.890	0.915	0.920	0.924

3.3 Cash and cash equivalents

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

3.4 Trade and other receivables

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

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

3.5 Other financial assets

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Financial assets held to maturity

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

Available-for-sale financial assets

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

3.6 Inventories

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

3.7 Property, plant and equipment

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

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

¹ Technical installations.

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

3.8 Business combinations and goodwill

Business combinations are accounted for using the acquisition method. As of the date of the business combination, acquisition costs are recognised at fair value. The purchase consideration includes the amount of cash paid as well as the fair value of the assets ceded, liabilities incurred or assumed as well as own equity instruments ceded. Liabilities depending on future events based upon contractual agreements are recognised at fair value. At the time of acquisition, all identifiable assets and liabilities that satisfy the recognition criteria are recognised at their fair values. The difference between the cost of acquisition and the fair value of the identifiable assets and liabilities acquired or assumed is accounted for as goodwill after taking into account any non-controlling interests. Any negative difference, after further review, is expensed directly. Goodwill acquired in

connection with a business combination is recognised under intangible assets. The goodwill is not amortised on a systematic basis but reviewed for impairment at least annually. When an entity is disposed of, the carrying amount of the goodwill is derecognised and recorded as a component of the gain or loss on disposal.

3.9 Other intangible assets

Research and development costs

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

Other intangible assets

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

Useful lives of other intangible assets

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

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

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

3.10 Non-current assets held for sale

A non-current asset or a disposal group is classified as being held for sale if its carrying amount will be recovered mainly as a result of a sales transaction and not through continued use. This condition is only considered as being met if the non-current asset or disposal group is immediately available for sale in its present condition and disposal is highly likely. In this respect, it must be assumed that the disposal process to which management has committed itself will be completed within one year from the date of such reclassification. Non-current assets or disposal groups that are held for sale are reported in the balance sheet separately under current assets and liabilities. The assets or disposal groups are valued at the lower of their carrying amount and fair value less costs of disposal. Impairment losses resulting from the initial classification are recognised in the income statement. Assets classified as held for sale and disposal groups are no longer depreciated or amortised.

3.11 Impairment losses

Impairment of financial assets

As of each balance sheet date, the carrying amounts of those financial assets for which changes in fair value are not recognised in the income statement are reviewed for any objective indications of impairment in value. An impairment loss is recognised where there is objective evidence of impairment, such as where the borrower is in bankruptcy, in default or other significant financial difficulties. The impairment of a financial asset which is recorded at amortised cost is calculated as the difference between its carrying amount and the present value of estimated future cash

flows, discounted at the asset's original effective interest rate. Available-for-sale financial assets whose fair value is less than their acquisition cost for a prolonged period or to a significant degree are considered to be value impaired. In the event of impairment, the losses are reclassified out of equity and recognised as financial expense. As of each balance sheet date, significant financial assets are individually reviewed for impairment. The recording of impairment losses on trade and other receivables varies as a function of the nature of the underlying transaction either in the form of specific valuation allowances or as portfolio-based lump-sum valuation allowances which cover the anticipated default risk. As regards portfolio-based lump-sum valuation allowances, financial assets are regrouped on the basis of similar credit risk characteristics and reviewed on a collective basis for impairment in value; where applicable, an allowance is raised. In determining the anticipated future cash flows of the portfolio, historic default rates are taken into account in addition to the contractually agreed payment conditions. Impairment losses on trade and other receivables are recognised as other operating expenses. Impairment losses on other financial assets are recorded as financial expense.

Impairment of goodwill

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

Impairment of property, plant and equipment and other intangible assets

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

3.12 Leases

Finance leases

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

Operating leases

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

3.13 Financial liabilities

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

3.14 Trade and other payables

Trade and other payables are recorded at amortised cost.

3.15 Provisions

Provisions for termination benefits

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

Provisions for dismantling and restoration costs

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

Other provisions

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

3.16 Segmentation and revenue recognition

General

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

Services by segments

Residential Customers

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

Small and Medium-Sized Enterprises

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

Corporate Business

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

Wholesale

Wholesale comprises mainly the use of Swisscom fixed and mobile networks by other telecommunication service providers and the use of third-party networks by Swisscom. It also consists of roaming with foreign operators whose customers use Swisscom's mobile networks, as well as

broadband services and regulated products as a result of the unbundling of the “last mile” for other telecommunication service providers.

Network & IT

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

Fastweb

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

Other Operating Segments

Other Operating Segments mainly comprises Swisscom IT Services, Swisscom Real Estate and Participations. It also comprises the areas Health, Connected Living and Swisscom Hospitality Services. Swisscom IT Services is a provider of information technology services. Its core business consists of the integration and operation of complex IT infrastructures. In addition, Swisscom IT Services provides comprehensive services to the financial industry in the area of system integration and business process outsourcing. Furthermore, Swisscom IT Services offers a full range of SAP services. Participations comprise mainly the subsidiaries Alphapay Ltd, Billag Ltd, Business Fleet Management Ltd, cablex Ltd and Swisscom Broadcast Ltd. Alphapay Ltd is active as a debt collection agent and is specialised in receivables management for third parties. Billag Ltd collects radio and TV license fees on behalf of the Swiss Confederation. Business Fleet Management Ltd offers mobility services. cablex Ltd operates in the field of construction and maintenance of wired and wireless networks in Switzerland, primarily in the field of telecommunication. Swisscom Broadcast Ltd is the leading provider in Switzerland of radio services, of cross-platform services for customers in the media field and of securitised radio transmissions.

Revenue generated from services

Fixed networks

Fixed network services encompass primarily connection fees to residential and corporate customers, national and international telephony traffic for residential and business customers, leased lines, the use of Swisscom's fixed network by other telecommunication service providers, payphone services, operator services as well as prepaid calling cards and the sale of terminal equipment. Installation and connection fees are deferred and released to income over the minimum term of the contract on a straight-line basis. If no minimum contract term has been agreed, the revenue is recorded on the date of installation or connection. Revenue from telephony services is recorded at the time the calls are made. Revenue from the sale of prepaid call cards is deferred and released to income as and when actual minutes are used or when the cards expire. Revenue from leased lines is recorded on a straight-line basis over the duration of the contract. Revenue arising from the sale of equipment is recorded at the time of delivery.

Mobile

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

Broadband

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

Digital TV

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

Communication and IT solutions

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

3.17 Subscriber acquisition and loyalty-programme costs

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

3.18 Post-employment benefits

Defined benefit obligations and the related pension expense are determined on an actuarial basis using the projected unit credit method. This reflects the number of years of service completed by employees through the date of measurement and the assumptions made concerning future salary growth. The latest actuarial valuation was undertaken as at 31 December 2014. Current pension entitlements are charged to income in the period in which they arise. Actuarial gains and losses are recorded under other comprehensive income in the reporting period in which they arise.

3.19 Share-based payments

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

3.20 Income taxes

Income taxes include all current and deferred taxes which are based on income. Taxes which are not based on income, such as taxes on real estate and on capital are recorded as other operating expenses. Deferred taxes are computed using the balance sheet liability method whereby deferred tax is recognised in principle on all temporary differences. Temporary differences arise between the value of an asset or liability reported for tax purposes and its carrying amount in the financial statements and which will reverse in future periods. Deferred tax assets and liabilities are determined

using the tax rates that are expected to apply when the temporary difference reverses and based on the tax rates which are in force or announced as of the balance sheet date. Deferred tax assets are only recognised as assets to the extent that it is probable that they can be offset against future taxable income. Income tax liabilities on undistributed profits of Group companies are only recorded if the distribution of profits is to be made in the foreseeable future. Current and deferred tax assets and liabilities are netted when they relate to the same taxing authority and taxable entity.

3.21 Derivative financial instruments

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

3.22 New and amended Standards and Interpretations

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

As from 1 January 2014 onwards, Swisscom adopted various amendments to existing International Financial Reporting Standards (IFRS) and Interpretations, which have no material impact on the results or financial position of the Group.

Standard	Name
Amendments to IFRS 10, IFRS 12 and IAS 27	Definition of Investment entities
Amendments to IAS 39	Novation of OTC derivatives and continuing designation for hedge accounting
IFRIC 21	Levies

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

The following Standards and Interpretations published up to the end of 2014 are mandatory for accounting periods beginning on or after 1 January 2015:

Standard	Name	Effective from
IFRS 9	Financial instruments	1 January 2018
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	1 January 2016
Amendments to IFRS 11	Accounting for acquisitions of interests in a joint operation	1 January 2016
IFRS 14	Regulatory accrual item	1 January 2016
IFRS 15	Revenue from contracts with customers	1 January 2017
Amendments to IAS 1	Disclosure initiative	1 January 2016
Amendments to IAS 16 and IAS 38	Clarification acceptable methods of depreciation and amortisation	1 January 2016
Amendments to IAS 16 and IAS 41	Agriculture: Bearer plants	1 January 2016
Amendments to IAS 19	Defined benefit plans: employee contributions	1 January 2015
Amendments to IAS 27	Equity method in separate financial statements	1 January 2016
Various	Improvements to IFRS 2010–2012	1 January 2015
Various	Improvements to IFRS 2011–2013	1 January 2015
Various	Improvements to IFRS 2012–2014	1 January 2016

Swisscom will review its financial reporting for the impact of the new and amended Standards which take effect on or following 1 January 2015 and for which Swisscom did not make voluntary early application. At present, Swisscom anticipates no material impact on consolidated financial reporting with the exception of the amendment described in the following paragraph.

IFRS 15 “Revenue from Contracts with Customers”: in contrast to the revenue recognition standards currently in force, the new Standard provides for a single, principles-based, five-step model which is to be applied to all contracts with customers. In accordance with IFRS 15, the amount which is expected to be received from customers as consideration for the transfer of goods and services is to be recognised as revenue. As regards determining the time or period, it is no longer a question of the transfer of risks and opportunities but of the transfer of control over the goods and services to the customers. As regards multi-component contracts, IFRS 15 explicitly rules that the transaction price is to be allocated to each distinct performance obligation in relation to the relative stand-alone selling prices. Furthermore, the new Standard contains new rules regarding the costs of fulfilment and obtaining a contract as well as guidelines as to the question when such costs are to be capitalised. In addition, the new Standard requires new, more detailed note disclosure information. Swisscom anticipates that the wide-ranging amendments, in particular in the area of accounting for multi-component contracts and the prescribed capitalisation of customer acquisition costs, will impact consolidated financial reporting. However, a reliable estimate of the impact of IFRS 15 can only be made once a detailed analysis has been performed in a conclusive manner.

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

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

Goodwill

As of 31 December 2014, the carrying amount of goodwill from acquisitions totalled CHF 4,987 million. The recoverability of goodwill is tested for impairment annually during the fourth quarter. In addition, an extraordinary review is undertaken whenever there are indications that impairment has occurred. The value of goodwill is primarily dependent upon projected cash flows, the discount rate (WACC) and long-term growth rate. The significant assumptions are disclosed in Note 24. Changes to these assumptions may result in an impairment loss in the following year.

Post-employment benefits

Defined-benefit obligations are calculated on the basis of various financial and demographic assumptions. The key assumptions for valuing the retirement-benefit obligations are the discount rate, future salary and pension increases, interest on pension plan savings as well as life expectancy. As of 31 December 2014, the funding deficit of CHF 2,441 million was recognised as a liability in the consolidated balance sheet. Changes in estimates can impact recorded defined-benefit obligations. The equal distribution of risk prescribed by law and in the regulations in the event of a funding deficit is not taken into account when measuring the obligation. See Note 10.

Provisions for dismantling and restoration costs

Provisions are raised for costs incurred in connection with dismantling and restoring telecommunication installations and transmitter stations. As of 31 December 2014, the carrying amount of these provisions totalled CHF 646 million. The level of the provisions is primarily determined by estimates of future costs for dismantling and restoration and the timing of the dismantling. An increase in the estimated costs by 10% would result in an increase in the provision of CHF 60 million. A postponement of the date of dismantling by ten years would lead to a decrease in the provisions of CHF 29 million. See Note 28.

Provisions for regulatory proceedings

Various proceedings are in course in connection with the setting of prices for regulated access services. Swisscom has set up provisions on the basis of its own estimate of the expected financial outcome thereof. As of 31 December 2014, the provisions for regulatory proceedings aggregated CHF 106 million. Further developments in the proceedings or a decision by the competent court may result in a revised assessment of the financial outcome in subsequent years, thereby leading to an increase or decrease of the recorded provisions. See Note 28.

Proceedings conducted by the Competition Commission

The Competition Commission (ComCo) is conducting an investigation into ADSL prices against Swisscom. The proceedings are described in Note 29. In the event that Swisscom is deemed to have violated Antitrust Law, ComCo is entitled to impose sanctions. On the basis of a legal opinion, Swisscom considers it unlikely that ComCo will impose direct sanctions. Accordingly, no provisions were recognised in the 2014 consolidated financial statements in connection with these proceedings. Further developments in the proceedings may result in a revised assessment of the financial outcome in subsequent years and lead to the need to record provisions.

Allowances for doubtful receivables

Allowances for doubtful receivables are recorded in order to cover foreseeable losses arising from a customer's inability to pay. As of 31 December 2014, the carrying value of allowances for trade and other receivables totalled CHF 210 million. In determining the appropriateness of the allowance, several factors are considered. These include the ageing structure of receivables, the current financial solvency of the customer and the historical experience with receivable losses. The actual level of receivable losses may be higher than the amount recognised if the actual financial situation of the customers is worse than originally expected. See Note 18.

Deferred income tax assets

The recognition of deferred tax assets and liabilities is based on the judgment of management. Deferred tax assets on tax loss carry-forwards are only recognised if it is probable that they can be used. Whether or not they can be used depends on whether taxable profits can be achieved in the future which can be offset against the available tax loss carry-forwards. In order to assess the probability of their future use, estimates must be made of various factors such as future profitability. If the actual results differ from the estimates, this can lead to a change in the assessment of recoverability of the deferred tax assets. On 31 December 2014, recognised deferred tax assets amounted to CHF 950 million. See Note 15.

Useful lives of property, plant and equipment

As of 31 December 2014, the carrying amount of property, plant and equipment totalled CHF 9,720 million. In assessing the useful life of an item of property, plant and equipment, the expected use of the asset by the company, expected physical wear and tear, technological developments as well as past experience with comparable assets are considered. The assessment of useful lives is based upon the judgment of management. A change in the useful lives may impact the future level of depreciation and amortisation recorded. See Notes 3.7 and 23.

5 Business combinations

Business combinations in 2014

In 2014, Swisscom made payments totalling CHF 305 million for the acquisition of Group companies. Of this amount, CHF 288 million relates to the takeover of PubliGroupe in September 2014.

Public takeover of PubliGroupe SA

In June 2014, Swisscom launched a public takeover bid for PubliGroupe SA (PubliGroupe). Swisscom offered the shareholders of PubliGroupe a price of CHF 214 per share, which corresponds to a total purchase consideration of CHF 474 million. Upon expiration of the offer period on 25 August 2014, Swisscom held 98.37% of the share capital of PubliGroupe and the takeover was consummated on 5 September 2014. The purchase consideration for the 98.37% of the share capital was CHF 466 million. Because the threshold of 98% within the framework of public takeover bid was exceeded, Swisscom may initiate a procedure to have the remaining non-controlling interests cancelled in consideration for the payment of the offer price of CHF 214 per share. The purchase consideration of CHF 8 million for the remaining 1.63% of the share capital was recognised as a liability in the third quarter of 2014.

The takeover of PubliGroupe was primarily to achieve full control over and further develop the Local Group. PubliGroupe is active primarily in the Swiss directories market and owns a 51% shareholding in LTV Yellow Pages Ltd and a 49% shareholding in Swisscom Directories Ltd and local.ch Ltd (Local Group). Prior to the acquisition, Swisscom had held a 49% interest in LTV Yellow Pages Ltd and a 51% shareholding in Swisscom Directories Ltd and local.ch Ltd. Until then, Swisscom Directories Ltd and local.ch Ltd were treated as fully consolidated subsidiaries in the consolidated financial statements of Swisscom and LTV Yellow Pages Ltd was accounted for as an associated company. Of the purchase consideration, an amount of CHF 162 million represents the acquisition of the outstanding non-controlling interests in Swisscom Directories Ltd and local.ch Ltd. As Swisscom held a controlling interest in Swisscom Directories Ltd and local.ch Ltd prior to the takeover, the transaction is dealt with in shareholders' equity. The carrying value in Swisscom's consolidated financial statements of its 49% shareholding in LTV Yellow Pages Ltd at the time of the takeover amounted to CHF 26 million. In accordance with IFRS, the difference of CHF 82 million between the carrying value and the fair value was recognised as other financial income in the third quarter of 2014. Following the takeover, LTV Yellow Pages Ltd and local.ch Ltd were merged into Swisscom Directories Ltd. PubliGroupe holds, in addition, further shareholdings in media companies and media service providers as well as being the owner of real estate properties. Swisscom plans to sell the shareholdings as well as the real-estate properties to the media companies. For further information see Note 22. Swisscom will examine all options regarding the further shareholdings. By the end of 2014, various investments were sold to media companies for a price of CHF 57 million.

In accordance with IFRS, the acquisition costs for the acquisition of PubliGroupe amounted to CHF 420 million. This is comprised of the purchase price for PubliGroupe shares of CHF 474 million and the fair value of the previous 49% participation in LTV Yellow Pages Ltd of CHF 108 million, less the fair value of the non-controlling shares of Swisscom Directories Ltd and local.ch Ltd of CHF 162 million. The business combination was accounted for provisionally in the consolidated financial statements as at 31 December 2014, since not all the necessary information concerning the acquired foreign operations was available at the time of preparing these year-end financial statements. The provisional allocation of acquisition costs to the net assets of PubliGroupe may be analysed as follows:

In CHF million	2014
Cash and cash equivalents	16
Other financial assets	42
Non-current assets held for sale. See Note 22.	137
Investments in associates. See Note 25.	48
Property, plant and equipment	4
Other intangible assets	63
Receivables from pension plans	15
Other current and non-current assets	48
Deferred tax liabilities	(11)
Financial liabilities	(20)
Other current and non-current liabilities	(114)
Identifiable assets and liabilities	228
Goodwill	192
Purchase consideration	420
Cash and cash equivalents acquired	(16)
Investments in associates. See Note 25.	(108)
Deferred payment of purchase price	(8)
Total cash outflow	288

The gross value of the trade receivables acquired amounts to CHF 47 million. At the time of the takeover, it was anticipated that, of this amount, CHF 7 million was irrecoverable. The main reasons for the recognition of goodwill are the future anticipated synergies and additional market shares as well as the qualified employees. Transaction costs of CHF 1 million were recorded as other operating expenses in connection with the takeover of PubliGroupe. Swisscom's consolidated financial statements as of and for the year ended 31 December 2014 reflect additional net revenues of CHF 41 million as well as net income of CHF 6 million since the takeover of PubliGroupe on 5 September 2014. On the assumption that PubliGroupe had been included in the consolidated financial statements as from 1 January 2014, there would have resulted consolidated pro-forma net revenues of CHF 11,753 million and a consolidated pro-forma net income of CHF 1,712 million.

Business combinations in 2013

Payments totalling CHF 60 million were made in 2013 for the acquisition of Group companies. Of this amount, CHF 3 million relates to deferred consideration for business combinations in prior years and CHF 57 million for businesses acquired in 2013. The newly acquired companies in 2013 are viewed individually as non-significant business combinations and are thus reported on an aggregate basis.

In February 2013, Hospitality Services acquired the operating business of Deuromedia. Deuromedia provides IP-based infotainment solutions for the hospitality market.

At the end of March 2013, Datasport Ltd acquired the entire share capital of Abavent GmbH. Abavent GmbH is a German provider of sporting events.

In April 2013, Swisscom IT Services acquired the business platform from Entris Banking and in doing so, the entire capital of Entris Integrator AG. Using the business platform of Entris Integrator AG, banks execute their banking activities such as the processing of payment transactions, credit and security settlements or e-banking. Following acquisition, the investee changed its name to Swisscom

Banking Provider Ltd. In addition, in June 2013, Swisscom IT Services Ltd acquired the entire share capital of Entris Operations AG. Entris Operations AG processes primarily the cash and securities settlement operations for some 50 banks. Following acquisition, Entris Operations AG was merged into Swisscom Banking Provider Ltd.

Furthermore, Swisscom increased its shareholding in CT Cinetrade Ltd (Cinetrade) from 49% to 75% in April 2013. Cinetrade offers TV-related services, Pay-TV, transmissions of sporting events and video-on-demand. Cinetrade additionally operates one of the leading cinema chains in Switzerland. In December, Swisscom Switzerland acquired a 67% equity holding in DL-Groupe GMG Ltd, which provides services in the field of IP-based managed unified communication and collaboration services. The aggregate allocation of acquisition costs to the net assets may be analysed as follows:

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

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

6 Segment information

Operating segments requiring to be reported are determined on the basis of the management approach. Accordingly, external segment reporting reflects the internal organisational and management structure used within the Group as well as internal financial reporting to the Chief Operating Decision Maker. The segment information disclosed is in line with that of the internal reporting systems. Reporting is divided into the segments “Residential Customers”, “Small and Medium-Sized Enterprises”, “Corporate Business”, “Wholesale” and “Network & IT” which are grouped under Swisscom Switzerland, “Fastweb” and “Other Operating Segments”. In addition, unallocated costs are reported separately under “Group Headquarters”.

In segment reporting, the business divisions of Swisscom Switzerland are reported as individual segments. The support functions of finance, human resources and strategy of Swisscom Switzerland are embedded in the division Network & IT. No network costs are recharged for the financial management of customer segments. The results of the customer segments Residential Customers, Small and Medium-Sized Enterprises, Corporate Business and the segment Wholesale thus report their contribution margins prior to network costs. Network costs are planned, monitored and controlled by the business division Network & IT which is managed as a cost centre. For this reason,

no revenue is credited to the Network & IT division within segment reporting. The segment results of Network & IT consist of operating expenses and depreciation and amortisation less capitalised self-constructed assets and other income. The sum of the segment results of Swisscom Switzerland corresponds in aggregate to the operating results (EBIT) of Swisscom Switzerland. Fastweb is one of the largest fixed-network operators and a leading provider of IP-based services in Italy. It is reported in the consolidated financial statements as a separate segment. Other Operating Segments principally comprise Swisscom IT Services, Swisscom Real Estate and the area Participations. Group Headquarters which includes unallocated costs, comprises mainly the Group central divisions of Swisscom, Swisscom Re Ltd and the employment company Worklink Ltd.

The services offered by each operating segment are described in Note 3.16. The segment results of the segments Fastweb and Other Operating Segments correspond to the operating result (EBIT) of these units. The latter reflects the net revenues from external customers and other segments less segment expenses and depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets. Segment expenses include the costs of materials and services, personnel costs and other operating costs less capitalised self-constructed assets and other income. The segment expense includes ordinary employer contributions as retirement-benefit expense. The difference between the ordinary employer contributions and the retirement-benefit expense as provided for under IAS 19 is reported in the column "Eliminations". In 2014, no costs are included in the column "Eliminations" as a reconciling item to retirement-benefit expense in accordance with IAS 19 (prior year: gain of CHF 17 million).

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

Segment information for 2014 of Swisscom may be analysed as follows:

2014, in CHF million	Swisscom Switzerland	Fastweb	Other operating segments	Group Head- quarters	Elimi- nation	Total
Net revenue from external customers	8,571	2,043	1,088	1	–	11,703
Net revenue with other segments	60	4	801	1	(866)	–
Net revenue	8,631	2,047	1,889	2	(866)	11,703
Segment result	2,403	(119)	186	(126)	(22)	2,322
Financial income and financial expense, net						(260)
Share of results of associates						26
Income before income taxes						2,088
Income tax expense						(382)
Net income						1,706
Associates	68	47	56	–	–	171
Assets held for sale	–	–	80	–	–	80
Capital expenditure in property, plant and equipment and other intangible assets	1,571	682	236	–	(29)	2,460
Depreciation, amortisation and impairment losses	1,173	744	175	5	(6)	2,091
Gain (loss) on disposal of property, plant and equipment, net	(2)	–	51	–	–	49
Share of results of associates	26	–	–	–	–	26

Segment information 2014 of Swisscom Switzerland is to be analysed as follows:

2014, in CHF million	Residential Customers	Small and Medium-Sized Enterprises	Corporate Business	Wholesale	Network & IT	Elimination	Total Swisscom Switzerland
Net revenue from external customers	5,168	1,139	1,694	570	–	–	8,571
Net revenue with other segments	158	20	94	359	–	(571)	60
Net revenue	5,326	1,159	1,788	929	–	(571)	8,631
Segment result	2,823	850	832	381	(2,483)	–	2,403
Associates	3	–	–	64	1	–	68
Capital expenditure in property, plant and equipment and other intangible assets	172	25	83	–	1,291	–	1,571
Depreciation, amortisation and impairment losses	128	6	68	–	971	–	1,173
Gain (loss) on disposal of property, plant and equipment, net	(1)	–	–	–	(1)	–	(2)
Share of results of associates	2	–	–	24	–	–	26

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

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

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

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

Disclosures by geographical regions

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

In CHF million	2014		2013	
	Net revenue	Non-current assets	Net revenue	Non-current assets
Switzerland	9,586	13,423	9,358	12,726
Italy	2,048	3,281	2,020	3,414
Other countries in Europe	55	151	48	87
Other countries outside Europe	14	–	8	1
Not allocated	–	651	–	472
Total	11,703	17,506	11,434	16,700

Disclosures by products and services

In CHF million	2014	2013
Mobile access lines single subscriptions	2,852	2,874
Fixed access lines single subscriptions	3,832	4,027
Bundles	1,938	1,576
Other	3,080	2,956
Not allocated	1	1
Total net revenue	11,703	11,434

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

Significant customers

Swisscom has a large number of customers. No individual customers accounted for more than 10% of segment revenue in 2013 and 2014.

7 Net revenue

In CHF million	2014	2013
Net revenue from services	10,874	10,556
Net revenue from sale of merchandise	828	875
Net revenue from the right of use of intangible assets	1	3
Total net revenue	11,703	11,434

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

8 Goods and services purchased

In CHF million	2014	2013
Raw materials and supplies	42	24
Services purchased	503	502
Customer premises equipment and merchandise	1,103	1,022
National traffic fees	176	180
International traffic fees	246	265
Traffic fees of foreign subsidiaries	299	345
Total goods and services purchased	2,369	2,338

9 Personnel expense

In CHF million	2014	2013
Salary and wage costs	2,194	2,132
Social security expenses	232	224
Expense of defined benefit plans. See Note 10.	244	258
Expense of defined contribution plans. See Note 10.	10	11
Expense of share-based payments. See Note 11.	5	6
Salary and wage costs of the employment company Worklink	5	2
Termination benefits	(1)	6
Other personnel expense	62	67
Total personnel expense	2,751	2,706

Termination benefit programmes

Swisscom supports employees affected by downsizing through a social plan. Depending on the relevant social plan as well as age and length of service, certain employees affected by downsizing may transfer to the employment company Worklink Ltd. The employment company Worklink Ltd hires out participating employees to third parties on a temporary basis. For further information see Note 28.

10 Post-employment benefits

Defined-benefit plans

Swisscom maintains several pension plans for employees in Switzerland and Italy. Expenses of defined benefit plans totalled CHF 268 million in 2014 (prior year: CHF 295 million). Of this amount, CHF 244 million (prior year: CHF 258 million) was recorded as personnel expense and CHF 24 million (prior year: CHF 37 million) as finance expense.

comPlan

The majority of Swisscom's employees in Switzerland are insured for the risks of old age, death and disability by the independent pension plan, comPlan. The benefits of comPlan exceed the minimum laid down in the Federal Law on Occupational Retirement, Survivors' and Disability Insurance (BVG). The ordinary employer contributions encompass risk contributions of 3.35% and contributions varying with age of 5-13% of the insured salary to be credited to the individual retirement savings' accounts. The standard retirement age is 65. Employees qualify for early retirement at the earliest on their 58th birthday, whereby the rate of conversion is reduced in line with the longer expected duration of pension payments. Furthermore, employees may choose to take their entire pension or part thereof in the form of a capital payment. The amount of the pension paid results from the conversion rate which is applied to the accumulated savings of the individuals concerned in the case of retirement. For individuals retiring at the age of 65, the rate of conversion is 6.4% up to the end of 2013. From 2014 onwards, the conversion rate was reduced to 6.11%. The accumulated savings result from employee and employer contributions which are paid into the individual savings account of each individual insured person as well as the interest accruing on the accumulated savings. The interest rate to be applied to the accumulated pension savings is defined annually by the Foundation Council of comPlan. comPlan has the legal form of a foundation. The Foundation Council, which is constituted by an equal number of representatives of the employer and employees, is responsible for the management of the Foundation. The duties of the Foundation Council are laid down in the BVG and the Pension Fund Rules. In accordance with BVG, a temporary shortfall is permitted. The Foundation Council must take appropriate measures in order to solve the shortfall within a reasonable time. Pursuant to BVG, additional employer and employee contributions may be incurred whenever a significant shortfall in accordance with BVG arises. In such cases, the risk is split between the employer and employees and the employer is not legally obligated to assume more than 50% of the additional contributions. As of 31 December 2014, the funding ratio as defined by BVG of comPlan was 111% (prior year: 106%). The Investment Commission is the central management, coordination and monitoring body for the management of the pension plan assets. The pension plan assets are administered using mandated, independent financial service providers. Monitoring is supported by an external investment controller. The Foundation Council determines the investment strategy within the framework of the legal provisions. Within its terms of reference, the Investment Commission may undertake the asset allocation.

Other pension plans

In addition to various smaller pension plans in Switzerland, other pension plans include the pension plan for Fastweb employees and the pension plan of the PubliGroupe. Employees of the Italian subsidiary Fastweb have acquired entitlements to future pension benefits up to the end of 2006. These benefits are recorded in the balance sheet as defined-benefit obligations. With the PubliGroupe pension fund, employees of PubliGroupe Group companies in Switzerland are insured against the risks of age, death and disability. The amount of the pension paid results from the conversion rate which is applied to the accumulated savings of the individuals concerned in the case of retirement. For individuals retiring at the age of 65, the rate of conversion is 6.4%. The accumulated savings result from employee and employer contributions which are paid into the individual savings account of each individual insured person as well as the interest accruing on the accumulated savings.

Pension cost

Defined-benefit pension plans

In CHF million	comPlan	Other plans	2014	comPlan	Other plans	2013
Current service cost	234	6	240	244	7	251
Plan amendments	–	–	–	–	(3)	(3)
Administration expense	3	1	4	3	1	4
Employment termination benefits	–	–	–	6	–	6
Total recognised in personnel expense	237	7	244	253	5	258
Interest cost on net defined benefit obligations	24	–	24	37	–	37
Total recognised in financial expense	24	–	24	37	–	37
Total expense of defined benefit plans recognised in income statement	261	7	268	290	5	295

In addition, other comprehensive income includes an actuarial loss of CHF 1,161 million (prior year: actuarial gain of CHF 847 million) which may be analysed as follows:

In CHF million	comPlan	Other plans	2014	comPlan	Other plans	2013
Actuarial gains and losses from:						
Change of the financial assumptions	1,536	52	1,588	(384)	(24)	(408)
Experience adjustments to defined benefit obligations	(102)	–	(102)	(165)	2	(163)
Return on plan assets excluding the recognised part of financial result	(315)	(10)	(325)	(272)	(4)	(276)
Total expense (income) of defined benefit plans recognised in other comprehensive income	1,119	42	1,161	(821)	(26)	(847)

Defined-contribution pension plans

Expenses in 2014 for defined-contribution plans aggregated CHF 10 million (prior year: CHF 11 million).

Status of pension plans

In CHF million	comPlan	Other plans	2014	comPlan	Other plans	2013
Defined benefit obligations						
Balance at 1 January	9,533	162	9,695	9,823	107	9,930
Current service cost	234	6	240	244	7	251
Interest cost on defined benefit obligations	218	–	218	188	2	190
Employee contributions	162	–	162	152	2	154
Benefits paid	(259)	–	(259)	(331)	(6)	(337)
Actuarial losses (gains)	1,434	52	1,486	(549)	(22)	(571)
Additions from acquisition of subsidiaries	–	589	589	–	85	85
Plan amendments	–	–	–	–	(13)	(13)
Employment termination benefits	–	–	–	6	–	6
Transfer of pension plans to comPlan	84	(84)	–	–	–	–
Balance at 31 December	11,406	725	12,131	9,533	162	9,695
Plan assets						
Balance at 1 January	8,286	116	8,402	7,772	50	7,822
Interest income on plan assets	194	–	194	151	2	153
Employer contributions	259	7	266	273	3	276
Employee contributions	162	–	162	152	2	154
Benefits paid	(259)	–	(259)	(331)	(4)	(335)
Return on plan assets excluding the recognised part of financial result	315	10	325	272	4	276
Additions from acquisition of subsidiaries	–	604	604	–	70	70
Plan amendments	–	–	–	–	(10)	(10)
Administration expense	(3)	(1)	(4)	(3)	(1)	(4)
Transfer of pension plans to comPlan	72	(72)	–	–	–	–
Balance at 31 December	9,026	664	9,690	8,286	116	8,402
Net defined benefit obligations						
Net defined benefit obligations recognised at 31 December	2,380	61	2,441	1,247	46	1,293

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

In CHF million	comPlan	Other plans	2014	comPlan	Other plans	2013
Balance at 1 January	1,247	46	1,293	2,051	57	2,108
Pension cost, net	261	7	268	290	5	295
Employer contributions and benefits paid	(259)	(7)	(266)	(273)	(5)	(278)
Additions from acquisition of subsidiaries	–	(15)	(15)	–	15	15
Expense (income) of defined benefit plans recognised in other comprehensive income	1,119	42	1,161	(821)	(26)	(847)
Transfer of pension plans to comPlan	12	(12)	–	–	–	–
Balance at 31 December	2,380	61	2,441	1,247	46	1,293

The weighted average duration of the net present value of the recorded pension obligations is 18 years (prior year: 17 years).

Breakdown of pension plan assets

comPlan

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

Category	Investment strategy	31.12.2014			31.12.2013		
		Quoted	Not quoted	Total	Quoted	Not quoted	Total
Government bonds Switzerland	10.0%	5.3%	7.7%	13.0%	10.8%	8.4%	19.2%
Corporate bonds Switzerland	8.0%	8.7%	–	8.7%	11.2%	–	11.2%
Government bonds World-developed markets	11.0%	11.0%	–	11.0%	10.2%	–	10.2%
Corporate bonds World-developed markets	8.0%	7.9%	–	7.9%	1.2%	–	1.2%
Government bonds World-emerging markets	6.0%	6.6%	–	6.6%	5.5%	–	5.5%
Private Debt	5.0%	–	1.0%	1.0%	–	–	–
Third-party debt instruments	48.0%	39.5%	8.7%	48.2%	38.9%	8.4%	47.3%
Equity shares Switzerland	5.0%	6.2%	–	6.2%	7.7%	–	7.7%
Equity shares world developed markets	12.0%	12.7%	–	12.7%	14.4%	–	14.4%
Equity shares world emerging markets	8.0%	8.1%	–	8.1%	6.0%	–	6.0%
Equity instruments	25.0%	27.0%	–	27.0%	28.1%	–	28.1%
Real estate Switzerland	11.0%	8.1%	2.3%	10.4%	6.6%	1.0%	7.6%
Real estate World	4.0%	4.1%	–	4.1%	3.8%	–	3.8%
Real estate	15.0%	12.2%	2.3%	14.5%	10.4%	1.0%	11.4%
Commodities	4.0%	1.2%	2.6%	3.8%	3.0%	–	3.0%
Private markets	7.0%	–	5.1%	5.1%	1.3%	3.6%	4.9%
Hedge Funds	–	–	–	–	0.7%	–	0.7%
Cash and cash equivalents and other investments	1.0%	–	1.4%	1.4%	–	4.6%	4.6%
Cash and cash equivalents and alternative investments	12.0%	1.2%	9.1%	10.3%	5.0%	8.2%	13.2%
Total plan assets	100.0%	79.9%	20.1%	100.0%	82.4%	17.6%	100.0%

The investment strategy pursues the goal of achieving the highest possible return on assets within the framework of its risk tolerance and thus of generating income on a long-term basis in order to meet all financial obligations. This is achieved through a broad diversification of risks over various investment categories, markets, currencies and industry segments in both developed and emerging markets. The interest-rate duration of interest-bearing investments is 5.71 years (prior year: 4.74 years) and the average rating of these investments is A. Within the overall portfolio, all foreign-currency positions are hedged against the Swiss franc following a currency strategy to the extent necessary to meet a pre-determined ratio. The unquoted and therefore rather illiquid investments make up 20% of total plan assets. Following this investment strategy, comPlan anticipates a target value for the value fluctuation reserve of 16.0% (basis: 2015 financial year).

Other pension plans

The split of the assets of the other plans over the various investment categories and investment strategy is as follows:

Category	Investment strategy	31.12.2014			31.12.2013		
		Quoted	Not quoted	Total	Quoted	Not quoted	Total
Switzerland	21.0%	16.8%	–	16.8%	6.7%	–	6.7%
Abroad	18.0%	13.7%	–	13.7%	–	–	–
Third-party debt instruments	39.0%	30.5%	–	30.5%	6.7%	–	6.7%
Switzerland	16.5%	22.9%	–	22.9%	20.9%	–	20.9%
Abroad	8.0%	9.4%	–	9.4%	–	–	–
Equity instruments	24.5%	32.3%	–	32.3%	20.9%	–	20.9%
Switzerland	26.0%	14.1%	11.5%	25.6%	5.1%	–	5.1%
Real estate	26.0%	14.1%	11.5%	25.6%	5.1%	–	5.1%
Private markets	3.5%	–	2.8%	2.8%	–	–	–
Cash and cash equivalents and other investments	7.0%	–	8.8%	8.8%	–	67.3%	67.3%
Cash and cash equivalents and alternative investments	10.5%	–	11.6%	11.6%	–	67.3%	67.3%
Total plan assets	100.0%	76.9%	23.1%	100.0%	32.7%	67.3%	100.0%

The investment strategy pursues the goal of achieving the highest possible return on assets within the framework of its risk tolerance and thus of generating income on a long-term basis in order to meet all financial obligations. This is achieved through a broad diversification of risks over various investment categories, markets, currencies and industry segments.

Additional information on plan assets

As of 31 December 2014, plan assets include Swisscom Ltd shares and bonds with a fair value of CHF 7 million (prior year: CHF 6 million). The effective return on plan assets in 2014 amounted to CHF 519 million (prior year: CHF 429 million).

In 2015, Swisscom expects to make payments to the pension funds for ordinary employee contributions totalling CHF 239 million (excluding payments for early retirements and changes to the pension plan).

Actuarial assumptions

Assumptions	2014		2013	
	comPlan	Other plans	comPlan	Other plans
Discount rate at 31 December	1.13%	1.31%	2.30%	2.85%
Expected rate of salary increases	1.75%	1.81%	2.24%	2.19%
Expected rate of pension increases	0.10%	0.10%	0.10%	0.10%
Interest on old age savings accounts	1.13%	1.13%	2.30%	2.30%
Longevity at age of 65 – men (number of years)	21.39	21.39	21.29	21.29
Longevity at age of 65 – women (number of years)	23.86	23.86	23.76	23.76

The discount rate is based upon CHF-denominated corporate bonds with an AA rating issued by domestic and foreign issuers and listed on the Swiss Exchange. Future growth factors for salaries correspond to a long-term historical average value which is specific to Swisscom. Growth in pensions reflects comPlan's ability to meet future pension increases based on the assumptions made. Interest accruing on the retirement savings equates the discount rate. From 2012 on, Swisscom applies the BVG 2010 generation tables for life-expectancy assumptions.

Sensitivity analysis comPlan

In CHF million	Defined benefit obligations		Current service cost ¹	
	Increase Assumption	Decrease Assumption	Increase Assumption	Decrease Assumption
Discount rate (change +/-0.5%)	(855)	990	(37)	45
Expected rate of salary increases (changes +/- 0.5%)	78	(73)	8	(7)
Expected rate of pension increases (change +0.5%; -0.1%)	749	(141)	27	(5)
Interest on old age savings accounts (change +/- 0.5%)	117	(106)	8	(7)
Longevity at age of 65 (change +/-1 year)	156	(158)	4	(4)

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

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

11 Share-based payments

In CHF million	2014	2013
Share-based payments Management Incentive Plan	3	2
Other share-based payments	2	4
Total expense of share-based payments	5	6

Management Incentive Plan

The Management Incentive Plan is an equity-share plan for members of the Group Executive Board and Board of Directors as well as for other members of management. The members of the Board of Directors are paid a portion of the management fee in Swisscom shares. Members of the Group Executive Board receive 25% of their variable performance-related salary component in Swisscom shares. Group Executive Board members may increase this share up to a maximum of 50%. The shares are allocated based on their tax values. The level of the earnings-related compensation and the number of shares allocated are determined in the subsequent business year once the financial statements are finalised. The shares allocated to the members of the Group Executive Board are based on the variable earnings-related compensation of the prior year as reported. The tax value per share amounts to CHF 449 (prior year: CHF 371). The shares are subject to a retention period of three years from the grant date. The shares are vested immediately upon delivery.

In 2014, the allocation and cost of share-based payments to the members of the Board of Directors and of the Group Executive Board may be analysed as follows:

Allocation 2014	Number of allocated shares	Market price in CHF	Expense in CHF million
Members of the Board of Directors	1,374	535	0.7
Members of the Group Executive Board ¹	1,599	535	0.9
Other Management Members	1,760	535	0.9
Total 2014	4,733	535	2.5

¹ Allocation for the financial year 2013.

In 2013, the allocation and cost of share-based payments to the members of the Board of Directors and of the Group Executive Board may be analysed as follows:

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

¹ Allocation for the financial year 2012.

Other share-based payments plans

As recognition for exceptional services rendered during the financial year, equity share premiums may be awarded to a maximum of 10% of employees. In 2014, 4,520 shares with a market price of CHF 535 per share were issued gratuitously and an expense of CHF 2 million was recorded. In the prior year, 10,270 shares with a market price of CHF 442 were issued gratuitously for exceptional services rendered and an expense of CHF 4 million was recorded.

12 Other operating expense

In CHF million	2014	2013
Rental expense	346	334
Maintenance expense	322	312
Loss on disposal of property, plant and equipment	11	13
Energy costs	83	102
Information technology cost	239	221
Advertising and selling expenses	221	215
Dealer commissions	349	364
Consultancy expenses and freelance employees	199	201
Allowances for receivables	87	83
Administration expense	145	161
Miscellaneous operating expenses	538	470
Total other operating expense	2,540	2,476

13 Capitalised costs of self-constructed assets and other income

In CHF million	2014	2013
Capitalised self-constructed assets	267	256
Gain on sale of property, plant and equipment. See Note 22.	60	16
Income from employment company Worklink (personnel hire)	6	4
Miscellaneous income	37	112
Total capitalised self-constructed assets and other income	370	388

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

14 Financial income and financial expense

In CHF million	2014	2013
Interest income on financial assets	10	8
Change in fair value of interest rate swaps	–	30
Capitalised borrowing costs	12	15
Gain on successive company acquisitions. See Note 5.	82	–
Adjustment to dismantlement and restoration costs. See Note 28.	–	21
Foreign exchange gains	1	5
Other financial income	7	2
Total financial income	112	81
Interest expense on financial liabilities	(228)	(259)
Change in fair value of interest rate swaps	(46)	–
Interest expense on defined benefit obligations. See Note 10.	(24)	(37)
Present-value adjustments on provisions	(16)	(15)
Expense of early repayment of financial liabilities. See Note 26.	(41)	–
Other financial expense	(17)	(29)
Total financial expense	(372)	(340)
Financial income and financial expense, net	(260)	(259)

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

In CHF million	2014	2013
Interest income on cash and cash equivalents	1	1
Interest income on other financial assets	9	7
Total interest income on financial assets	10	8
Interest expense on bank loans, debenture bonds and private placements	(189)	(214)
Interest expense on finance lease liabilities	(36)	(41)
Interest expense on other financial liabilities	(3)	(4)
Total interest expense on financial liabilities	(228)	(259)
Total financial income and financial expense, net	(218)	(251)

15 Income taxes

Income tax expense

In CHF million	2014	2013
Current income tax expense	373	322
Adjustments recognised for current tax of prior periods	5	(20)
Deferred tax expense	4	32
Total income tax expense recognised in income statement	382	334
Thereof Switzerland	412	354
Thereof foreign countries	(30)	(20)

Additionally the other comprehensive income includes positive income taxes of CHF 254 million (prior year: expense of CHF 184 million) which may be analysed as follows:

In CHF million	2014	2013
Foreign currency translation adjustments of foreign subsidiaries	15	(14)
Actuarial gains and losses from defined benefit pension plans	242	(169)
Change in fair value of cash flow hedges	(2)	–
Gains and losses from cash flow hedges transferred to income statement	(1)	(1)
Total income tax expense recognised in other comprehensive income	254	(184)

Analysis of income taxes

The applicable income tax rate which serves to prepare the following analysis of income tax expense is the weighted average income tax rate calculated on the basis of the Group operating subsidiaries in Switzerland. The applicable income tax rate is 20.9% (prior year: 20.6%). The increase of the applicable income tax rate is the result of higher tax rates in various Swiss cantons.

In CHF million	2014	2013
Income before income taxes in Switzerland	2,206	2,149
Income before income taxes foreign countries	(118)	(120)
Income before income taxes	2,088	2,029
Applicable income tax rate	20.9%	20.6%
Income tax expense at the applicable income tax rate	436	418
Reconciliation to reported income tax expense		
Effect of share of results of associates	(5)	(6)
Effect of tax rate changes on deferred taxes	(21)	(2)
Effect of use of different income tax rates in Switzerland	(2)	(7)
Effect of use of different income tax rates in foreign countries	(10)	(12)
Effect of non-recognition of tax loss carry-forwards	9	9
Effect of recognition and offset of tax loss carry-forwards not recognised in prior years	(2)	(47)
Effect of deferred tax assets written off	–	4
Effect of impairment losses on goodwill	–	5
Effect of exclusively tax-deductible expenses and income	(16)	(20)
Effect of non-taxable income and non-deductible expenses	(12)	8
Effect of income tax of prior periods	5	(16)
Total income tax expense	382	334
Effective income tax rate	18.3%	16.5%

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

Deferred tax assets and liabilities

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

In CHF million	2014	2013
Current income tax liabilities at 1 January, net	162	134
Recognised in income statement	378	302
Recognised in other comprehensive income	1	3
Income taxes paid in Switzerland	(377)	(307)
Income taxes paid in foreign countries	(9)	29
Additions from acquisition of subsidiaries	–	1
Current income tax liabilities at 31 December, net	155	162
Thereof current income tax assets	(17)	(22)
Thereof current income tax liabilities	172	184
Thereof Switzerland	159	168
Thereof foreign countries	(4)	(6)

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

In CHF million	31.12.2014			31.12.2013		
	Assets	Liabilities	Net amount	Assets	Liabilities	Net amount
Property, plant and equipment	47	(467)	(420)	41	(342)	(301)
Intangible assets	–	(341)	(341)	–	(364)	(364)
Provisions	79	(4)	75	24	(14)	10
Defined benefit obligations	509	–	509	268	–	268
Tax loss carry-forwards	216	–	216	203	–	203
Other	97	(76)	21	83	(76)	7
Total tax assets (tax liabilities)	948	(888)	60	619	(796)	(177)
Thereof deferred tax assets			417			279
Thereof deferred tax liabilities			(357)			(456)
Thereof Switzerland			(91)			(328)
Thereof foreign countries			151			151

In 2014, deferred tax assets and liabilities have changed as follows:

In CHF million	Balance at 31.12.2013	Recognised in income statement	Recognised in other comprehensive income	Change in scope of consolidation	Foreign currency translation adjustments	Balance at 31.12.2014
Property, plant and equipment	(301)	(119)	–	–	–	(420)
Intangible assets	(364)	35	–	(12)	–	(341)
Provisions	10	65	–	–	–	75
Defined benefit obligations	268	–	242	(1)	–	509
Tax loss carry-forwards	203	16	–	–	(3)	216
Other	7	(1)	13	2	–	21
Total	(177)	(4)	255	(11)	(3)	60

In 2013, deferred tax assets and liabilities have changed as follows:

In CHF million	Balance at 31.12.2012	Recognised in income statement	Recognised in other comprehensive income	Change in scope of consolidation	Foreign currency translation adjustments	Balance at 31.12.2013
Property, plant and equipment	(243)	(57)	–	(4)	3	(301)
Intangible assets	(380)	32	–	(13)	(3)	(364)
Provisions	41	(31)	–	–	–	10
Defined benefit obligations	419	16	(169)	2	–	268
Tax loss carry-forwards	165	36	–	–	2	203
Other	47	(28)	(12)	–	–	7
Total	49	(32)	(181)	(15)	2	(177)

Deferred tax assets relating to unused tax loss carry-forwards and to deductible temporary differences are recognised if it is probable that they can be offset against future taxable profits or existing temporary differences. At as 31 December 2014, various subsidiaries recognised deferred tax assets on tax loss carry-forwards and other temporary differences totalling CHF 950 million (prior year: CHF 619 million) since it was foreseeable that tax loss carry-forwards could be offset against future taxable profits. Of this amount, tax loss carry-forwards and other temporary differences of CHF 237 million (prior year: CHF 247 million) were recognised by subsidiaries reporting a loss in 2013 or 2014. On the basis of the approved business plans of these subsidiaries, Swisscom considers it probable that the tax loss carry-forwards and temporary differences can be offset against future taxable profits.

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

In CHF million	31.12.2014	31.12.2013
Expiring within 1 year	1	1
Expiring within 1 to 2 years	2	1
Expiring within 2 to 3 years	2	–
Expiring within 3 to 4 years	8	–
Expiring within 4 to 5 years	14	8
Expiring within 5 to 6 years	29	8
Expiring within 6 to 7 years	23	23
No expiration	115	134
Total unrecognised tax loss carry-forwards	194	175
Thereof Switzerland	62	23
Thereof foreign countries	132	152

No deferred tax liabilities (prior year: CHF 6 million) were recognised on the undistributed earnings of subsidiaries as of 31 December 2014. Temporary differences of subsidiaries and associates, on which no deferred income taxes were recognised as of 31 December 2014, amounted to CHF 779 million (prior year: CHF 1,264 million).

16 Earnings per share

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

In CHF million, except where indicated	2014	2013
Share of net income attributable to equity holders of Swisscom Ltd	1,694	1,685
Weighted average number of shares outstanding (number)	51,801,267	51,800,666
Basic and diluted earnings per share (in CHF)	32.70	32.53

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

17 Cash and cash equivalents

In CHF million	31.12.2014	31.12.2013
Cash and sight balances	302	723
Total cash and cash equivalents	302	723

As in the prior year, Swisscom had no term deposits outstanding in 2014.

18 Trade and other receivables

In CHF million	31.12.2014	31.12.2013
Billed revenue	2,413	2,321
Accrued revenue	236	206
Allowances	(195)	(164)
Total trade receivables, net	2,454	2,363
Accruals from international roaming traffic	60	91
Receivables from debt-collection activities	26	26
Receivables from construction contracts	33	30
Other receivables	28	22
Allowances	(15)	(16)
Total other receivables, net	132	153
Total trade and other payables	2,586	2,516

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

The geographical distribution of trade receivables is as follows:

In CHF million	31.12.2014	31.12.2013
Switzerland	1,759	1,701
Italy	854	809
Other countries	36	17
Total billed and accrued revenue	2,649	2,527
Switzerland	(51)	(45)
Italy	(140)	(118)
Other countries	(4)	(1)
Total allowance for receivables	(195)	(164)
Total trade receivables, net	2,454	2,363

Analysis of maturity and allowances

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

In CHF million	31.12.2014		31.12.2013	
	Gross amount	Allowance	Gross amount	Allowance
Not overdue	1,858	(8)	1,733	(8)
Past due up to 3 months	421	(6)	400	(6)
Past due 4 to 6 months	78	(6)	80	(4)
Past due 7 to 12 months	93	(31)	92	(15)
Past due over 1 year	199	(144)	222	(131)
Total	2,649	(195)	2,527	(164)

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

In CHF million	Trade receivables	Other receivables
Balance at 31 December 2012	209	15
Additions to allowances	88	1
Write-off of irrecoverable receivables subject to allowance	(131)	–
Release of unused allowances	(5)	–
Foreign currency translation adjustments	3	–
Balance at 31 December 2013	164	16
Additions to allowances	93	1
Write-off of irrecoverable receivables subject to allowance	(60)	–
Release of unused allowances	(6)	(2)
Additions from acquisition of subsidiaries	7	–
Foreign currency translation adjustments	(3)	–
Balance at 31 December 2014	195	15

Construction contracts

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

In CHF million	2014	2013
Contract costs of current projects	104	108
Recognised gains less losses	6	3
Contract costs including share of gains and losses, net	110	111
Less progress billings	(79)	(84)
Total net receivables from construction contracts	31	27
Thereof receivables from construction contracts	33	29
Thereof liabilities from construction contracts	(2)	(2)
Advance payments received	72	61

In 2014, construction contracts generated net revenues of CHF 293 million (prior year: CHF 295 million).

19 Other financial assets

In CHF million	Loans and receivables	Available-for-sale	Derivative financial instruments	Total
Balance at 31 December 2012	173	41	23	237
Additions	161	4	–	165
Disposals	(25)	(3)	(20)	(48)
Change in fair value recognised in income statement	–	–	3	3
Change in fair value recognised in equity	–	1	–	1
Foreign currency translation adjustments recognised in income statement	(4)	(1)	–	(5)
Balance at 31 December 2013	305	42	6	353
Additions	24	8	–	32
Disposals	(159)	(15)	–	(174)
Additions from acquisition of subsidiaries	24	18	–	42
Change in fair value recognised in income statement	–	–	5	5
Foreign currency translation adjustments recognised in income statement	15	–	–	15
Balance at 31 December 2014	209	53	11	273
Thereof other current financial assets	20	9	11	40
Thereof other non-current financial assets	189	44	–	233

Loans and receivables

As of 31 December 2014, term deposits totalled CHF 11 million (prior year: CHF 156 million). As of 31 December 2014, financial assets in the amount of CHF 149 million were not freely available. These assets serve as security for bank loans.

Available-for-sale financial assets

Available-for-sale financial assets primarily include financial investments in equity instruments. As a general rule, shares not quoted on stock exchanges are recorded at cost since their fair value cannot be reliably determined. As of 31 December 2014, the carrying amount of investments in shares recorded at cost totalled CHF 30 million (prior year: CHF 21 million).

Derivative financial instruments

As at 31 December 2014, derivative financial instruments with a positive market value of CHF 11 million were recognised (prior year: CHF 6 million). Derivative financial instruments include foreign-currency swaps and interest-rate swaps. See Note 33.

20 Inventories

In CHF million	31.12.2014	31.12.2013
Raw material and supplies	6	6
Customer premises equipment and merchandise	141	147
Advance payments made	5	–
Finished and semi-finished goods	5	6
Total inventories, gross	157	159
Allowances on inventories	(8)	(7)
Total inventories, net	149	152

In 2014, inventory-related costs amounting to CHF 1,145 million (prior year: CHF 1,046 million) were recorded under the cost of goods and services purchased.

21 Other non-financial assets

In CHF million	31.12.2014	31.12.2013
Prepaid expenses	164	148
Value-added taxes receivable	7	14
Advance payments made	55	29
Other assets	26	19
Total other current non-financial assets	252	210
Prepaid expenses	10	12
Other assets	47	45
Total other non-current non-financial assets	57	57

22 Non-current assets held for sale

On 31 December 2014, the carrying value of non-current assets held for sale amounted to CHF 80 million (prior year: CHF 13 million). Included therein are real-estate properties and investments in associates of the business segment Other Operating Segments with a carrying value of CHF 70 million and CHF 10 million, respectively. As of 31 December 2013, the long-term assets held for resale comprised exclusively real-estate properties of the segment Other Operating Segments. As part of the takeover of PubliGroupe, one real-estate property and investments in associates were acquired which are intended to be disposed of in the next twelve months. The associates relate to various shareholdings in media companies in Switzerland. In the provisional takeover balance sheet of PubliGroupe, the fair values of the real-estate property and the investments in associates amount to CHF 137 million. By the end of 2014, investments in associates of CHF 57 million were sold. See Note 5 for further information. In 2014, real-estate properties and investments in associates were sold for a purchase price of CHF 205 million (prior year: CHF 5 million) resulting in a gain on disposal of CHF 33 million (prior year: CHF 4 million) which was recognised as other income.

23 Property, plant and equipment

In CHF million	Land, buildings and leasehold improvements	Technical installations	Other assets	Advances made and assets under construction	Total
Acquisition costs					
Balance at 31 December 2012	2,872	24,572	3,320	649	31,413
Additions	11	1,318	219	379	1,927
Disposals	(26)	(816)	(288)	–	(1,130)
Additions from acquisition of subsidiaries	2	–	30	–	32
Adjustment to dismantlement and restoration costs	–	(32)	13	–	(19)
Reclassifications to non-current assets held for sale	(39)	–	–	–	(39)
Other reclassifications	12	135	109	(257)	(1)
Foreign currency translation adjustments	–	58	–	–	58
Balance at 31 December 2013	2,832	25,235	3,403	771	32,241
Additions	9	1,453	237	290	1,989
Disposals	(68)	(656)	(225)	–	(949)
Additions from acquisition of subsidiaries	2	–	2	–	4
Adjustment to dismantlement and restoration costs	–	123	34	–	157
Reclassifications to non-current assets held for sale	(102)	–	–	–	(102)
Other reclassifications	114	175	170	(471)	(12)
Foreign currency translation adjustments	(2)	(82)	–	–	(84)
Balance at 31 December 2014	2,785	26,248	3,621	590	33,244
Accumulated depreciation/amortisation and impairment losses					
Balance at 31 December 2012	2,046	18,521	2,297	–	22,864
Depreciation and amortisation	29	1,047	263	–	1,339
Disposals	(21)	(815)	(281)	–	(1,117)
Reclassifications to non-current assets held for sale	(26)	–	–	–	(26)
Foreign currency translation adjustments	–	25	–	–	25
Balance at 31 December 2013	2,028	18,778	2,279	–	23,085
Depreciation and amortisation	31	1,072	287	–	1,390
Disposals	(41)	(656)	(212)	–	(909)
Other reclassifications	1	(1)	(2)	–	(2)
Foreign currency translation adjustments	–	(40)	–	–	(40)
Balance at 31 December 2014	2,019	19,153	2,352	–	23,524
Net carrying amount					
Net carrying amount at 31 December 2014	766	7,095	1,269	590	9,720
Net carrying amount at 31 December 2013	804	6,457	1,124	771	9,156
Net carrying amount at 31 December 2012	826	6,051	1,023	649	8,549

In 2014, borrowing costs amounting to CHF 12 million were capitalised (prior year: CHF 15 million). The average interest rate used for the capitalisation of borrowing costs was 2.2% (prior year: 2.5%). As of 31 December 2014, the carrying amount of property, plant and equipment acquired under finance leases amounted to CHF 438 million (prior year: CHF 524 million). See Note 28 for further information on the adjustments to the costs of dismantling and restoration.

24 Goodwill and other intangible assets

In CHF million	Goodwill	Internally generated software	Purchased software	Customer relationships	Brands	Other intangible assets	Total
Acquisition costs							
Balance at 31 December 2012	6,210	1,218	1,693	1,089	266	978	11,454
Additions	–	127	196	–	–	220	543
Disposals	–	(349)	(143)	(21)	–	(55)	(568)
Reclassifications	–	137	52	–	–	(188)	1
Additions from acquisition of subsidiaries	159	2	–	51	7	6	225
Foreign-currency translation adjustments	38	2	15	18	5	1	79
Balance at 31 December 2013	6,407	1,137	1,813	1,137	278	962	11,734
Additions	–	156	195	–	–	156	507
Disposals	(9)	(80)	(68)	(3)	–	(30)	(190)
Reclassifications	–	97	58	–	–	(143)	12
Additions from acquisition of subsidiaries	192	1	4	21	–	44	262
Foreign-currency translation adjustments	(46)	(4)	(22)	(22)	(6)	(3)	(103)
Balance at 31 December 2014	6,544	1,307	1,980	1,133	272	986	12,222
Accumulated amortisation and impairment losses							
Balance at 31 December 2012	1,548	838	1,243	697	148	197	4,671
Amortisation	–	202	230	130	28	88	678
Impairment losses	23	1	1	–	–	2	27
Disposals	–	(347)	(142)	(21)	–	(49)	(559)
Foreign-currency translation adjustments	27	2	11	11	3	1	55
Balance at 31 December 2013	1,598	696	1,343	817	179	239	4,872
Amortisation	–	223	239	109	27	102	700
Impairment losses	–	–	1	–	–	–	1
Disposals	(9)	(79)	(68)	(3)	–	(29)	(188)
Reclassifications	–	–	–	–	–	2	2
Foreign-currency translation adjustments	(32)	(2)	(16)	(18)	(3)	(2)	(73)
Balance at 31 December 2014	1,557	838	1,499	905	203	312	5,314
Net carrying amount							
Net carrying amount at 31 December 2014	4,987	469	481	228	69	674	6,908
Net carrying amount at 31 December 2013	4,809	441	470	320	99	723	6,862
Net carrying amount at 31 December 2012	4,662	380	450	392	118	781	6,783

As of 31 December 2014, other intangible assets included advance payments made and uncompleted development projects of CHF 128 million (prior year: CHF 190 million). Apart from goodwill, there are no intangible assets with indefinite useful lives. As of 31 December 2014, accumulated impairment losses on goodwill of CHF 1,557 million were recorded. The increase in goodwill of CHF 192 million in 2014 results from the takeover of PubliGroupe. See Note 5 for further information. Goodwill arising from investments in associates is classified as part of the investments in associates.

Goodwill impairment testing

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

In CHF million	31.12.2014	31.12.2013
Residential Customers Swisscom Switzerland	2,787	2,630
Small and Medium-Sized Enterprises Swisscom Switzerland	656	656
Corporate Business Swisscom Switzerland	734	734
Fastweb	592	604
Other cash-generating units	218	185
Total goodwill	4,987	4,809

Goodwill was tested for impairment in the fourth quarter of 2014 after the business planning had been completed. The recoverable amount of a cash-generating unit is determined based on its value in use, using the discounted cash flow (DCF) method. The projected free cash flows are estimated on the basis of the business plans approved by management in general covering a three-year period. A planning horizon of five years is used for the impairment test of Fastweb. For the free cash flows extending beyond the detailed planning period, a terminal value was computed by capitalising the normalised cash flows using a constant growth rate. The growth rates applied are those customarily assumed for the country or market. The key assumptions underlying the calculations are as follows:

Cash-generating unit	2014			2013		
	WACC pre-tax	WACC post-tax	Long-term growth rate	WACC pre-tax	WACC post-tax	Long-term growth rate
Residential Customers Swisscom Switzerland	6.51%	5.13%	0%	6.43%	5.09%	0%
Small and Medium-Sized Enterprises Swisscom Switzerland	6.54%	5.13%	0%	6.45%	5.09%	0%
Corporate Business Swisscom Switzerland	6.56%	5.13%	0%	6.46%	5.09%	0%
Fastweb	10.60%	7.70%	1.0%	10.90%	8.00%	1.0%
Other cash-generating units	6.6–8.2%	5.1–6.4%	0–1.0%	6.4–11.9%	5.1–9.7%	0–1.5%

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

Residential Customers, Small- and Medium-Sized Enterprises and Corporate Business – Swisscom Switzerland

The impairment test of goodwill is conducted on these cash-generating units. The recoverable amount was determined based on the value in use using the discounted cash flow (DCF) method. The forecast of future cash flows is based upon the three-year business plan approved by management. For the free cash flows extending beyond the detailed planning period, a long-term growth of zero was assumed, as in the prior year. The change from the prior year is a result of structural changes in the telecommunications sector leading to improved growth prospects. As of the measurement date, the recoverable amount at all cash-generating units, based on their value in use, was higher than the carrying amount relevant for the impairment test. Swisscom is of the opinion that none of the anticipated changes in key assumptions which can be reasonably expected would cause the carrying amount of the cash-generating units to exceed the recoverable amount.

Fastweb

The impairment test of Fastweb was undertaken in the fourth quarter of 2014. The recoverable amount was determined on the basis of the value in use using the discounted cash flow method. The basis for projecting future cash flows is the business plan prepared by management for the five years 2015 to 2019. This plan takes into consideration historical empirical values and management's expectations regarding the future development of the relevant market. The impairment test took into account the following assumptions:

Assumptions	Description
Average annual growth in revenue during the detailed planning period	In the business plan, an average annual growth in revenue of 3.3% is expected for the detailed planning period up to 2019. In the prior year, an average annual growth in revenue of 4.1% had been expected for the detailed planning period 2014–2018.
Projected EBITDA margin (EBITDA as % of net revenue)	The projected EBITDA margin in 2019 is 41%. In the previous year, for the year 2018 also an EBITDA margin of 41%, was assumed.
Projected capital expenditure rate (capex as % of net revenue)	In the period up to 2019, it is anticipated that capital expenditure in relation to net revenue will be normalised to 18%. Last year a rate of investment of 17% was anticipated for the year 2018.
Post-tax discount rate	The post-tax discount rate is 7.70% (prior year: 8.00%) and the related pre-tax discount rate is 10.60% (prior year: 10.90%). The discount rate is calculated using the Capital Asset Pricing Model (CAPM). This latter comprises the weighted cost of own equity and of external borrowing costs. The risk free interest rate on which the discount rate is based on, is derived from ten-year bonds issued by the German government with a zero interest rate, but at least an interest rate of 3%. A premium for the country risk of Italy is then added.
Long-term growth rate	The normalised free cash flows in the terminal value were capitalised with a constant growth rate of 1.0% as in the prior year. The growth rate employed corresponds to that customarily used for the country and market based upon experience values as well as future projections and which are corroborated by external information sources. The growth rate employed does not exceed the long-term average growth rate customarily used for the country and market.

As of the date of the impairment test, no impairment of goodwill resulted. The recoverable amount exceeded the carrying amount by EUR 1,164 million (CHF 1,405 million). The following changes in material assumptions lead to a situation where the value in use equals the carrying amount:

	Assumptions	Sensitivity
Average annual growth rate through 2019 with the same EBITDA margin as in the business plan	3.3%	-0.4%
Projected EBITDA margin 2019	41%	34%
Capital expenditure rate 2019	18%	25%
Post-tax discount rate	7.70%	10.20%
Long-term growth rate	1.0%	-2.4%

25 Investments in associates

In CHF million	2014	2013
Balance at 1 January	153	268
Additions	3	1
Disposals	(108)	(105)
Additions from acquisition of subsidiaries. See Note 5.	48	–
Gain on successive company acquisitions	82	–
Dividends	(30)	(43)
Share of net results	26	30
Foreign currency translation adjustments	(3)	2
Balance at 31 December	171	153

The participations which are reflected in the consolidated financial statements of Swisscom using the equity method of accounting are set out in Note 41. Dividends income of CHF 30 million (prior year: CHF 43 million) is attributable mainly to the dividends paid by LTV Yellow Pages and Belgacom International Carrier Services.

In September 2014, Swisscom acquired PubliGroupe SA in a public takeover which, at the time of the transaction, owned 51% of the share capital of LTV Yellow Pages Ltd. The remaining 49% of LTV Yellow Pages Ltd was held by Swisscom. As a result of the takeover, Swisscom assumed full control over LTV Yellow Pages Ltd which previously was reflected in Swisscom's consolidated financial statements as an associate. At the time of the takeover, the carrying value of the 49% shareholding in LTV Yellow Pages Ltd in Swisscom's consolidated financial statements amounted to CHF 26 million. The difference of CHF 82 million between the carrying value and the fair value of the 49% shareholding was recognised as other income in the fourth quarter of 2014. The fair value of the 49% shareholding of CHF 108 million was accounted for as a component of the acquisition costs of the PubliGroupe takeover. See Note 5 for further information. In addition, a 48% shareholding in Zanox Ltd (Zanox) was acquired as part of the takeover of PubliGroupe which is accounted for in accordance with the equity method in the consolidated financial statements of Swisscom. Zanox is the European market leader in performance advertising.

In 2013, Swisscom increased its shareholding in Cinetrade from 49% to 75%. As of the acquisition date, there was a difference between the carrying value of Cinetrade and its fair value of CHF 2 million, which was recognised as other financial income. See Notes 5 and 14.

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

In CHF million	2014	2013
Income statement		
Net revenue	2,347	2,328
Operating expense	(2,223)	(2,174)
Operating income	124	154
Net income	122	119
Balance sheet at 31 December		
Current assets	1,131	972
Non-current assets	935	988
Current liabilities	(1,087)	(876)
Non-current liabilities	(316)	(352)
Equity	663	732

26 Financial liabilities

In CHF million	31.12.2014	31.12.2013
Bank loans	960	8
Debenture bonds	547	1,324
Private placements	–	206
Finance lease liabilities	14	13
Other interest-bearing financial liabilities	2	2
Derivative financial instruments. See Note 33.	49	76
Other non-interest-bearing financial liabilities	8	27
Total current financial liabilities	1,580	1,656
Bank loans	921	1,345
Debenture bonds	4,557	4,184
Private placements	925	920
Finance lease liabilities	547	642
Other interest-bearing financial liabilities	3	2
Derivative financial instruments. See Note 33.	49	51
Other non-interest-bearing financial liabilities	22	23
Total non-current financial liabilities	7,024	7,167
Total financial liabilities	8,604	8,823

Bank loans and credit limit

In CHF million	Due within	Par value in CHF	Carrying amount	
			31.12.2014	31.12.2013
Bank loans in CHF variable interest-bearing	2015	530	530	–
Bank loans in CHF variable interest-bearing	2016	300	300	300
Bank loans in CHF variable interest-bearing	2017	130	130	130
Bank loans in EUR variable interest-bearing	2015	421	421	430
Bank loans in EUR variable interest-bearing	2020	361	361	368
Bank loans in USD fixed interest-bearing	2028	96	139	125
Total			1,881	1,353

During 2014, Swisscom took up short-term bank loans on a weekly basis. As of the balance sheet date, there were, as a result, short-term Swiss-franc denominated bank loans totalling CHF 530 million outstanding (prior year: none). The effective interest rate of these bank loans was 0.17%. In the prior year, Swisscom had taken up bank loans in EUR. The bank loan of EUR 300 million (CHF 368 million) bears variable interest rate and has a seven-year term. The EUR 300 million financing was designated for hedge accounting of net investments in foreign investments. In the prior year, Swisscom repaid maturing bank loans amounting to CHF 150 million. As of 31 December 2014, no transaction costs were recognised in connection with the bank loans, as in the prior year. The effective interest rate of the CHF denominated bank loans is 0.62%. For the bank loans in USD and EUR, the rate is 4.62% and 0.55%, respectively. A portion of the EUR-denominated bank loans totalling EUR 350 million was transformed into variable-rate CHF financing through foreign-currency swaps. The bank loans may become due for immediate repayment if the shareholding of the Swiss Confederation in the capital of Swisscom falls below one third or if another shareholder can exercise control over Swisscom.

Swisscom has a confirmed bank line of credit amounting to CHF 100 million maturing in 2016 and a further confirmed line of credit of CHF 2,000 million from banks maturing in 2019. As of 31 December 2014, these lines of credit had not been drawn down, as in the prior year.

Debenture bonds

In CHF million	Maturity years	Par value in CHF	Nominal interest rate	Carrying amount	
				31.12.2014	31.12.2013
Debenture bond in CHF	2007–2017	600	3.75%	609	610
Debenture bond in CHF	2008–2015	500	4.00%	506	505
Debenture bond in CHF	2009–2014	1,250	3.50%	–	1,282
Debenture bond in CHF	2009–2018	1,425	3.25%	1,430	1,502
Debenture bond in CHF	2010–2022	500	2.63%	498	497
Debenture bond in CHF	2012–2024	500	1.75%	503	503
Debenture bond in EUR	2013–2020	601	2.00%	597	609
Debenture bond in EUR	2014–2021	601	1.88%	597	–
Debenture bond in CHF	2014–2026	200	1.50%	202	–
Debenture bond in CHF	2014–2029	160	1.50%	162	–
Total				5,104	5,508

In 2014, Swisscom took up a debenture bond in an amount of EUR 500 million (CHF 601 million). The coupon rate was 1.875% with a term of 7.5 years. The debenture bond was issued by Lunar Funding V, an independent Irish multi-purpose vehicle. It is secured by a loan note from Lunar Funding V to Swisscom in the same amount. The amount taken up was applied to refinance existing financial loans. In addition, the EUR 500 million financing was designated for hedge accounting of net investments in foreign shareholdings. As in the prior year, Swisscom had issued a debenture bond of EUR 500 million (CHF 614 million) through the intermediary of Lunar Funding V and which was designated for hedge accounting of net investments in foreign shareholdings. During the current financial year, Swisscom took up two Swiss-franc denominated debenture bonds, one in the amount of CHF 200 million with a term of 12 years and a coupon rate of 1.50% and the other of CHF 160 million with a term of 15 years with a coupon rate of 1.50%. During the current financial year, Swisscom repaid upon maturity debenture bonds totalling CHF 1,250 million. In addition, of the debenture bond maturing in 2018, a premature partial redemption took place amounting to CHF 75 million (nominal value). The difference of CHF 8 million between the partial redemption amount of CHF 83 million and the carrying value of the redeemed debenture bond of CHF 75 million was recognised as other financial expense. In the prior year, Swisscom repaid a debenture bond of CHF 550 million upon maturity. The effective interest rate on the Swiss-franc denominated debenture bonds is 2.98% and 2.08% for those denominated in EUR. The investors are entitled to sell the debentures back to Swisscom and/or Lunar Funding V if a shareholder other than the Swiss Confederation gains a majority share in Swisscom and at the same time, the company's rating falls below BBB–/Baa3.

Private placements

In CHF million	Due within	Par value in CHF	Carrying amount	
			31.12.2014	31.12.2013
Private placements in CHF domestic	2016	350	350	350
Private placements in CHF abroad	2017	250	245	243
Private placements in CHF abroad	2018	72	68	68
Private placements in CHF abroad	2019	278	262	260
Private placements in EUR abroad	2014	205	–	205
Total			925	1,126

Swisscom repaid private placements amounting to EUR 167 million (CHF 201 million) in 2014 and, in the prior year, a private placement totalling EUR 108 million. The interest rate risk of private placements maturing in 2016 is hedged with interest-rate swaps and was designated as cash flow hedges for hedge accounting purposes. The duration of the hedges is identical to the duration of the hedged private placements. The total EUR-denominated private placement was transformed

into variable CHF financing using foreign currency swaps for the whole period through to maturity. The swap of fixed interest-bearing EUR financing into variable CHF financing was designated as a fair value hedge. As in the prior year, no transaction costs were recorded as of 31 December 2014 in connection with the private placements. The effective interest rate on the private placements is 1.67%. The CHF private placements of CHF 600 million maturing in 2017 through 2019 may become due for immediate repayment if the shareholding of the Swiss Confederation in the capital of Swisscom falls below 35% or if another shareholder can exercise control over Swisscom. The investors in the remaining private placements are entitled to resell their investments to Swisscom should the Swiss Confederation permanently give up its majority shareholding in Swisscom.

Liabilities arising from finance leases

Swisscom concluded two agreements in 2001 for the sale of real estate. At the same time, Swisscom entered into long-term agreements to lease back part of the real estate sold which, in part, qualify as finance leases. The gain realised on real estate classified as finance leases was deferred. As of 31 December 2014, the deferred gains totalled CHF 167 million (prior year: CHF 183 million). The deferred gains are released to other income over the term of the individual leases. The effective interest rate of the finance lease liabilities was 6.25%.

In the third quarter of 2014, Swisscom repurchased, prior to contractual maturity, real estate used for operating purposes which was accounted for previously as a finance lease. The difference of CHF 33 million between the purchase price of CHF 98 million and the carrying value of the finance-lease liability of CHF 65 million was recognised as finance expense.

The minimum lease payments and financial liabilities relating to these leaseback agreements are set out in the following table:

In CHF million	31.12.2014	31.12.2013
Within 1 year	48	54
Within 1 to 2 years	47	54
Within 2 to 3 years	42	53
Within 3 to 4 years	41	48
Within 4 to 5 years	38	48
After 5 years	1,240	1,564
Total future minimum lease payments	1,456	1,821
Less future financing costs	(895)	(1,166)
Total finance lease liabilities	561	655
Thereof current finance lease liabilities	14	13
Thereof non-current finance lease liabilities	547	642

The future payments of the liabilities arising under finance leases, expressed in terms of their present value, as of 31 December 2013 and 2014 were as follows:

In CHF million	31.12.2014	31.12.2013
Within 1 year	14	13
Within 1 to 2 years	14	14
Within 2 to 3 years	9	13
Within 3 to 4 years	9	9
Within 4 to 5 years	6	8
After 5 years	509	598
Total present value of finance lease liabilities	561	655

In addition, operating lease arrangements exist for miscellaneous real estate with terms of 1 to 25 years. See note 35. In 2014, conditional rental payments of CHF 3 million were recorded as rental expense (prior year: CHF 4 million).

27 Trade and other payables

In CHF million	31.12.2014	31.12.2013
Supplier invoices received	1,102	1,082
Goods and services received not yet invoiced	449	503
Total trade payables	1,551	1,585
Accruals from international roaming traffic	48	33
Liabilities from debt-collection activities	28	23
Liabilities from construction contracts	2	2
Miscellaneous liabilities	247	227
Total other liabilities	325	285
Total trade and other payables	1,876	1,870

28 Provisions

In CHF million	Termination benefits	Dismantlement and restoration costs	Regulatory proceedings	Other	Total
Balance at 31 December 2012	66	512	104	158	840
Additions to provisions	31	57	13	46	147
Present-value adjustments	–	13	2	–	15
Release of unused provisions	(31)	(100)	–	(17)	(148)
Use of provisions	(21)	(1)	(1)	(32)	(55)
Balance at 31 December 2013	45	481	118	155	799
Additions to provisions	8	162	3	44	217
Present-value adjustments	–	13	2	1	16
Release of unused provisions	(9)	(6)	–	(30)	(45)
Use of provisions	(16)	(4)	(17)	(24)	(61)
Additions from acquisition of subsidiaries	6	–	–	1	7
Foreign currency translation adjustments	–	–	–	(1)	(1)
Balance at 31 December 2014	34	646	106	146	932
Thereof current provisions	32	–	16	64	112
Thereof non-current provisions	2	646	90	82	820

Provisions for termination benefits

As of 31 December 2014, provisions of CHF 34 million for personnel reduction costs were recognised, the largest share of which relates to various downsizing programmes resulting from reorganisations within the operating segments of Swisscom Switzerland.

Provisions for dismantling and restoration costs

The provisions for dismantling and restoration costs relate to the dismantling of telecommunication installations and transmitter stations and the restoration to its original state of the land owned by third parties on which they are located. The provisions are computed by reference to estimates of future anticipated dismantling costs and are discounted using an average interest rate of 1.69% (prior year: 2.79%). The effect of using different interest rates amounted to CHF 151 million (prior year: CHF 21 million). In 2013, as a result of new location and expansion strategies, Swisscom reassessed the costs of dismantling and restoration. As a result the provisions for dismantling and restoring telecommunication installations were increased by CHF 57 million. As regards transmitter stations, the reassessment resulted in a decrease of provisions by CHF 79 million. In 2014, adjustments in an aggregate amount of CHF 157 million (prior year: CHF 19 million) were recorded

under property, plant and equipment and of CHF 1 million (prior year: CHF 23 million) was recognised in the income statement. The non-current portion of the provisions is expected to be settled after 2020.

Provisions for regulatory proceedings

In accordance with the revised Telecommunications Act, Swisscom provides interconnection services and other access services to other telecommunication service providers in Switzerland. In previous years, several telecommunication service providers demanded from the Federal Communications Commission (ComCom) a reduction in the prices charged to them by Swisscom. As a result of legal opinions, Swisscom set up provisions in prior years. The provisions recognised in 2013 consolidated financial statements have not changed materially during the current financial year. As of 31 December 2014, the provisions relating to the proceedings for interconnection and other access services of Swisscom (Switzerland) Ltd amounted to CHF 106 million. Settlements made in 2014 amounted to CHF 17 million. Any settlements are dependent upon the date on which legally binding rulings and decisions are issued.

Other provisions

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

29 Contingent liabilities

Proceedings conducted by the Competition Commission

The Competition Commission (ComCo) is currently investigating a number of companies in the Swisscom Group. The investigation into the relationship of ADSL wholesale prices to the ADSL retail prices is described below. If it is proven that Swisscom has infringed the rules of fair competition, ComCo is entitled to impose sanctions pursuant to the Anti-Trust Law. This sanction depends on the length, severity and nature of the violation and may amount to up to 10% of the revenue generated by the company in question in the relevant markets in Switzerland over the last three financial years. On 20 October 2005, ComCo launched an investigation into Swisscom Ltd and Swisscom (Switzerland) Ltd into possible abuse of a dominant market position. The object of the investigation is the question whether Swisscom has set the prices for ADSL pre-services for Internet service providers at such a high level that no scope remains for these providers for an adequate profit margin in relation to the end-customer prices demanded by Swisscom itself (price squeezing). Swisscom contests the allegation of market dominance and refutes the accusation of price squeezing. It is of the opinion that the prices for its ADSL pre-services leave its ADSL competitors enough room for a reasonable profit margin. With its decision of 5 November 2009, ComCo sanctioned Swisscom for abuse of a market-dominant position in the case of ADSL services and levied a fine of CHF 220 million. Swisscom appealed against the ruling at the Federal Administrative Court on 7 December 2009. On the basis of a legal opinion, Swisscom concludes that, from the present-day perspective, it is improbable that a court of final appeal will levy sanctions. It thus has raised no provisions in the consolidated financial statements as of 31 December 2013 and 2014. In the event of a legally binding decision on abuse, claims could be asserted against Swisscom under civil law. Swisscom considers it unlikely that such civil claims can be enforced.

Regulatory proceedings

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

30 Other non-financial liabilities

In CHF million	31.12.2014	31.12.2013
Deferred revenue	407	375
Value-added taxes payable	120	128
Advance payments received	54	126
Other current non-financial liabilities	137	130
Total other current non-financial liabilities	718	759
Deferred gain on sale and leaseback of real estate	167	183
Other non-current non-financial liabilities	208	127
Total other non-current non-financial liabilities	375	310

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

31 Additional information concerning equity

Share capital and treasury shares

As of 31 December 2014, the total number of shares issued remained unchanged from the prior year at 51,801,943 shares. All shares have a par value of CHF 1 and are fully paid up. Each share entitles the holder to one vote. Shares with an aggregate market value of CHF 5 million (prior year: CHF 6 million) were allocated for share-based compensation plans. See Note 11.

The holdings of treasury shares have changed as follows:

	Number	Average price in CHF	In CHF million
Balance at 31 December 2012	446	361	–
Purchases on the market	15,000	435	6
Allocated for share-based compensation	(14,644)	442	(6)
Balance at 31 December 2013	802	435	–
Purchases on the market	8,600	525	5
Allocated for share-based compensation	(9,253)	535	(5)
Balance at 31 December 2014	149	525	–

After deducting 149 treasury shares (prior year: 802 shares), the balance of shares outstanding as at 31 December 2014 totalled 51,801,794 (prior year: 51,801,141 shares).

Other reserves

In CHF million	Hedging reserve	Fair value reserve	Foreign currency translation adjustments	Total other reserves
Balance at 31 December 2012	(31)	6	(1,608)	(1,633)
Foreign currency translation adjustments of foreign subsidiaries	–	–	63	63
Change in fair value of available-for-sale financial assets	–	1	–	1
Change in fair value of cash flow hedges	7	–	–	7
Fair value losses of cash flow hedges transferred to income statement	6	–	–	6
Income tax expense	(1)	–	(14)	(15)
Balance at 31 December 2013	(19)	7	(1,559)	(1,571)
Foreign currency translation adjustments of foreign subsidiaries	–	–	(46)	(46)
Change in fair value of cash flow hedges	10	–	–	10
Fair value losses of cash flow hedges transferred to income statement	5	–	–	5
Income tax expense	(3)	–	15	12
Balance at 31 December 2014	(7)	7	(1,590)	(1,590)

The hedging reserves comprise the changes in the fair value of hedging instruments which were designated as cash flow hedges. Changes in the fair value of available-for-sale financial assets are recognised in the fair value reserves. Reserves arising from foreign currency translation adjustments comprise the differences from the foreign currency translation of the financial statements of subsidiaries and associates from the functional currency into Swiss francs. On 31 December 2014, cumulative foreign currency translation losses before taxes at Fastweb amounted to CHF 1,960 million (prior year: CHF 1,917 million).

Other comprehensive income

Other comprehensive income in 2014 may be analysed as follows:

2014, in CHF million	Retained earnings	Hedging reserve	Fair value reserve	Foreign currency translation adjustments	Equity holders of Swisscom	Non-controlling interests	Total other comprehensive income
Actuarial gains and losses from defined benefit pension plans	(1,160)	–	–	–	(1,160)	(1)	(1,161)
Income tax expense	242	–	–	–	242	–	242
Items that will not be reclassified to income statement, net of tax	(918)	–	–	–	(918)	(1)	(919)
Foreign currency translation adjustments of foreign subsidiaries	–	–	–	(46)	(46)	–	(46)
Change in fair value of cash flow hedges	–	10	–	–	10	–	10
Fair value losses of cash flow hedges transferred to income statement	–	5	–	–	5	–	5
Income tax expense	–	(3)	–	15	12	–	12
Items that are or may be reclassified subsequently to income statement, net of tax	–	12	–	(31)	(19)	–	(19)
Total other comprehensive income	(918)	12	–	(31)	(937)	(1)	(938)

Other comprehensive income in 2013 may be analysed as follows:

2013, in CHF million	Retained earnings	Hedging reserve	Fair value reserve	Foreign currency translation adjustments	Equity holders of Swisscom	Non-controlling interests	Total other comprehensive income
Actuarial gains and losses from defined benefit pension plans	845	–	–	–	845	2	847
Income tax expense	(169)	–	–	–	(169)	–	(169)
Items that will not be reclassified to income statement, net of tax	676	–	–	–	676	2	678
Foreign currency translation adjustments of foreign subsidiaries	–	–	–	63	63	–	63
Gains and losses from available-for-sale financial assets transferred to income statement	–	–	1	–	1	–	1
Change in fair value of cash flow hedges	–	7	–	–	7	–	7
Fair value losses of cash flow hedges transferred to income statement	–	6	–	–	6	–	6
Income tax expense	–	(1)	–	(14)	(15)	–	(15)
Items that are or may be reclassified subsequently to income statement, net of tax	–	12	1	49	62	–	62
Total other comprehensive income	676	12	1	49	738	2	740

Share of equity attributable to non-controlling interests

In 2014, transactions with non-controlling shares worth CHF 157 million were recognised. As part of the takeover of PubliGroupe, the outstanding 49% of the non-controlling shares in Swisscom Directories Ltd and local.ch Ltd were acquired for CHF 162 million. The difference between the purchase price of CHF 162 million and the book value of the minority interest of CHF 26 million was recognised as an equity transaction with no effect on income. For further information see Note 5.

32 Dividends

Distributable reserves are determined on the basis of equity as reported in the statutory financial statements of the parent company, Swisscom Ltd, and not on the equity as reported in the consolidated financial statements. At 31 December 2014, Swisscom Ltd's distributable reserves amounted to CHF 5,513 million. The dividend is proposed by the Board of Directors and must be approved by the Annual General Meeting of Shareholders. The dividend proposed for the 2014 financial year is not recorded as a liability in these consolidated financial statements. Treasury shares are not entitled to a dividend.

Swisscom paid the following dividends in 2013 and 2014:

In CHF million, except where indicated	2014	2013
Number of registered shares eligible for dividend (in millions of shares)	51.802	51.801
Ordinary dividend per share (in CHF)	22.00	22.00
Dividends paid	1,140	1,140

The dividend payments for the 2012 and 2013 financial years were funded entirely from retained earnings. The Board of Directors proposes to the Annual Shareholders' Meeting of Swisscom Ltd to be held on 8 April 2015 the payment of an ordinary dividend of CHF 22 per share in respect of the 2014 financial year. This equates to a total dividend distribution of CHF 1,140 million. The dividend payment is foreseen on 15 April 2015.

33 Financial risk management and supplementary disclosures regarding financial instruments

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

Market price risks

Foreign exchange risks

Swisscom is exposed to foreign exchange risks; these can impact the Group's financial results and consolidated equity. Foreign exchange risks which have an impact on cash flows (transaction risks) are partially hedged by financial instruments and designated for hedge accounting. In addition, foreign exchange risks with an impact on equity (translation risks) are partially hedged through financial instruments and designated for hedge accounting. The aim of Swisscom's foreign exchange risk management policy is to limit the volatility of planned cash flows. Forward currency contracts, currency options and currency swaps may be employed to hedge transaction risks. These hedging measures concern principally the USD and EUR. EUR-denominated financing is employed in order to hedge the translation risk of positions in EUR. As of the balance sheet date, Swisscom contracted financial liabilities totalling EUR 1,300 million (CHF 1,563 million) which were designated for hedge accounting for net investments in foreign shareholdings.

The currency risks and hedging contracts for foreign currencies as of 31 December 2014 are to be analysed as follows:

In CHF million	EUR	USD	Other
At 31 December 2014			
Cash and cash equivalents	35	4	2
Trade and other receivables	4	–	7
Other financial assets	21	173	–
Financial liabilities	(2,019)	(144)	–
Trade and other payables	(67)	(74)	(15)
Net exposure at carrying amounts	(2,026)	(41)	(6)
Net forecasted cash flows exposure in the next 12 months	(362)	(455)	–
Net exposure before hedges	(2,388)	(496)	(6)
Forward currency contracts	336	–	–
Foreign currency swaps	–	446	–
Currency swaps	421	–	–
Hedges	757	446	–
Net exposure	(1,631)	(50)	(6)

The currency risks and hedging contracts for foreign currencies as of 31 December 2013 are to be analysed as follows:

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

Foreign-currency sensitivity analysis

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

In CHF million	31.12.2014	31.12.2013
Income impact on balance sheet items		
EUR volatility of 4.29% (previous year: 4.93%)	87	84
USD volatility of 9.72% (previous year: 9.58%)	4	3
Hedges for balance sheet items		
EUR volatility of 4.29% (previous year: 4.93%)	(18)	(31)
USD volatility of 9.72% (previous year: 9.58%)	–	–
Planned cash flows		
EUR volatility of 4.29% (previous year: 4.93%)	16	18
USD volatility of 9.72% (previous year: 9.58%)	44	33
Hedges for planned cash flows		
EUR volatility of 4.29% (previous year: 4.93%)	(14)	(13)
USD volatility of 9.72% (previous year: 9.58%)	(43)	(20)

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

Interest rate risks

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

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

In CHF million	31.12.2014	31.12.2013
Fixed interest-bearing financial liabilities	5,997	6,498
Variable interest-bearing financial liabilities	2,444	2,094
Total interest-bearing financial liabilities	8,441	8,592
Fixed interest-bearing financial assets	(115)	(231)
Variable interest-bearing financial assets	(348)	(753)
Total interest-bearing financial assets	(463)	(984)
Total interest-bearing financial assets and liabilities, net	7,978	7,608
Variable interest-bearing	2,096	1,341
Fixed through interest rate swaps	(350)	(350)
Variable through interest rate swaps	–	42
Variable interest-bearing, net	1,746	1,033
Fixed interest-bearing	5,882	6,267
Fixed through interest rate swaps	350	350
Variable through interest rate swaps	–	(42)
Fixed interest-bearing, net	6,232	6,575
Total interest-bearing financial assets and liabilities, net	7,978	7,608

Interest-rate sensitivity analysis

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

In CHF million	Income statement		Equity	
	Increase 100 base points	Decrease 100 base points	Increase 100 base points	Decrease 100 base points
At 31 December 2014				
Variable financing	(21)	21	–	–
Interest rate swaps	4	(4)	5	(6)
Cash flow sensitivity, net	(17)	17	5	(6)
At 31 December 2013				
Variable financing	(13)	13	–	–
Interest rate swaps	3	(3)	9	(2)
Cash flow sensitivity, net	(10)	10	9	(2)

Credit risks

Credit risks from operating activities

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

Credit risks from financial transactions

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

In CHF million	Note	31.12.2014	31.12.2013
Cash and cash equivalents	17	302	723
Trade and other receivables	18	2,586	2,516
Loans and receivables	19	209	305
Derivative financial instruments	19	11	6
Total carrying amount of financial assets		3,108	3,550

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

In CHF million	31.12.2014	31.12.2013
AAA	13	422
AA+	129	149
AA	15	–
AA–	149	135
A+	1	136
A	123	151
A–	3	3
BBB+	7	–
BBB	–	16
BBB–	10	–
Without rating	72	22
Total	522	1,034

Liquidity risk

Prudent liquidity management includes the holding of adequate reserves of cash and cash equivalents and marketable securities as well as the provision of adequate financing. Swisscom has processes and policies in place that guarantee sufficient liquidity in order to settle current and future obligations. Swisscom has a confirmed line of credit of CHF 100 million maturing in 2016 from banks and a further confirmed line of credit of CHF 2,000 million from banks maturing in 2019. As of 31 December 2014, these lines of credit had not been drawn down, as in the prior year.

The contractual maturities of financial liabilities including estimated interest payments as of 31 December 2014 are as follows:

In CHF million	Carrying amount	Contractual payments	Due within 1 year	Due within 1 to 2 years	Due within 3 to 5 years	Due after 5 years
At 31 December 2014						
Non-derivative financial liabilities						
Bank loans	1,881	1,975	963	383	370	259
Debenture bonds	5,104	5,778	640	120	2,293	2,725
Private placements	925	970	6	356	608	–
Finance lease liabilities	561	1,456	48	47	121	1,240
Other interest-bearing financial liabilities	5	5	2	–	1	2
Other non-interest-bearing financial liabilities	30	30	8	6	–	16
Trade and other payables	1,876	1,876	1,853	7	16	–
Derivative financial liabilities						
Derivative financial instruments	98	157	58	8	11	80
Total	10,480	12,247	3,578	927	3,420	4,322

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

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

Estimation of fair values

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

Fair value hierarchy

The fair value hierarchy encompasses the following three levels:

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

Asset/liability valuation categories and fair value of financial instruments

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

In CHF million	Carrying amount				Fair Value		
	Loans and receivables	Available-for-sale	At fair value through profit or loss	Financial liabilities	Level 1	Level 2	Level 3
At 31 December 2014							
Derivative financial instruments	–	–	11	–	–	11	–
Available-for-sale financial assets	–	23	–	–	5	–	18
Financial assets measured at fair value	–	23	11	–	5	11	18
Other loans and receivables	209	–	–	–	–	240	–
Financial assets not measured at fair value	209	–	–	–	–	240	–
Derivative financial instruments	–	–	98	–	–	98	–
Financial liabilities measured at fair value	–	–	98	–	–	98	–
Bank loans	–	–	–	1,881	–	1,922	–
Debenture bonds	–	–	–	5,104	5,610	–	–
Private placements	–	–	–	925	–	957	–
Finance lease liabilities	–	–	–	561	–	1,173	–
Other interest-bearing financial liabilities	–	–	–	5	–	5	–
Other non-interest-bearing financial liabilities	–	–	–	30	–	30	–
Financial liabilities not measured at fair value	–	–	–	8,506	5,610	4,087	–

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

In addition, as of 31 December 2014, there were available-for-sale financial assets with a carrying value of CHF 30 million (prior year: CHF 21 million) which are valued at acquisition cost. Level 3 financial instruments developed as follows in 2013 and 2014:

In CHF million	Available-for-sale financial assets
Balance at 31 December 2012	20
Additions	1
Disposals	(1)
Change in fair value recognised in equity	1
Change in fair value recognised in income statement	(1)
Balance at 31 December 2013	20
Additions	1
Disposals	(3)
Balance at 31 December 2014	18

The level-3 assets consist of investments in various investment funds and individual companies. The fair value was calculated by using a valuation model. In 2013 and 2014, there were no reclassifications between the various levels.

Asset/liability valuation categories and results of financial instruments

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

In CHF million	Loans and receivables	Available-for-sale	At fair value through profit or loss	Financial liabilities	Hedging transactions
2014					
Interest income (interest expense)	10	–	(2)	(223)	(3)
Change in fair value	–	–	(46)	–	–
Foreign currency translation adjustments	1	–	3	–	–
Gains and losses transferred from equity	–	–	–	–	(2)
Net result recognised in income statement	11	–	(45)	(223)	(5)
Change in fair value	–	–	–	–	10
Gains and losses transferred to income statement	–	–	–	–	5
Net result recognised in other comprehensive income	–	–	–	–	15
Total net result by asset/liability category	11	–	(45)	(223)	10

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

In addition, in 2014, allowances for trade and other receivables amounting to CHF 87 million (prior year: CHF 83 million) were recorded under other operating expenses.

Derivative financial instruments

At 31 December 2013 and 2014, the following derivative financial instruments were recorded:

In CHF million	Contract value		Positive fair value		Negative fair value	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Fair value hedges	–	42	–	–	–	(13)
Cash flow hedges	824	728	6	–	(10)	(16)
Other derivative financial instruments	929	911	5	6	(88)	(98)
Total derivative financial instruments	1,753	1,681	11	6	(98)	(127)
Thereof current derivative financial instruments			11	–	(49)	(76)
Thereof non-current derivative financial instruments			–	6	(49)	(51)

Fair Value Hedges

In CHF million	Contract value		Positive fair value		Negative fair value	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Currency swaps in EUR	–	42	–	–	–	(13)
Total fair value hedges	–	42	–	–	–	(13)

In 2007, for the purpose of hedging the foreign currency and interest rate risks of financing in EUR, cross-currency swaps for EUR 48 million were entered into which were designated as fair value hedges for hedge accounting. Of this amount, EUR 35 million matured in 2014, which were reported as negative fair values of CHF 13 million in the prior year. As of the balance-sheet date, Swisscom reported no instruments designated as fair value hedges for hedge accounting purposes.

Cash Flow Hedges

In CHF million	Contract value		Positive fair value		Negative fair value	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Currency swaps in USD	235	–	6	–	–	–
Interest rate swaps in CHF	350	350	–	–	(9)	(13)
Forward currency contracts in USD	–	167	–	–	–	(2)
Forward currency contracts in EUR	239	211	–	–	(1)	(1)
Total cash flow hedges	824	728	6	–	(10)	(16)

Swisscom entered into interest rate swaps with final maturities in 2016 in order to hedge interest rate risks of CHF 350 million of the variable CHF-denominated interest-bearing private placements. These hedges were designated as cash flow hedges for hedge accounting purposes. As of 31 December 2014, these interest rate swaps were recorded with a negative fair value of CHF 9 million (prior year: CHF 13 million). CHF 10 million was recognised in the hedging reserve within consolidated equity for these hedging instruments (prior year: CHF 13 million). In 2009, interest rate swaps designated for hedge accounting for the premature hedging of the interest rate risk for the intended issuance of debenture loans totalling CHF 500 million were closed out. The effective share of CHF 24 million was left in the other reserves. It is being released to interest expense over the hedged duration of debenture bonds issued in 2009. As of 31 December 2014, a negative amount of CHF 2 million (prior year: CHF 5 million) is recognised in the hedging reserve as part of consolidated equity. As of 31 December 2014, derivative financial instruments include currency swaps of USD 237 million and forward currency contracts of EUR 199 million, which serve to hedge future purchases of goods and services in the respective currencies. The hedges were designated for hedge accounting purposes. The hedges disclose a positive fair value of CHF 6 million (prior year: negative market value of CHF 3 million). A positive amount of CHF 5 million was recognised in the hedging reserve within consolidated equity for these designated hedging instruments (prior year: negative amount of CHF 4 million).

Other derivative financial instruments

In CHF million	Contract value		Positive fair value		Negative fair value	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Currency swaps in EUR	421	592	–	–	(47)	(96)
Interest rate swaps in CHF	200	200	–	6	(40)	(1)
Currency swaps in USD	211	2	5	–	–	–
Currency swaps in EUR	–	75	–	–	–	–
Forward currency contracts in USD	–	42	–	–	(1)	(1)
Forward currency contracts in EUR	97	–	–	–	–	–
Total other derivative financial instruments	929	911	5	6	(88)	(98)

In 2010 in order to hedge currency and interest rate risks arising in connection with EUR-denominated financing, interest rate swaps were entered into covering EUR 350 million with a duration of five years. These hedges were not designated for hedge accounting. Already in 2007, interest rate swaps for EUR 228 million had been entered to hedge currency and interest rate risks arising in connection with EUR-denominated financing and which had not been designated for hedge accounting. Of this amount, EUR 167 million matured in 2014.

Furthermore, derivative financial instruments as at 31 December 2014 include interest rate swaps covering CHF 200 million with maturities ending in 2040 with a negative market value of CHF 40 million (prior year: positive value of CHF 6 million and a negative market value of CHF 1 million) which were not designated for hedge accounting.

In addition, foreign currency forward contracts and currency swaps for EUR and USD which serve to hedge future transactions in connection with Swisscom's operating activities were not designated for hedge accounting purposes are included in derivative financial instruments.

Cross-border lease agreements

Between 1996 until 2002, Swisscom entered into various cross-border lease agreements, under the terms of which parts of its fixed line and mobile phone networks were sold or leased on a long-term basis and leased back. Swisscom defeased a significant part of the lease obligations through the acquisition of investment-grade financial investments. The financial assets were irrevocably deposited with a trust. In accordance with Interpretation SIC 27 "Evaluating the Substance of Transactions involving the Legal Form of a Lease", these financial assets and liabilities in the same amount are netted and not recorded in the balance sheet. As of 31 December 2014, the financial liabilities and assets, including accrued interest, which arose from cross-border lease agreements amounted to USD 66 million or CHF 65 million, which, in compliance with SIC 27, were not recognised in the balance sheet (prior year: USD 63 million or CHF 56 million).

Netting of financial instruments

In CHF million	Gross amount	Settlement	Net amount
At 31 December 2014			
Receivables from international roaming			
Billed revenue	26	(19)	7
Accruals	164	(104)	60
Total receivables from international roaming	190	(123)	67
Liabilities from international roaming			
Supplier invoices received	34	(19)	15
Accruals	152	(104)	48
Total liabilities from international roaming	186	(123)	63
At 31 December 2013			
Receivables from international roaming			
Billed revenue	37	(26)	11
Accruals	238	(147)	91
Total receivables from international roaming	275	(173)	102
Liabilities from international roaming			
Supplier invoices received	41	(26)	15
Accruals	180	(147)	33
Total liabilities from international roaming	221	(173)	48

Swisscom enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting agreements. Under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. The ISDA agreements do not meet the criteria for balance-sheet netting as Swisscom has presently no legally enforceable right to offset the recognised amounts and such a right may only be applied to future occurrences such as a credit default or other credit events. In 2014, Swisscom recorded an amount of CHF 2 million for which such netting agreements existed. In the event of netting, derivative assets of CHF 11 million and derivative liabilities of CHF 98 million would be reduced to CHF 9 million and CHF 96 million, respectively. In the prior year, Swisscom recognised an amount of CHF 6 million for which such netting agreements existed. In the event of netting, the derivative assets in the prior year of CHF 6 million would be reduced to CHF zero and the derivative liabilities would be reduced from CHF 127 million to CHF 121 million.

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

Management of equity resources

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

In CHF million	31.12.2014	31.12.2013
Share of equity attributable to equity holders of Swisscom Ltd	5,454	5,973
Share of equity attributable to non-controlling interests	3	29
Total capital	5,457	6,002
Total assets	20,932	20,496
Equity ratio in %	26.1	29.3

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

In CHF million	31.12.2014	31.12.2013
Debenture bonds	5,104	5,508
Bank loans	1,881	1,353
Private placements	925	1,126
Finance lease liabilities	561	655
Other financial liabilities	133	181
Total financial liabilities	8,604	8,823
Cash and cash equivalents	(302)	(723)
Current financial assets	(40)	(160)
Non-current fixed interest-bearing deposits	(142)	(128)
Net debt	8,120	7,812
Operating income before depreciation and amortisation (EBITDA)	4,413	4,302
Ratio net debt/EBITDA	1.8	1.8

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

34 Supplementary information on the statement of cash flows

Changes in operating assets and liabilities

In CHF million	2014	2013
Trade and other receivables	4	178
Inventories	(7)	8
Other non-financial assets	(41)	7
Trade and other payables	(85)	(172)
Provisions	(40)	(16)
Other non-financial liabilities	(22)	119
Defined benefit obligations	(22)	(20)
Total changes in operating assets and liabilities	(213)	104

Other cash flows from financing activities

In 2014, other cash flows from financing activities aggregated CHF 14 million (prior year: CHF 12 million). This relates mainly to payments in connection with hedging contracts and the commitment fee for the guaranteed credit limit.

Non-cash investing and financing transactions

Additions to property, plant and equipment include additions from finance leases amounting to CHF 13 million (prior year: CHF 10 million). As a result of changes in the assumptions made in estimating the provisions for dismantling and restoration costs, an increase of CHF 157 million net was recognised in property, plant and equipment (prior year: reduction of CHF 19 million). See Note 23.

35 Future commitments

Commitments for future capital expenditures

Firm contractual commitments for future investments in property, plant and equipment and other intangible assets as of 31 December 2014 aggregated CHF 1,004 million (prior year: CHF 862 million).

Operating leases

Operating leases relate primarily to the rental of real estate for business purposes. See Note 26. In 2014, payments for operating leases amounted to CHF 316 million (prior year: CHF 301 million). Future minimum lease payments in respect of operating lease contracts are as follows:

In CHF million	31.12.2014	31.12.2013
Within 1 year	153	104
Within 1 to 2 years	136	95
Within 2 to 3 years	120	76
Within 3 to 4 years	104	62
Within 4 to 5 years	91	50
After 5 years	455	240
Total future minimum lease payments	1,059	627

36 Research and development

Costs aggregating CHF 18 million for research and development were expensed in 2014 (prior year: CHF 20 million).

37 Related parties

Majority shareholder, associates and non-controlling interests

Transactions and balances outstanding at year end with related entities and individuals for 2014 are as follows:

In CHF million	Income	Expense	Receivables	Liabilities
Confederation	397	160	178	668
Associates	100	145	9	6
Other minority shareholders	–	1	–	2
Total 2014/Balance at 31 December 2014	497	306	187	676

Transactions and balances outstanding at year end with related entities and individuals for 2013 are as follows:

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

Majority shareholder

Pursuant to the Swiss Federal Telecommunication Enterprises Act (“Telekommunikationsunternehmungsgesetz, TUG”), the Swiss Confederation (“the Confederation”) is obligated to hold a majority of the share capital and voting rights of Swisscom. On 31 December 2014, the Confederation as majority shareholder held 51.0% (prior year: 51.2%) of the issued shares of Swisscom Ltd. Any reduction of the Confederation’s holding below a majority would require a change in law which would need to be voted upon the Federal Assembly, which would also be subject to a facultative referendum by Swiss voters. As the majority shareholder, the Swiss Confederation has the power to control the decisions of the general meetings of shareholders which are taken by the absolute majority of effectively cast votes. This relates primarily to the approval of dividend distributions and the election of the members of the Board of Directors. Swisscom supplies telecommunication services to and in addition, procures services from the Confederation, the majority shareholder in Swisscom. The Confederation comprises the various departments and administrative bodies of the Confederation and the other companies controlled by the Confederation (primarily the Post, Swiss Federal Railways, RUAG as well as Skyguide). All transactions are conducted on the basis of normal relationships with customers and suppliers and on conditions applicable to unrelated third parties. In addition, financing transactions are entered into with the Swiss Post on normal commercial terms.

Associates and non-controlling interests

Services provided to/from associates and non-controlling interests are based upon market prices. The associates are listed in Note 41.

Post-employment benefits funds

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

Key management compensation

In CHF million	2014	2013
Current compensation	1.5	1.6
Share-based payments	0.8	0.8
Social security contributions	0.1	0.1
Total compensation to members of the Board of Directors	2.4	2.5
Current compensation	5.6	5.8
Share-based payments	0.7	0.9
Benefits paid following retirement from Group Executive Board	0.3	1.5
Pension contributions	0.7	0.7
Social security contributions	0.5	0.5
Total compensation to members of the Group Executive Board	7.8	9.4
Total compensation to members of the Board of Directors and of the Group Executive Board	10.2	11.9

Individuals in key positions of Swisscom are the members of the Board of Directors and the Group Executive Board of Swisscom Ltd. Compensation paid to members of the Board of Directors consists of basic emoluments plus functional allowances and meeting attendance fees. One third of the entire compensation of the Board of Directors (excluding meeting allowances) is paid in shares. Compensation paid to the members of the Group Executive Board consists of a fixed basic salary component settled in cash, a variable performance-related portion settled in cash and shares, services provided and non-cash benefits as well as pension and social-insurance benefits. 25% of the variable performance-related share of the members of the Group Executive Board is paid out in shares. The Group Executive Board members may increase this share to 50% at their discretion. See Note 11. The disclosures required by the Swiss Ordinance against Excessive Compensation in Listed Companies (OaEC) are set out in the chapter containing the Remuneration Report. Shares in Swisscom Ltd held by the members of the Board of Directors and Group Executive Board are set out in the Notes to the Consolidated Financial Statements of Swisscom Ltd.

38 Service concession agreements

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

39 Risk assessment process

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

40 Events after the balance sheet date

Approval of the consolidated financial statements

The Board of Directors of Swisscom approved the release of these consolidated financial statements on 4 February 2015.

Discontinuation of the minimum exchange rate CHF/EUR by the Swiss National Bank

On 15 January 2015, the Swiss National Bank announced it would no longer defend the CHF/EUR minimum exchange rate. Subsequently, the value of the Swiss franc rose sharply against the euro and other currencies that are relevant for Swisscom. The translation effect at subsidiaries and associates that use a different functional currency results in lower amounts in the consolidated financial statements and an increase in the cumulative exchange differences recognised in equity. Nevertheless, the exchange rate at the time of the release of the consolidated financial statements had no material impact on the total cash flow from operating activities and investing activities or on net income for 2015.

41 List of Group companies

Registered name	Registered office	Shareholding in %	Currency	Share capital in millions
Switzerland				
Alphapay Ltd	Zurich	100	CHF	0.5
Axept Webcall AG	Opfikon	100	CHF	0.2
BFM Business Fleet Management Ltd	Ittigen	100	CHF	1.0
Billag Ltd	Fribourg	100	CHF	0.1
cablex Ltd	Berne	100	CHF	5.0
CT Cinetrade Ltd	Zurich	75	CHF	0.5
Curabill Treuhand GmbH	St. Gallen	100	CHF	–
Datasport Ltd	Gerlafingen	100	CHF	0.2
DL-Groupe GMG AG	Geneva	66.7	CHF	0.1
iware SA	Morges	100	CHF	0.1
kitag kino-theater Ltd	Zurich	75	CHF	1.0
Medgate Holding Ltd	Zug	40	CHF	6.2
Mona Lisa Capital Ltd	Ittigen	99.5	CHF	5.0
myKompass Ltd.	Luzern	20	CHF	0.1
MyStrom Ltd	Ittigen	100	CHF	0.1
PG Lab SA	Lausanne	100	CHF	0.1
Plazavista Entertainment AG	Zurich	75	CHF	0.1
PubliGroupe Ltd	Lausanne	98.4 ¹	CHF	2.3
Société Immobilière Dos-Vie S.A.	Delémont	100	CHF	0.7
Swisscom Banking Provider Ltd	Muri bei Bern	100	CHF	5.0
Swisscom Broadcast Ltd	Berne	100	CHF	25.0
Swisscom Directories Ltd	Zurich	100	CHF	1.5
Swisscom Energy Solutions Ltd	Ittigen	50.1	CHF	13.3
Swisscom Event & Media Solutions Ltd	Ittigen	100	CHF	0.1
Swisscom Real Estate Ltd	Ittigen	100	CHF	100.0
Swisscom IT Services Ltd	Berne	100	CHF	150.0
Swisscom IT Services Finance Custom Solutions Ltd	Olten	100	CHF	0.1
Swisscom Switzerland Ltd	Ittigen	100	CHF	1,000.0
Teleclub AG	Zurich	75	CHF	1.2
Teleclub Programm AG	Zurich	25	CHF	0.6
Transmedia Communications Ltd	Geneva	21.8	CHF	1.9
Wingo Ltd	Fribourg	100	CHF	3.0
Worklink AG	Berne	100	CHF	0.5
Belgium				
Belgacom International Carrier Services SA	Brussels	22.4	EUR	1.5
Hospitality Services Belgium SA	Brussels	100	EUR	0.6
Swisscom Belgium N.V.	Brussels	100	EUR	4,330.2
Denmark				
Swisscom Hospitality Denmark A/S	Hellerup	100	DKK	0.6
Germany				
Abavent GmbH	Kempten	100	EUR	0.3
Hospitality Services Germany GmbH	Munich	100	EUR	0.1
Spree7 GmbH	Berlin	80	EUR	–
Swisscom Telco GmbH	Eschborn	100	EUR	–
Zanox Ltd	Berlin	47.5	EUR	0.2
Finland				
Swisscom Hospitality Finland Oy	Helsinki	100	EUR	0.1
Vilant Systems Oy	Espoo	20	EUR	–

¹ Share of Swisscom after expiry of offer period. A procedure for the cancellation of the remaining minority shareholdings was initiated. See Note 5.

Registered name	Registered office	Shareholding in %	Currency	Share capital in millions
France				
Hospitality Services France SA	Paris	96	EUR	5.6
local.fr SA	Bourg-en-Bresse	67	EUR	0.5
Great Britain				
Hospitality Networks and Services UK Ltd	London	100	GBP	1.6
Italy				
Fastweb S.p.A.	Milan	100	EUR	41.3
Hospitality Services Italia S.r.l.	Milan	100	EUR	0.1
Metroweb S.p.A. ¹	Milan	10.6	EUR	29.2
Swisscom Italia S.r.l.	Milan	100	EUR	2,502.6
Liechtenstein				
Swisscom Re Ltd	Vaduz	100	CHF	5.0
Luxembourg				
Hospitality Services Luxembourg SA	Luxembourg	100	EUR	–
Netherlands				
Bone B.V.	Utrecht	100	EUR	–
Improve Digital B.V.	Amsterdam	85	EUR	–
NGT International B.V.	Capelle a/d IJssel	100	EUR	–
SVBmedia Group B.V.	Rotterdam	100	EUR	2.5
Swisscom Hospitality Benelux B.V.	The Hague	100	EUR	–
Norway				
Swisscom Hospitality Norway A/S	Oslo	100	NOK	0.3
Austria				
Hospitality Services GmbH	Vienna	100	EUR	0.3
Swisscom IT Services Finance SE	Vienna	100	EUR	0.1
Portugal				
HSIA Hospitality Services Portugal	Lisbon	100	EUR	1.1
Romania				
Swisscom Hospitality s.r.l.	Brasov	100	RON	1.9
Sweden				
Sellbranch AB	Stockholm	50.1	SEK	0.1
Spain				
Hospitality Networks and Services España SA	Barcelona	100	EUR	0.1
Singapore				
Swisscom IT Services Finance Pte Ltd	Singapore	100	SGD	0.1
USA				
Hospitality Services North America Corp.	Dulles	98	USD	1.6
Swisscom Cloud Lab Ltd	Delaware	100	USD	–

¹ Investment is accounted for using the equity method. Through its representation on the Board of Directors of the company, Swisscom can exercise a significant influence.

Report of the Statutory Auditor

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

Report of the Statutory Auditor on the Consolidated Financial Statements

As statutory auditor, we have audited the accompanying consolidated financial statements on pages 132 to 201 of Swisscom Ltd, which comprise the income statement, statement of comprehensive income, balance sheet, statement of cash flows, statement of changes in equity and notes for the year ended 31 December 2014.

Board of Directors' Responsibility

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2014 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Report on Other Legal Requirements

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

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

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

KPMG AG

Rolf Hauenstein
Licensed Audit Expert
Auditor in Charge

Daniel Haas
Licensed Audit Expert

Gümligen-Berne, 4 February 2015

Financial statements of Swisscom Ltd

Income statement

In CHF million	2014	2013
Net revenue from sale of goods and services	238	235
Other income	30	40
Total net revenue and other income	268	275
Personnel expense	(84)	(89)
Other operating expense	(107)	(108)
Total operating expenses	(191)	(197)
Operating income	77	78
Financial expense	(263)	(220)
Financial income	220	256
Income from participations	2,447	135
Income tax expense	(9)	(10)
Net income	2,472	239

Balance sheet

In CHF million	Note	31.12.2014	31.12.2013
Assets			
Cash and cash equivalents		156	571
Other financial assets		–	135
Receivables from Group companies		127	166
Dividends receivable from subsidiaries	9	2,400	89
Other receivables from third parties		3	2
Other assets		10	8
Total current assets		2,696	971
Participations	9	7,767	7,148
Loans to third parties	10	104	92
Loans to Group companies		5,153	7,573
Total non-current assets		13,024	14,813
Total assets		15,720	15,784
Liabilities and equity			
Financial liabilities to third parties	5	1,506	1,535
Financial liabilities to Group companies		1,719	2,996
Trade payables due to third parties		6	6
Other payables to third parties	4	106	139
Other payables to Group companies		15	17
Total current liabilities		3,352	4,693
Financial liabilities to third parties	5	6,514	6,552
Financial liabilities to Group companies		224	239
Provisions		55	57
Total non-current liabilities		6,793	6,848
Total liabilities		10,145	11,541
Share capital		52	52
Capital surplus reserves		21	21
Retained earnings		5,502	4,170
Total equity	7	5,575	4,243
Total liabilities and equity		15,720	15,784

Notes to the financial statements

1 General information

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

2 Contingent liabilities

At 31 December 2014, guarantees in favour of third parties for the account of Group companies amount to CHF 260 million (prior year: CHF 142 million).

3 Fire insurance values of property, plant and equipment

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

4 Amounts payable to pension funds

As of 31 December 2014, amounts payable to pension funds totalled CHF 1 million (prior year: none).

5 Debenture bonds issued

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

In CHF million or EUR	31.12.2014		31.12.2013	
	Par value	Nominal interest rate	Par value	Nominal interest rate
Debenture bond in CHF 2007–2017	600	3.75	600	3.75
Debenture bond in CHF 2008–2015	500	4.00	500	4.00
Debenture bond in CHF 2009–2014	–	–	1,250	3.50
Debenture bond in CHF 2009–2018	1,425	3.25	1,500	3.25
Debenture bond in CHF 2010–2022	500	2.63	500	2.63
Debenture bond in CHF 2012–2024	500	1.75	500	1.75
Debenture bond in EUR 2013–2020	500	2.00	500	2.00
Debenture bond in EUR 2014–2021	500	1.88	–	–
Debenture bond in CHF 2014–2026	200	1.50	–	–
Debenture bond in CHF 2014–2029	160	1.50	–	–

6 Treasury shares

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

7 Equity

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

In CHF million	Number of shares	Share capital	Capital surplus reserves	Retained earnings	Total equity
Balance at 1 January 2013	51,801,943	52	21	5,071	5,144
Net income	–	–	–	239	239
Dividends paid	–	–	–	(1,140)	(1,140)
Balance at 31 December 2013	51,801,943	52	21	4,170	4,243
Net income	–	–	–	2,472	2,472
Dividends paid	–	–	–	(1,140)	(1,140)
Balance at 31 December 2014	51,801,943	52	21	5,502	5,575

Swisscom Ltd is a holding company established under Swiss law. According to the provisions of law governing the appropriation of retained earnings by holding companies, the share capital and appropriations to the general legal reserve to the extent of 20% of share capital as well as the reserve for treasury shares may not be distributed. As of 31 December 2014, distributable reserves aggregated CHF 5,513 million. Any dividend distribution must be proposed by the Board of Directors and approved by the Annual General Meeting of Shareholders.

8 Significant shareholders

On 31 December 2014, the Swiss Confederation (Confederation), as majority shareholder, held 51.0% (prior year: 51.2%) of the issued share capital of Swisscom Ltd. The Federal Telecommunication Enterprises Act (TUG) stipulates that the Confederation must hold the majority of the capital and voting rights of Swisscom Ltd.

9 Participations and recording of dividends from subsidiaries

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

10 Assets subject to restriction

As of 31 December 2014, financial assets totalling CHF 103 million were not freely available (prior year: CHF 92 million). These assets serve to secure commitments arising from bank loans.

11 Information on risk assessment process

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

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

The table below discloses the number of restricted and non-restricted shares held by the members of the Board of Directors and the Group Executive Board and as well as individuals related to them as of 31 December 2014 and 2013.

Number	31.12.2014	31.12.2013
Hansueli Loosli	1,682	1,335
Frank Esser ¹	101	–
Barbara Frei	409	283
Hugo Gerber	1,129	1,020
Michel Gobet	1,496	1,387
Torsten G. Kreindl	1,195	1,061
Catherine Mühlemann	1,119	1,010
Richard Roy ²	–	1,269
Theophil Schlatter	887	711
Hans Werder	839	688
Total shares of the members of the Group Executive Board	8,857	8,764

¹ Elected as of 7 April 2014.

² Resigned as of 7 April 2014.

Number	31.12.2014	31.12.2013
Urs Schaeppi (CEO) ¹	2,275	1,716
Mario Rossi	634	383
Hans C. Werner	421	257
Marc Werner ²	106	–
Christian Petit ³	1,332	–
Roger Wüthrich-Hasenböhler ²	879	–
Heinz Herren ²	1,122	–
Andreas König ⁴	–	170
Total shares of the members of the Board of Directors	6,769	2,526

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

² Joined the Group Executive Board as of 1 January 2014.

³ Joined the Group Executive Board as of 1 April 2014.

⁴ Resigned from the Group Executive Board as of 31 March 2014.

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

Proposed appropriation of retained earnings

Proposal of the Board of Directors

The Board of Directors proposes to the Annual General Meeting of Shareholders to be held on 8 April 2015 that the retained earnings of CHF 5,502 million as of 31 December 2014 shall be appropriated as follows:

In CHF million	31.12.2014
Appropriation of retained earnings	
Balance carried forward from prior year	3,030
Net income for the year	2,472
Total retained earnings	5,502
Ordinary dividend of CHF 22.00 per share to 51,801,794 shares in total ¹	(1,140)
Balance to be carried forward	4,362

¹ Excluding treasury shares.

In the event that the proposal is approved, a dividend per share will be paid to shareholders on 15 April 2015 as follows:

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

Report of the Statutory Auditor

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

Report of the Statutory Auditor on the Financial Statements

As statutory auditor, we have audited the accompanying financial statements on pages 204 to 208 of Swisscom Ltd, which comprise the income statement, balance sheet and notes for the year ended 31 December 2014.

Board of Directors' Responsibility

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements for the year ended 31 December 2014 comply with Swiss law and the company's articles of incorporation.

Report on Other Legal Requirements

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

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

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

KPMG AG

Rolf Hauenstein
Licensed Audit Expert
Auditor in Charge

Daniel Haas
Licensed Audit Expert

Gümligen-Berne, 4 February 2015



"I help customers in their homes, rectify disruptions to the Internet, set up new computers and smart-phones, and get rid of viruses."

Christian Gebs
My Service technician
Residential Customers