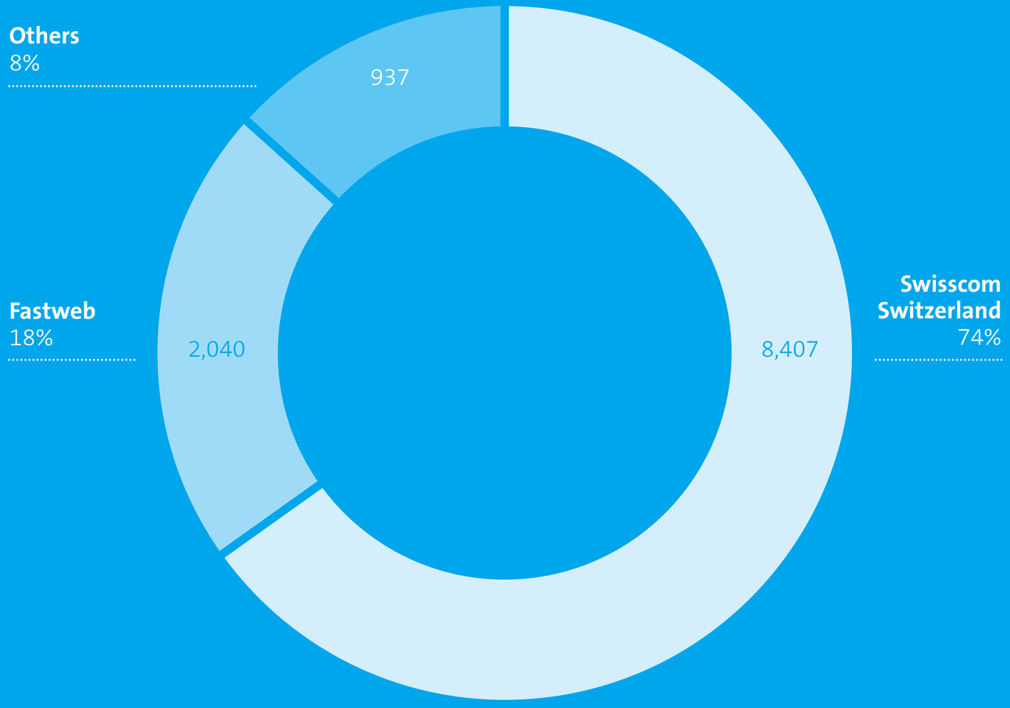
Swisscom's business activities are concentrated mainly in Switzerland.

Swisscom's activities abroad mainly focus on Italy.

Net revenue in CHF mio.



Consolidated financial statements

Financial statements of Swisscom Ltd

Consolidated income statement

In CHF million, except for per share amounts	Note	2012	2011
Net revenue	6, 7	**11,384**	**11,467**
Goods and services purchased	8	(2,399)	(2,402)
Personnel expense	9, 10, 11	(2,581)	(2,513)
Other operating expense	12	(2,396)	(2,388)
Capitalised self-constructed assets and other income	13	373	420
Operating income before depreciation, amortisation and impairment losses (EBITDA)		**4,381**	**4,584**
Depreciation, amortisation and impairment losses on tangible and other intangible assets	23, 24	(1,950)	(1,903)
Impairment losses on goodwill	24	–	(1,555)
Operating income (EBIT)		**2,431**	**1,126**
Financial income	14	29	54
Financial expense	14	(325)	(365)
Share of results of associates	25	32	30
Income before income taxes		**2,167**	**845**
Income tax expense	15	(405)	(151)
Net income		**1,762**	**694**
Share of net income attributable to equity holders of Swisscom Ltd		1,755	683
Share of net income attributable to non-controlling interests		7	11
Basic and diluted earnings per share (in CHF)	16	**33.88**	**13.19**

Consolidated statement of comprehensive income

In CHF million	Note	2012	2011
Net income		**1,762**	**694**
Foreign currency translation adjustments of foreign subsidiaries	31	(26)	(149)
Actuarial gains and losses from defined benefit pension plans	10, 31	(908)	(781)
Change in fair value of available-for-sale financial assets	31	–	(3)
Gains and losses from available-for-sale financial assets transferred to income statement	31	5	3
Change in fair value of cash flow hedges	31	(5)	(24)
Gains and losses from cash flow hedges transferred to income statement	31	8	31
Income tax expense	15, 31	185	268
Total other comprehensive income		**(741)**	**(655)**
Comprehensive income		**1,021**	**39**
Share of comprehensive income attributable to equity holders of Swisscom Ltd		1,017	28
Share of comprehensive income attributable to non-controlling interests		4	11

Consolidated balance sheet

In CHF million	Note	31.12.2012	31.12.2011
Assets			
Cash and cash equivalents	17	538	314
Trade and other receivables	18	2,824	2,978
Other financial assets	19	40	73
Inventories	20	160	144
Current income tax assets	15	55	45
Other non-financial assets	21	220	334
Non-current assets held for sale	22	1	1
Total current assets		**3,838**	**3,889**
Property, plant and equipment	23	8,549	8,222
Goodwill	24	4,662	4,664
Other intangible assets	24	2,121	1,879
Investments in associates	25	268	233
Other financial assets	19	197	196
Deferred tax assets	15	417	311
Other non-financial assets	21	42	56
Total non-current assets		**16,256**	**15,561**
Total assets		**20,094**	**19,450**
Liabilities and equity			
Financial liabilities	26	1,053	804
Trade and other payables	27	2,159	2,190
Current income tax liabilities	15	189	37
Provisions	28	154	148
Other non-financial liabilities	30	643	676
Total current liabilities		**4,198**	**3,855**
Financial liabilities	26	7,730	8,027
Defined benefit obligations	10	2,801	1,977
Provisions	28	686	755
Deferred tax liabilities	15	236	244
Other non-financial liabilities	30	287	296
Total non-current liabilities		**11,740**	**11,299**
Total liabilities		**15,938**	**15,154**
Share capital	31	52	52
Capital reserves		136	136
Retained earnings		5,577	5,704
Other reserves	31	(1,633)	(1,620)
Share of equity attributable to equity holders of Swisscom Ltd		**4,132**	**4,272**
Share of equity attributable to non-controlling interests		24	24
Total equity		**4,156**	**4,296**
Total liabilities and equity		**20,094**	**19,450**

Consolidated statement of cash flows

In CHF million	Note	2012	2011
Net income		1,762	694
Share of results of associates	25	(32)	(30)
Income tax expense	15	405	151
Depreciation, amortisation and impairment losses	23, 24	1,950	3,458
Expense for share-based payments	11	6	9
Gain on sale of property, plant and equipment	13	(16)	(23)
Loss on disposal of property, plant and equipment	12	7	5
Financial income	14	(29)	(54)
Financial expense	14	325	365
Change in net operating assets and liabilities	34	57	(442)
Income taxes paid	15	(190)	(182)
Cash flow provided by operating activities		**4,245**	**3,951**
Capital expenditure for tangible and other intangible assets	23, 24, 34	(2,561)	(2,095)
Proceeds from sale of tangible and other intangible assets		13	22
Proceeds from sale of non-current assets held for sale	22	12	15
Acquisition of subsidiaries, net of cash and cash equivalents acquired	5	(17)	(21)
Investments in associates	25	(48)	(2)
Purchase of other financial assets		(12)	(21)
Proceeds from other financial assets		37	123
Interest received		14	16
Dividends received	25	38	34
Cash flow used in investing activities		**(2,524)**	**(1,929)**
Issuance of financial liabilities	26	651	660
Repayment of financial liabilities	26	(726)	(1,383)
Interest paid		(250)	(267)
Dividends paid to equity holders of Swisscom Ltd	32	(1,140)	(1,088)
Dividends paid to non-controlling interests		(14)	(7)
Purchase of non-controlling interests of Fastweb	34	–	(92)
Purchase of treasury shares for share-based payments	11, 31	(6)	(7)
Other cash flows from financing activities	34	(12)	(4)
Cash flow used in financing activities		**(1,497)**	**(2,188)**
Net increase (Net decrease) in cash and cash equivalents		**224**	**(166)**
Cash and cash equivalents at 1 January		314	483
Foreign currency translation adjustments in respect of cash and cash equivalents		–	(3)
Cash and cash equivalents at 31 December		**538**	**314**

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 2010	**52**	**370**	**6,495**	**(1)**	**(1,586)**	**5,330**	**20**	**5,350**
Net income	–	–	683	–	–	683	11	694
Other comprehensive income	–	–	(621)	–	(34)	(655)	–	(655)
Comprehensive income	**–**	**–**	**62**	**–**	**(34)**	**28**	**11**	**39**
Dividends paid [32]	–	(234)	(854)	–	–	(1,088)	(7)	(1,095)
Purchase of treasury shares for share-based payments [31]	–	–	–	(7)	–	(7)	–	(7)
Allocation of treasury shares for share-based payments [11,31]	–	–	1	8	–	9	–	9
Balance at 31 December 2011	**52**	**136**	**5,704**	**–**	**(1,620)**	**4,272**	**24**	**4,296**
Net income	–	–	1,755	–	–	1,755	7	1,762
Other comprehensive income	–	–	(725)	–	(13)	(738)	(3)	(741)
Comprehensive income	**–**	**–**	**1,030**	**–**	**(13)**	**1,017**	**4**	**1,021**
Dividends paid [32]	–	–	(1,140)	–	–	(1,140)	(14)	(1,154)
Transactions with non-controlling interests	–	–	(10)	–	–	(10)	10	–
Share of equity transaction of associates [25]	–	–	(7)	–	–	(7)	–	(7)
Purchase of treasury shares for share-based payments [31]	–	–	–	(6)	–	(6)	–	(6)
Allocation of treasury shares for share-based payments [11,31]	–	–	–	6	–	6	–	6
Balance at 31 December 2012	**52**	**136**	**5,577**	**–**	**(1,633)**	**4,132**	**24**	**4,156**

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 of Swisscom as of and for the year ended 31 December 2012 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 2012, the Swiss Confederation (“Confederation”), as majority shareholder, held 56.8% 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 6 February 2013. The consolidated financial statements must be approved at the Annual General Meeting of Shareholders of Swisscom Ltd to be held on 4 April 2013.

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 used in preparing a particular item in the consolidated financial statements.

3 Summary of significant accounting policies

3.1 Consolidation

Subsidiaries

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

Investments in associates

Shareholdings in associates over which Swisscom exercises significant influence but does not have control are accounted for using the equity method. A significant influence is generally assumed to exist whenever between 20% and 50% of the voting rights are held. Under the equity method, investments in associates are initially recognised at their purchase cost at the date of acquisition. Purchase cost comprises the share of net assets acquired and any applicable goodwill arising. In subsequent accounting periods, the carrying amount of the investment is adjusted by the share of current profits and losses 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 are not taken to income but recorded directly in equity. 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:

			Closing rate		Average rate
Currency	31.12.2012	31.12.2011	31.12.2010	2012	2011
1 EUR	1.207	1.216	1.250	1.204	1.232
1 USD	0.915	0.939	0.936	0.932	0.881

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 also 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. All impairment losses are recorded through the use of valuation allowance accounts. All realised losses lead to the derecognition of the related receivable.

3.5 Other financial assets

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

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

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

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

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

3.6 Inventories

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

3.7 Property, plant and equipment

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

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

[1] Technical installations.

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

3.8 Business combinations and goodwill

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

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

3.9 Other intangible assets

Research and development costs

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

Other intangible assets

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

Useful lives of other intangible assets

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

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

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

3.10 Non-current assets held for sale

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

3.11 Impairment losses

Impairment of financial assets

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

Impairment of goodwill

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

Impairment of property, plant and equipment and other intangible assets

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

3.12 Leases

Finance leases

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

Operating leases

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

3.13 Financial liabilities

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

3.14 Trade and other payables

Trade and other payables are recorded at amortised cost.

3.15 Provisions

Provisions for termination benefits

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

Provisions for dismantling and restoration costs

In Switzerland, Swisscom is legally obligated to dismantle transmitter stations located on land belonging to third parties following decommissioning and to restore the land to its original state. The costs of dismantling are capitalised as part of the acquisition costs of the transmitter stations and are amortised over their useful lives. 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, the 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 Net revenue

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 business customers. The product offerings in the field of business ICT infrastructure cover everything from individual products through to complete solutions.

Wholesale

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

Network & IT

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

Fastweb

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

Other Operating Segments

Other Operating Segments mainly comprise Swisscom IT Services, Swisscom Participations and Swisscom Hospitality Services. Swisscom IT Services is a provider of IT 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. Swisscom Participations maintains a portfolio of small and medium-size companies whose activities to a large degree closely follow or support the core business of Swisscom. In addition, Swisscom Participations offers solutions in the fields of eHealth and Smart Living. Swisscom Participations comprises mainly Alphapay Ltd, Billag Ltd, cablex Ltd, Datasport Ltd, Sicap Ltd, Swisscom Broadcast Ltd and Swisscom Real Estate 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. cablex Ltd operates in the field of construction and maintenance of wired and wireless networks in Switzerland, primarily in the field of telecommunication. Datasport Ltd is a service provider for recreational and mass sporting events. Sicap Ltd develops and operates applications for mobile phone operators. Swisscom Broadcast Ltd is the leading provider in Switzerland of radio services, of cross-platform services for clients in the media field and of security radio transmissions. Swisscom Hospitality Services offers Internet-based services to guests and customers in the hotel and congress sector in Europe and North America.

Revenue generated from services

Fixed networks

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

Mobile

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

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

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

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

3.17 Subscriber acquisition and loyalty-programme costs

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

3.18 Post-employment benefits

Defined benefit obligations and the related pension expense are determined on an actuarial basis using the projected unit credit method. This reflects the number of years of service completed by employees through the date of measurement and the assumptions made concerning future salary growth. The latest actuarial valuation was undertaken using data as at 31 October 2012 with a roll-forward of plan assets to 31 December 2012. Current pension entitlements are charged to income in the period in which they arise. Actuarial gains and losses are recorded in full under other comprehensive income in the reporting period in which they arise. Past-service cost, attributable to pension plan amendments, is recorded as an expense, or a reduction of expense, on a straight-line basis over the average period until the benefits become vested. To the extent the benefits vest immediately, the related costs are expensed immediately.

3.19 Share-based payments

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

3.20 Capitalised costs of self-constructed assets and other income

The costs of capitalised self-constructed assets which are only expensed in future periods are recorded in the income statement as other operating income as an offsetting position to the corresponding amount included in operating expenses. Other income is recorded when the inflow of proceeds or of other economic benefits is probable.

3.21 Financial income and financial expense

Financial income encompasses primarily interest income, dividend income, gains from the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss as well as gains from hedging transactions recorded in the income statement. Interest income is recognised in the income statement using the effective interest method. Dividend income is recognised on the date that the right to receive payment arises. Financial expense primarily encompasses interest expense, adjustments to the present value of provisions, changes in the fair value of financial assets at fair value through profit or loss, impairment losses on other financial assets as well as losses on hedging transactions which are recorded in the income statement. Interest expense is recognised in the income statement using the effective interest method. Foreign exchange gains and losses are reported on a net basis.

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

3.23 Derivative financial instruments

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

3.24 Fair value

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

3.25 New and amended Standards and Interpretations

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

As from 1 January 2012 onwards, Swisscom adopted the following amendments to existing International Financial Reporting Standards (IFRS) and Interpretations, none of which, however, have an impact on the consolidated financial statements of Swisscom.

Standard	Name
Amendments to IAS 12	Income Taxes: Deferred Income Taxes on the Recovery of Underlying Assets
Amendments to IFRS 7	Financial Instruments Disclosures: Transfer of Financial Assets

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

The following Standards and Interpretations published up to the end of 2012 are mandatory for accounting periods beginning on or after 1 January 2013.

Standard	Name	Effective from
IFRS 9	Financial Instruments: Classification and Measurement	1 January 2015
IFRS 10	Consolidated Financial Statements	1 January 2013
IFRS 11	Joint Arrangements	1 January 2013
IFRS 12	Disclosure of Interests in Other Entities	1 January 2013
IFRS 13	Fair Value Measurement	1 January 2013
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2013
Amendments to IAS 1	Presentation of Financial Statements	1 July 2012
Amendments to IAS 19	Employee Benefits	1 January 2013
Amendments to IAS 27	Separate Financial Statements	1 January 2013
Amendments to IAS 28	Investments in Associates and Joint Ventures	1 January 2013
Amendments to IAS 32	Financial Instruments Disclosures: Transfer of Financial Assets	1 January 2014
Amendments to IFRS 7	Financial Instruments Disclosures: Offsetting Financial Assets and Financial Liabilities	1 January 2013
Amendments to IFRS 10, IFRS 11 and IFRS 12	Transition Guidance Amendments	1 January 2013
Various	Improvements to IFRSs 2009–2011	1 January 2013

Swisscom will review its financial reporting for the new and amended Standards which take effect on or following 1 January 2013 and for which Swisscom did not make voluntary early application. At present, Swisscom anticipates no material impact on consolidated financial reporting, except in respect of the following new standard and amendments:

- IFRS 10 "Consolidated Financial Statements" (effective as from 1 January 2013): the new Standard creates a uniform definition regarding the concept of control thus setting a uniform basis for the existence of a parent-subsidiary relationship and the related definition of the scope of consolidation. The new Standard replaces IAS 27 "Consolidated and Separate Financial Statements" and SIC-12 "Consolidation – Special Purpose Entities". The new Standard has no impact on the financial statements of Swisscom.
- Amendments to IAS 19 "Employee Benefits" (effective as from 1 January 2013): as a result of the amendments to IAS 19, actuarial gains and losses in future must be recorded directly under other comprehensive income. The previous accounting option to either record them immediately in the income statement or under other comprehensive income or defer recording them in accordance with the so-called corridor method is eliminated. In addition, in future management shall no longer estimate the return on the pension fund's assets in accordance with anticipated income interest on the basis of the allocation of assets, but the return on the fund's assets may only be recorded to the extent of the discounting rate. In addition, the amended IAS 19 requires more extensive note disclosures. In future, entities must provide disclosures as to the financing strategy of their pension plans and not only describe but also quantify the financing risks inherent in their pension plans. Amongst other things, a sensitivity analysis is required showing to what degree pension obligations fluctuate depending on changes in significant measurement assumptions. In future, the average remaining duration of employment benefit obligations must also be disclosed. If the amendments had already been adopted in the 2012 consolidated financial statements, it is estimated that the costs of defined-benefit pension plans in the income statement would have amounted to CHF 251 million, ignoring any changes to the pension plan. The amendments to the pension plan decided upon in 2012 would have reduced pension expense by CHF 140 million, with the result that the pension expense including pension plan amendments would have amounted to CHF 111 million.

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

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

Goodwill

As of 31 December 2012, the carrying amount of goodwill from acquisitions totalled CHF 4,662 million. The recoverability of goodwill is tested for impairment annually during the fourth quarter or earlier if an indication of impairment exists. 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 obligations are the discount rate, future salary and pension increases as well as the expected return on plan assets. As of 31 December 2012, the underfunding amounted to CHF 2,801 million which was recognised as a liability in the consolidated balance sheet. A reduction in the discount rate of 0.5% would result in an increase in the pension obligations of CHF 920 million. An increase in average future salary increases of 0.5% would lead to an increase in post-employment benefits of CHF 98 million. See Note 10.

Provisions for dismantling and restoration costs

Provisions are raised for costs incurred in connection with dismantling and restoring mobile-telephone and broadcasting stations of Swisscom Broadcast. As of 31 December 2012, the carrying amount of these provisions totalled CHF 512 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 46 million. A postponement of the date of dismantling by ten years would lead to a decrease in the provisions of CHF 75 million. See Note 28.

Provisions for regulatory proceedings

Various proceedings are in course in connection with the setting of prices for regulated access services. Swisscom has raised provisions on the basis of its own estimate of the expected financial outcome thereof. As of 31 December 2012, the provisions for regulatory proceedings aggregated CHF 104 million. Further developments in the proceedings or a decision by the competent court may result in a revised assessment of the financial outcome in subsequent years, thereby leading to an increase or decrease of the recorded provisions. See Note 28.

Proceedings conducted by the Competition Commission

The Competition Commission (ComCo) is conducting an investigation into ADSL prices against Swisscom. The proceeding is described in Note 29. In the event that Swisscom is deemed to have violated Antitrust Law, ComCo is entitled to impose sanctions. On the basis of a legal opinion, Swisscom considers it unlikely that ComCo will impose direct sanctions. Accordingly, no provisions were recognised in the 2012 consolidated financial statements in connection with this proceeding. Further developments in the proceeding may result in a revised assessment of the financial outcome in subsequent years and lead to the need to record provisions.

Allowances for doubtful receivables

Allowances for doubtful receivables are recorded in order to cover foreseeable losses arising from a customer's inability to pay. As of 31 December 2012, the carrying value of allowances for trade and other receivables totalled CHF 224 million. In determining the appropriateness of the allowance, several factors are considered. These include the ageing of receivables, the current financial solvency of the customer and the historical experience with receivable losses. The actual level of receivable losses may be higher than the amount recognised if the actual financial situation of the customers is worse than originally expected. See Note 18.

Deferred taxes

The recognition of deferred tax assets and liabilities is based on the judgment of management. Deferred tax assets on tax loss carry-forwards are only recognised if it is probable that they can be used. Whether or not they can be used depends on whether taxable profits can be achieved which can be offset against the available tax loss carry-forwards. In order to assess the probability of their future use, estimates must be made of various factors such as future profitability. If the actual amounts differ from the estimates, this can lead to a change in the assessment of recoverability of the deferred tax assets. On 31 December 2012, recognised deferred tax assets amounted to CHF 904 million. See Note 15.

Useful lives of property, plant and equipment

As of 31 December 2012, the carrying amount of property, plant and equipment totalled CHF 8,517 million. In assessing the useful life of an item of property, plant and equipment, the expected use of the asset by the company, the 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 2012

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

Swisscom Directories Ltd purchased the entire share capital of localina Ltd. localina sells an iPad-based reservation system for restaurant and catering operations. Following acquisition, localina Ltd was merged with local.ch Ltd.
The aggregate allocation of acquisition costs to the net assets may be analysed as follows:

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

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

Business combinations in 2011

Payments totalling CHF 21 million were made in 2011 for the acquisition of Group companies. Of this amount, CHF 12 million relates to deferred consideration for business combinations in prior years and CHF 9 million for businesses acquired in 2011. The newly acquired companies in 2011 are viewed each as non-significant business combinations and are thus reported on an aggregate basis.

On 15 March 2011, Swisscom Broadcast Ltd acquired the entire share capital of Solutionpark AG, a company operating in the field of video and TV streaming. The acquisition of Solutionpark AG is designed to broaden the existing range of services for events and media. Following acquisition, Solutionpark AG changed its name to Swisscom Event & Media Solutions Ltd. On 30 November 2011, Swisscom IT Services completed the acquisition of EFP Group and the Cirrus Group, which are active as SAP service providers. The acquisition of these two companies is designed to strengthen the existing portfolio of services offered in the field of SAP services. Following acquisition, both companies were merged with Swisscom Enterprise Solutions Ltd.

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

In CHF million	2011
Cash and cash equivalents	5
Trade and other receivables	6
Other intangible assets	11
Other current and non-current assets	2
Financial liabilities	(3)
Trade and other payables	(4)
Defined benefit obligations	(3)
Deferred tax liabilities	(2)
Other current and non-current liabilities	(3)
Identifiable assets and liabilities	**9**
Goodwill	15
Purchase consideration	**24**
Cash and cash equivalents acquired	(5)
Deferred payment of purchase price	(10)
Cash outflow from business combinations of the current year	**9**
Cash outflow from business combinations of prior years	12
Total cash outflow from business combinations	**21**

The main reasons for the recognition of goodwill are the additional market shares expected in future and the qualified workforce. From these business combinations, there resulted additional net revenues of CHF 4 million with no impact on net income in the 2011 consolidated financial statements. Assuming that the subsidiary companies acquired in 2011 had been included in the consolidated financial statements as from 1 January 2011, there would have resulted consolidated pro-forma net revenues of CHF 11,496 million and a consolidated pro-forma net income of CHF 697 million. Transaction costs of CHF 1 million were incurred in connection with these acquisitions which were recorded as other operating expense.

6 Segment information

Operating segments requiring to be reported are determined on the basis of a management approach. Accordingly, external segment reporting reflects the internal organisational and management structure used within the Group as well as internal financial reporting to the Chief Operating Decision Maker. In the case of Swisscom, the chief operating decision maker is the Board of Directors of Swisscom Ltd. 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. Reported revenues and segment results correspond to the internal reporting system. 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. The business division Network & IT is managed as a cost centre. For this reason, no revenue is credited to the Network & IT division within segment reporting. The segment results of Network & IT consist of operating expenses and depreciation and amortisation less capitalised self-constructed assets and other income. The sum of the segment results of Swisscom Switzerland is equal to the operating results (EBIT) of Swisscom Switzerland. Fastweb is one of the largest fixed-network operator and a leading provider of IP-based services in Italy and is reported in the consolidated financial statements as a separate segment. Other Operating Segments principally comprise Swisscom IT Services, Swisscom Participations and Swisscom Hospitality Services. Swisscom Participations encompasses primarily Alphapay Ltd, Billag Ltd, cablex Ltd, Datasport Ltd, Sicap Ltd, Swisscom Broadcast Ltd, Swisscom Real Estate Ltd as well as the areas of eHealth and Smart Living. Group Headquarters which includes unallocated costs, comprises mainly the Group central divisions of Swisscom, Swisscom Re Ltd and the employment company Worklink AG.

The services offered by each operating segment are described in Note 3.16. The segment results of the segments Fastweb and Other Operating Segments correspond to the operating result (EBIT) of these units. The latter reflects the net revenues from external customers and other segments less segment expenses and depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets. Segment expenses include the costs of materials and services, personnel costs and other operating costs less capitalised self-constructed assets and other income. Group Headquarters charges no management fees for its financial management services; similarly, the segment Network & IT recharges no network costs to other segments. Other intersegment 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 "Elimination". Capital expenditures by segment include additions to property, plant and equipment and other intangible assets.

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

2012, in CHF million	Swisscom Switzerland	Fastweb	Other operating segments	Group Head-quarters	Elimi-nation	Total
Net revenue from external customers	8,407	2,040	936	1	–	11,384
Net revenue with other segments	54	8	792	1	(855)	–
Net revenue	**8,461**	**2,048**	**1,728**	**2**	**(855)**	**11,384**
Segment result	**2,559**	**(113)**	**100**	**(97)**	**(18)**	**2,431**
Financial income and financial expense, net						(296)
Share of results of associates						32
Income before income taxes						**2,167**
Income tax expense						(405)
Net income						**1,762**
Associates	207	50	11	–	–	268
Assets held for sale	–	–	1	–	–	1
Capital expenditure in property, plant and equipment and other intangible assets	1,852	531	199	1	(22)	2,561
Depreciation and amortisation	1,053	715	177	12	(7)	1,950
Gain (loss) on disposal of property, plant and equipment, net	(2)	–	11	–	–	9
Share of results of associates	33	–	–	(1)	–	32

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

2012, in CHF million	Residential Customers	Small and Medium-Sized Enterprises	Corporate Business	Whole-sale	Network & IT	Elimi-nation	Total Swisscom Switzer-land
Net revenue from external customers	4,939	1,135	1,739	594	–	–	8,407
Net revenue with other segments	174	26	96	372	–	(614)	54
Net revenue	**5,113**	**1,161**	**1,835**	**966**	**–**	**(614)**	**8,461**
Segment result	**2,772**	**862**	**881**	**368**	**(2,324)**	**–**	**2,559**
Associates	141	–	–	66	–	–	207
Capital expenditure in property, plant and equipment and other intangible assets	162	17	88	–	1,585	–	1,852
Depreciation and amortisation	92	5	70	–	885	1	1,053
Gain (loss) on disposal of property, plant and equipment, net	–	–	–	–	(2)	–	(2)
Share of results of associates	15	–	–	18	–	–	33

Segment information 2011 of Swisscom is to be analysed as follows:

2011, in CHF million	Swisscom Switzerland	Fastweb	Other operating segments	Group Head-quarters	Elimi-nation	Total
Net revenue from external customers	8,396	2,141	929	1	–	11,467
Net revenue with other segments	53	10	779	6	(848)	–
Net revenue	**8,449**	**2,151**	**1,708**	**7**	**(848)**	**11,467**
Segment result	**2,790**	**(1,660)**	**157**	**(145)**	**(16)**	**1,126**
Financial income and financial expense, net						(311)
Share of results of associates						30
Income before income taxes						**845**
Income tax expense						(151)
Net income						**694**
Associates	218	2	11	2	–	233
Assets held for sale	–	–	1	–	–	1
Capital expenditure in property, plant and equipment and other intangible assets	1,400	552	169	1	(27)	2,095
Depreciation and amortisation	988	728	173	16	(6)	1,899
Impairment losses	–	1,555	4	–	–	1,559
Gain (loss) on disposal of property, plant and equipment, net	(2)	–	20	–	–	18
Share of results of associates	30	–	–	–	–	30

Segment information 2011 of Swisscom Switzerland is to be analysed as follows:

2011, in CHF million	Residential Customers	Small and Medium-Sized Enterprises	Corporate Business	Whole-sale	Network & IT	Elimi-nation	Total Swisscom Switzer-land
Net revenue from external customers	4,906	1,127	1,754	609	–	–	8,396
Net revenue with other segments	176	27	95	388	–	(633)	53
Net revenue	**5,082**	**1,154**	**1,849**	**997**	**–**	**(633)**	**8,449**
Segment result	**2,796**	**875**	**914**	**391**	**(2,187)**	**1**	**2,790**
Associates	150	–	–	68	–	–	218
Capital expenditure in property, plant and equipment and other intangible assets	146	15	111	–	1,128	–	1,400
Depreciation and amortisation	95	5	57	–	832	(1)	988
Gain (loss) on disposal of property, plant and equipment, net	(1)	–	(1)	–	–	–	(2)
Share of results of associates	11	–	–	19	–	–	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 and the United States. Net revenues and assets are allocated to regions. Net revenues and assets are allocated according to the registered office of the related Group company.

	2012		2011	
In CHF million	Net revenue	Non-current assets	Net revenue	Non-current assets
Switzerland	9,268	12,053	9,243	11,239
Italy	2,049	3,391	2,150	3,556
Other countries in Europe	58	189	66	252
Other countries outside Europe	8	9	8	9
Unallocated	1	614	–	505
Total	**11,384**	**16,256**	**11,467**	**15,561**

Disclosures by products and services

In CHF million	2012	2011
Mobile access lines single subscriptions	3,027	3,194
Fixed access lines single subscriptions	4,337	4,700
Bundles	1,172	792
Other	2,847	2,780
Unallocated	1	1
Total net revenue	**11,384**	**11,467**

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 2011 and 2012.

7 Net revenue

In CHF million	2012	2011
Net revenue from services	10,493	10,603
Net revenue from sale of merchandise	888	860
Net revenue from the right of use of intangible assets	3	4
Total net revenue	**11,384**	**11,467**

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

8 Goods and services purchased

In CHF million	2012	2011
Raw material and supplies	25	30
Services purchased	451	415
Customer premises equipment and merchandise	1,036	961
National traffic fees	171	172
International traffic fees	279	278
Traffic fees of foreign subsidiaries	437	546
Total goods and services purchased	**2,399**	**2,402**

9 Personnel expense

In CHF million	2012	2011
Salary and wage costs	2,058	2,053
Social security expenses	222	227
Expense of defined benefit plans. See Note 10.	146	130
Expense of defined contribution plans. See Note 10.	12	11
Expense of share-based payments. See Note 11.	6	9
Salary and wage costs of the employment company Worklink	4	6
Termination benefits	68	–
Other personnel expense	65	77
Total personnel expense	**2,581**	**2,513**

Termination benefit programmes

Swisscom supports employees affected by downsizing through a social plan. Depending on the relevant social plan as well as age and length of service, certain employees affected by downsizing may transfer to the employment company Worklink AG. The employment company Worklink AG hires out participating employees to third parties on a temporary basis.
On 31 October 2012, Swisscom announced a restructuring plan involving some 400 positions with the objective of securing the Group's long-term competitiveness. The programme involves costs of CHF 50 million which were recognised in the fourth quarter of 2012. In the prior year, no expenses for personnel downsizing plans were recorded. In 2012, costs totalling CHF 18 million were recognised for other personnel downsizing measures.

10 Post-employment benefits

Defined benefit plans

Swisscom has a defined benefit plan for employees in Switzerland named comPlan. Further defined benefit obligations exist for retired employees PUBLICA and for Fastweb employees. Expenses of defined benefit plans totalled CHF 146 million in 2012 (prior year: CHF 130 million).

comPlan

The majority of Swisscom's employees are insured for the risks of old age, death and disability by its own pension plan, comPlan. The comPlan pension plan has the legal form of a foundation. Retirement benefits are determined as a function of the individual retirement savings accounts (accumulated retirement savings) at the time of retirement. The standard retirement age is 65.

The annual pension is calculated by multiplying the accumulated retirement savings at the date of retirement by a conversion rate laid down in the rules of the foundation. If an employee retires at the normal retirement age of 65, the savings are converted into a retirement pension at a rate of 6.4%. Employees qualify for early retirement at the earliest on their 58th birthday, whereby the rate of conversion is reduced in line with the longer pension expectancy and lower retirement savings. Furthermore, employees may choose to take their entire pension or part thereof in the form of a capital payment. The regular employer contributions include risk contributions of 3.35% and contributions in the form of credits to individual retirement savings of 5% to 13% of the insured salary, depending on age.
In 2012, the Council of the Foundation resolved to make several amendments to the pension plan which are designed to ensure long-term financial stability considering the low interest rates and growing life expectancy. The amendments will take effect in 2014 and encompass measures affecting pension benefits. In particular, the rate of conversion and thus the level of future retirement benefits for new pensioners was decreased. The amendments to the pension plan lead to a reduction in defined benefit obligations of CHF 162 million. Thereof, CHF 22 million as a gain from plan settlements and CHF 16 million as an amortisation of retroactive plan changes were recorded in retirement benefit expenses. CHF 124 million relate to not yet amortised costs of retroactive plan changes.

Retired employees of PUBLICA

Former employees of Swisscom and the predecessor organisation PTT Telecom who retired before 1 January 1999 are insured with the Swiss Federal pension plan PUBLICA. Swisscom may decide annually whether to grant extraordinary pension increases, if the increase in pensions cannot be funded out of PUBLICA's own free reserves. Any extraordinary pension increases must be funded by Swisscom through payment of the necessary covering funds. In order to evaluate the effective obligation, it is assumed that Swisscom will finance pension increases of 0.1% per annum on a long-term average. The defined benefit obligations for future pension payments, including pension increases and administrative costs, are CHF 2,726 million gross (prior year: CHF 2,672 million). Of this, obligations for pension increases and administrative costs amount to CHF 37 million (prior year: CHF 35 million). Since Swisscom bears neither investment nor demographic risks (in particular longevity risks), only the defined benefit commitments for future pension increases and administrative costs are disclosed.

Fastweb

Employees of the Italian subsidiary Fastweb have acquired a title in future pension benefits up to the end of 2006. These benefits are recorded in the balance sheet as defined benefit obligations.

Pension cost

The cost of defined benefit plans is to be analysed as follows:

In CHF million	Funded pension plans	Unfunded pension plans	2012	Funded pension plans	Unfunded pension plans	2011
Current service cost	207	–	207	178	–	178
Interest cost on defined benefit obligations	208	1	209	224	1	225
Expected return on plan assets	(216)	–	(216)	(250)	–	(250)
Gains resulting from plan settlement	(22)	–	(22)	–	–	–
Amortisation of retroactive plan amendments	(33)	–	(33)	(25)	–	(25)
Employment termination benefits	1	–	1	2	–	2
Total pension cost from defined benefit plans	**145**	**1**	**146**	**129**	**1**	**130**

Expenses in 2012 for defined contribution plans aggregated CHF 12 million (prior year: CHF 11 million).

Status of pension plans

In CHF million	Funded pension plans	Unfunded pension plans	2012	Funded pension plans	Unfunded pension plans	2011
Defined benefit obligations						
Balance at 1 January	**9,039**	**53**	**9,092**	**8,358**	**56**	**8,414**
Current service cost	207	–	207	178	–	178
Interest cost	208	1	209	224	1	225
Contributions to plan participants	145	–	145	140	–	140
Benefits paid	(344)	(2)	(346)	(334)	(4)	(338)
Actuarial losses	1,289	7	1,296	467	–	467
Additions from acquisition of subsidiaries	–	–	–	3	–	3
Plan amendments	(162)	–	(162)	1	–	1
Employment termination benefits	1	–	1	2	–	2
Balance at 31 December	**10,383**	**59**	**10,442**	**9,039**	**53**	**9,092**
Plan assets						
Balance at 1 January	**7,212**	**–**	**7,212**	**7,254**	**–**	**7,254**
Expected return on plan assets	216	–	216	250	–	250
Employer contributions	228	–	228	216	–	216
Contributions to plan participants	145	–	145	140	–	140
Benefits paid	(344)	–	(344)	(334)	–	(334)
Actuarial (gains) losses	388	–	388	(314)	–	(314)
Balance at 31 December	**7,845**	**–**	**7,845**	**7,212**	**–**	**7,212**
Net defined benefit obligations						
Net defined benefit obligations at 31 December	**2,538**	**59**	**2,597**	**1,827**	**53**	**1,880**
Unrecognised costs of retrospective changes in pension plans	204	–	204	97	–	97
Net defined benefit obligations recognised at 31 December	**2,742**	**59**	**2,801**	**1,924**	**53**	**1,977**

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

In CHF million	Funded pension plans	Unfunded pension plans	2012	Funded pension plans	Unfunded pension plans	2011
Balance at 1 January	**1,924**	**53**	**1,977**	**1,227**	**56**	**1,283**
Pension cost, net	145	1	146	129	1	130
Employer contributions and benefits paid	(228)	(2)	(230)	(216)	(4)	(220)
Additions from acquisition of subsidiaries	–	–	–	3	–	3
Actuarial losses	901	7	908	781	–	781
Balance at 31 December	**2,742**	**59**	**2,801**	**1,924**	**53**	**1,977**

The plan assets in 2012 include shares of Swisscom Ltd with a fair value of CHF 6 million (prior year: CHF 5 million). The effective return on plan assets in 2012 was CHF 604 million (prior year: negative return of CHF 63 million).

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

Category	Investment strategy	31.12.2012	31.12.2011
Third-party debt instruments	51.0%	49.8%	50.1%
Equity instruments	28.0%	27.9%	28.0%
Real estate	10.0%	11.7%	11.2%
Cash and cash equivalents and other investments	11.0%	10.6%	10.7%
Total plan assets	**100.0%**	**100.0%**	**100.0%**

Swisscom expects to make payments to the pension funds for ordinary employee contributions in 2013 totalling CHF 211 million.

Actuarial assumptions

	2012		2011	
Assumptions	Funded pension plans	Unfunded pension plans	Funded pension plans	Unfunded pension plans
Discount rate at 31 December	1.94%	2.43%	2.35%	3.21%
Expected rate of salary increases	2.24%	–	2.24%	–
Expected rate of return on plan assets	3.00%	–	3.45%	–
Expected rate of pension increases	0.10%	0.10%	0.10%	0.10%
Longevity at age of 65 – men (number of years)	21.18	21.18	19.56	19.56
Longevity at age of 65 – women (number of years)	23.66	23.66	21.89	21.89

The expected yield on plan assets is based upon current market interest rates plus a long-term risk premium rate of return weighted according to investment strategy. This is derived from historic yield differences between the individual asset classes.
From 2012 on, Swisscom applies the BVG2010 generation tables for life-expectancy assumptions. The assumptions made in the prior year were based upon the BVG2010 period tables. The change to generation tables resulted in an actuarial loss of CHF 534 million which was recognised in other comprehensive income in 2012.

Additional disclosures on the defined benefit obligations and plan assets

The table below presents the carrying amounts of the recorded defined benefit obligations and plan assets as well as experience adjustments made during the current year and the preceding four years.

In CHF million	2012	2011	2010	2009	2008
Defined benefit obligations	(10,442)	(9,092)	(8,414)	(7,640)	(7,110)
Plan assets	7,845	7,212	7,254	6,810	6,065
Underfunding	**(2,597)**	**(1,880)**	**(1,160)**	**(830)**	**(1,045)**
Experience adjustments to defined benefit obligations	(149)	(109)	58	24	(7)
Experience adjustments to plan assets	388	(314)	(23)	378	(1,200)

Amounts recognised in other comprehensive income

In 2012, actuarial pre-tax losses of CHF 908 million (prior year: CHF 781 million) were recognised in other comprehensive income. As of 31 December 2012, cumulative actuarial pre-tax losses recognised in other comprehensive income totalled CHF 2,894 million (prior year: CHF 1,986 million).

11 Share-based payments

In CHF million	2012	2011
Share-based payments Management Incentive Plan	2	2
Other share-based payments	4	7
Total expense of share-based payments	**6**	**9**

Management Incentive Plan

The Management Incentive Plan is an equity-share plan for members of the Group Executive Board and Board of Directors. A part of the remuneration and of the variable earnings-related compensation of the members of the Board of Directors and Group Executive Board, respectively, is settled in the form of Swisscom shares. The shares are allocated based on their tax values. The level of the earnings-related compensation and the number of shares allocated are determined in the subsequent business year once the financial statements are finalised. The shares allocated to the members of the Group Executive Board are based on the variable earnings-related compensation of the prior year as reported. The tax value per share amounts to CHF 310 (prior year: CHF 346). The shares are subject to a retention period of three years from the grant date. The shares are vested immediately upon delivery.
The allocation and cost of share-based payments to the members of the Board of Directors and of the Group Executive Board may be analysed as follows:

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

[1] Allocation for the fiscal year 2011.

Allocation 2011	Number of allocated shares	Market price in CHF	Expense in CHF million
Members of the Board of Directors	1,895	412	0.8
Members of the Group Executive Board [1]	3,128	412	1.3
Total 2011	**5,023**	**412**	**2.1**

[1] Allocation for the fiscal year 2010.

Other share-based payments plans

As recognition for exceptional services rendered during the financial year, equity share premiums may be awarded to a maximum of 10% of managerial employees and those employees covered by the collective employment agreement. In 2012, 10,692 shares with a market price of CHF 361 per share were issued gratuitously and an expense of CHF 4 million was recorded. In the prior year, 16,654 shares with a market price of CHF 412 were issued gratuitously for exceptional services rendered and an expense of CHF 7 million was recorded.

12 Other operating expense

In CHF million	2012	2011
Rental expense	307	321
Maintenance expense	288	272
Loss on disposal of property, plant and equipment	7	5
Energy costs	111	108
Information technology cost	213	199
Advertising and selling expenses	248	256
Dealer commissions	365	371
Consultancy expenses and freelance employees	205	207
Allowances for receivables	70	111
General and administrative expenses	170	194
Miscellaneous operating expenses	412	344
Total other operating expense	**2,396**	**2,388**

13 Capitalised costs of self-constructed assets and other income

In CHF million	2012	2011
Capitalised self-constructed assets	265	266
Gain on sale of property, plant and equipment	16	23
Income from employment company Worklink (personnel hire)	4	6
Miscellaneous income	88	125
Total capitalised self-constructed assets and other income	**373**	**420**

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. In September 2011, the Italian subsidiary Fastweb settled legal disputes with another telecommunication service provider. As a result thereof, Fastweb reduced its customer base by 197,000 and transferred the customer relationships to the other telecommunication service provider. In turn, Fastweb receives a one-time payment of EUR 56 (CHF 69 million), which was recorded as other income in the third quarter of 2011.

14 Financial income and financial expense

In CHF million	2012	2011
Interest income	14	25
Capitalised borrowing costs	14	11
Foreign exchange gains	–	3
Other financial income	1	15
Total financial income	**29**	**54**
Interest expense	(267)	(299)
Present-value adjustments on provisions	(15)	(17)
Foreign exchange losses	(11)	–
Other financial expense	(32)	(49)
Total financial expense	**(325)**	**(365)**
Financial income and financial expense, net	**(296)**	**(311)**

Other financial income in the prior year includes changes in the fair value of options in connection with company acquisitions in an amount of CHF 9 million. Other financial expense in the prior year includes interest on arrears amounting to CHF 21 million. Net interest expense is to be analysed as follows:

In CHF million	2012	2011
Interest income on cash and cash equivalents	1	4
Interest income on other financial assets	13	21
Total interest income	**14**	**25**
Interest expense on bank loans, debenture bonds and private placements	(220)	(218)
Interest expense on finance lease liabilities	(42)	(42)
Interest expense on other financial liabilities	(1)	(1)
Change in fair value of interest hedging instruments	(4)	(38)
Total interest expense	**(267)**	**(299)**
Net interest expense	**(253)**	**(274)**

15 Income taxes

In CHF million	2012	2011
Current income tax expense	318	272
Adjustments recognised for current tax of prior periods	19	(2)
Deferred tax expense	68	(119)
Total income tax expense recognised in income statement	**405**	**151**

In addition, other comprehensive income reflects income taxes of CHF 185 million (prior year: CHF 268 million) which may be analysed as follows:

In CHF million	2012	2011
Foreign currency translation adjustments of foreign subsidiaries	6	111
Actuarial gains and losses from defined benefit pension plans	179	160
Change in fair value of cash flow hedges	1	3
Gains and losses from cash flow hedges transferred to income statement	(1)	(6)
Total income tax expense recognised in other comprehensive income	**185**	**268**

In 2011, as a result of lower foreign exchange translation rates, valuation allowances on foreign shareholdings were recorded in the stand-alone financial statements of Group companies and were deducted for tax purposes. For consolidation purposes, these valuation allowances are again eliminated. As a consequence of the tax deduction for the foreign currency-related allowances, income tax expense recognised in other comprehensive income of 2011 was reduced by CHF 111 million.

In prior years, valuation allowances on investments were recognised in the separate financial statements of Group subsidiaries and were deducted for tax purposes. The 2012 impairment tests revealed valuation results in excess of the net carrying amount of investments. In order for these results to be reflected in taxable profits, these write-ups must be sustained. This is not the case shortly after recognition of an impairment loss as it takes longer for this to occur. For this reason, no tax effects were recognised on the difference between the valuation results and the net carrying amount of the investments in the separate financial statements for 2012. Should the appreciations in value be classified as sustainable at some point in the future, this could result in a cash outflow of up to CHF 190 million. Swisscom believes a cash outflow to be unlikely and has therefore not recognised any tax obligations.

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

In CHF million	2012	2011
Income before income taxes	2,167	845
Applicable income tax rate	20.6%	20.6%
Income tax expense at the applicable income tax rate	**446**	**174**
Reconciliation to reported income tax expense		
Effect of share of results of associates	(7)	(6)
Effect of tax rate changes on deferred taxes	1	(15)
Effect of use of different income tax rates in Switzerland	(7)	5
Effect of use of different income tax rates in foreign countries	(16)	3
Effect of non-recognition of tax loss carry-forwards	17	14
Effect of recognition and offset of income loss carry-forwards not recognised in prior years	(21)	(7)
Effect of deferred tax assets written off	–	31
Effect of impairment losses on goodwill	–	(46)
Effect of exclusively tax-deductible expenses and income	(26)	1
Effect of non-taxable income and non-deductible expenses	(1)	(1)
Effect of income tax of prior periods	19	(2)
Total income tax expense	**405**	**151**
Effective income tax rate	18.7%	17.9%

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

In CHF million	2012	2011
Current income (tax assets) tax liabilities at 1 January, net	**(8)**	**5**
Recognised in income statement	337	270
Recognised in other comprehensive income	–	(109)
Income taxes paid	(190)	(182)
Interest on arrears	(5)	8
Current income tax liabilities (income tax assets) at 31 December, net	**134**	**(8)**
Thereof current income tax assets	(55)	(45)
Thereof current income tax liabilities	189	37

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

			31.12.2012			31.12.2011
In CHF million	Assets	Liabilities	Net amount	Assets	Liabilities	Net amount
Trade and other receivables	43	(22)	21	51	(20)	31
Property, plant and equipment	45	(288)	(243)	44	(211)	(167)
Intangible assets	–	(380)	(380)	–	(407)	(407)
Defined benefit obligations	551	–	551	392	–	392
Tax loss carry-forwards	165	–	165	139	–	139
Other	100	(33)	67	102	(23)	79
Total tax assets (tax liabilities)	**904**	**(723)**	**181**	**728**	**(661)**	**67**
Thereof deferred tax assets			417			311
Thereof deferred tax liabilities			(236)			(244)

Deferred tax assets and liabilities have changed as follows:

In CHF million	Balance 31.12.2011	Recognised in income statement	Recognised in other compre-hensive income	Change in scope of consol-idation	Foreign currency translation adjustments	Balance 31.12.2012
Trade and other receivables	31	(10)	–	–	–	21
Property, plant and equipment	(167)	(76)	–	–	–	(243)
Intangible assets	(407)	27	–	(2)	2	(380)
Defined benefit obligations	392	(19)	179	–	(1)	551
Tax loss carry-forwards	139	27	–	–	(1)	165
Other	79	(17)	6	–	(1)	67
Total	**67**	**(68)**	**185**	**(2)**	**(1)**	**181**

In CHF million	Balance 31.12.2010	Recognised in income statement	Recognised in other compre-hensive income	Change in scope of consol-idation	Foreign currency translation adjustments	Balance 31.12.2011
Trade and other receivables	27	5	–	–	(1)	31
Property, plant and equipment	(262)	96	–	–	(1)	(167)
Intangible assets	(447)	36	–	(2)	6	(407)
Defined benefit obligations	236	(4)	160	–	–	392
Tax loss carry-forwards	169	(27)	–	–	(3)	139
Other	66	13	(1)	–	1	79
Total	**(211)**	**119**	**159**	**(2)**	**2**	**67**

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 2012, various subsidiaries recognised deferred tax assets on tax loss carry-forwards and other temporary differences totalling CHF 904 million (prior year: CHF 728 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 301 million (prior year: CHF 257 million) were recognised by subsidiaries reporting a loss in 2011 or 2012. 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	31.12.2012	31.12.2011
Expiring within 1 year	2	37
Expiring within 1 to 2 years	9	33
Expiring within 2 to 3 years	38	9
Expiring within 3 to 4 years	5	56
Expiring within 4 to 5 years	14	27
Expiring within 5 to 6 years	27	20
Expiring within 6 to 7 years	43	43
No expiration	220	203
Total unrecognised tax loss carry-forwards	**358**	**428**

No deferred tax liabilities were recognised on the undistributed earnings of subsidiaries as of 31 December 2012 as in the prior year.

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	2012	2011
Share of net income attributable to equity holders of Swisscom Ltd	1,755	683
Weighted average number of shares outstanding (number)	51,800,729	51,800,573
Basic and diluted earnings per share (in CHF)	**33.88**	**13.19**

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	31.12.2012	31.12.2011
Cash and sight balances	538	314
Total cash and cash equivalents	**538**	**314**

In 2012, Swisscom had no term deposits outstanding as in the prior year.

18 Trade and other receivables

In CHF million	31.12.2012	31.12.2011
Billed revenue	2,483	2,637
Accrued revenue	186	169
Allowances	(209)	(249)
Total trade receivables, net	**2,460**	**2,557**
Accrual from international roaming traffic	306	370
Receivables from collection activities	24	21
Receivables from construction contracts	30	22
Other receivables	19	20
Allowances	(15)	(12)
Total other receivables, net	**364**	**421**
Total trade and other payables	**2,824**	**2,978**

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

The geographical distribution of trade receivables is as follows:

In CHF million	31.12.2012	31.12.2011
Switzerland	1,635	1,699
Italy	1,017	1,092
Other countries	17	15
Total billed and accrued revenue	**2,669**	**2,806**
Switzerland	(45)	(51)
Italy	(164)	(197)
Other countries	–	(1)
Total allowance for receivables	**(209)**	**(249)**
Total trade receivables, net	**2,460**	**2,557**

Analysis of maturity and allowances

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

	31.12.2012		31.12.2011	
In CHF million	Gross amount	Allowance	Gross amount	Allowance
Not overdue	1,683	(7)	1,851	(7)
Past due up to 3 months	427	(5)	423	(7)
Past due 4 to 6 months	84	(3)	97	(6)
Past due 7 to 12 months	180	(18)	122	(28)
Past due over 1 year	295	(176)	313	(201)
Total	**2,669**	**(209)**	**2,806**	**(249)**

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

In CHF million	Trade receivables	Other receivables
Balance at 31 December 2010	**247**	**15**
Additions to allowances	119	–
Write-off of irrecoverable receivables subject to allowance	(105)	–
Release of unused allowances	(7)	(3)
Foreign currency translation adjustments	(5)	–
Balance at 31 December 2011	**249**	**12**
Additions to allowances	78	3
Write-off of irrecoverable receivables subject to allowance	(107)	–
Release of unused allowances	(9)	–
Foreign currency translation adjustments	(2)	–
Balance at 31 December 2012	**209**	**15**

Construction contracts

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

In CHF million	2012	2011
Contract costs of current projects	117	90
Recognised gains less losses	8	10
Contract costs including share of gains and losses, net	**125**	**100**
Less progress billings	(100)	(81)
Total net receivables from construction contracts	**25**	**19**
Thereof receivables from construction contracts	30	22
Thereof liabilities from construction contracts	(5)	(3)
Advance payments received	41	29

In 2012, construction contracts generated net revenues of CHF 290 million (prior year: CHF 259 million).

19 Other financial assets

In CHF million	Loans and receivables	Available-for-sale	Derivative financial instruments	Total
Balance at 31 December 2010	**481**	**32**	**24**	**537**
Additions	27	3	–	30
Disposals	(299)	(1)	–	(300)
Change in fair value recognised in equity	–	(3)	5	2
Change in fair value recognised in income statement	–	–	(1)	(1)
Foreign currency translation adjustments recognised in income statement	1	–	–	1
Balance at 31 December 2011	**210**	**31**	**28**	**269**
Additions	5	11	–	16
Disposals	(38)	(1)	–	(39)
Change in fair value recognised in income statement	–	–	(5)	(5)
Foreign currency translation adjustments recognised in income statement	(4)	–	–	(4)
Balance at 31 December 2012	**173**	**41**	**23**	**237**
Thereof other current financial assets	13	4	23	40
Thereof other non-current financial assets	160	37	–	197

Loans and receivables

As of 31 December 2012, term deposits totalled CHF 6 million (prior year: CHF 5 million). As of 31 December 2012, financial assets in the amount of CHF 139 million were not freely available. These assets serve as security for bank loans. In 2011, following an agreement with the counterparty, receivables totalling USD 166 million (CHF 146 million) were offset against financial liabilities in the same amount and derecognised from the balance sheet.

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 2012, the carrying amount of investments in shares recorded at cost totalled CHF 20 million (prior year: CHF 13 million).

Derivative financial instruments

As at 31 December 2012, derivative financial instruments with a positive market value of CHF 23 million were recognised (prior year: CHF 28 million). As of 31 December 2012, options relating to company acquisitions with a fair value of CHF 23 million (prior year: CHF 23 million) were recorded. In the prior year, derivative financial instruments also included forward-exchange contracts. See Note 33.

20 Inventories

In CHF million	31.12.2012	31.12.2011
Raw material and supplies	5	5
Customer premises equipment and merchandise	157	146
Finished and semi-finished goods	4	5
Total inventories, gross	**166**	**156**
Allowances on inventories	(6)	(12)
Total inventories, net	**160**	**144**

In 2012, inventory-related costs amounting to CHF 1,061 million (prior year: CHF 991 million) were recorded under the cost of goods and services purchased.

21 Other non-financial assets

In CHF million	31.12.2012	31.12.2011
Prepaid expenses	119	130
Value-added taxes receivable	48	134
Advance payments made	28	36
Other assets	25	34
Total other current non-financial assets	**220**	**334**
Prepaid expenses	3	12
Other assets	39	44
Total other non-current non-financial assets	**42**	**56**

22 Non-current assets held for sale

Non-current assets held for sale include real estate from the segment Other Operating Segments in an amount of CHF 1 million (prior year: CHF 1 million). Disposal is anticipated within the next twelve months. In 2012, non-current assets held for sale were sold for a total of CHF 12 million (prior year: CHF 14 million). A gain on disposal of CHF 9 million (prior year: CHF 9 million) was recorded under 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
At cost					
Balance at 31 December 2010	**2,991**	**23,357**	**3,101**	**420**	**29,869**
Additions	7	982	223	414	1,626
Disposals	(18)	(920)	(198)	–	(1,136)
Additions from acquisition of subsidiaries	–	–	1	–	1
Adjustment to dismantlement and restoration costs	2	57	–	–	59
Reclassifications to non-current assets held for sale	(10)	–	–	–	(10)
Reclassifications	4	152	88	(244)	–
Foreign currency translation adjustments	(2)	(81)	1	–	(82)
Balance at 31 December 2011	**2,974**	**23,547**	**3,216**	**590**	**30,327**
Additions	6	1,091	223	382	1,702
Disposals	(101)	(235)	(195)	–	(531)
Additions from acquisition of subsidiaries	5	–	1	–	6
Adjustment to dismantlement and restoration costs	–	(45)	3	–	(42)
Reclassifications to non-current assets held for sale	(19)	–	–	–	(19)
Reclassifications	8	237	72	(323)	(6)
Foreign currency translation adjustments	(1)	(23)	–	–	(24)
Balance at 31 December 2012	**2,872**	**24,572**	**3,320**	**649**	**31,413**
Accumulated depreciation and impairment losses					
Balance at 31 December 2010	**2,125**	**17,682**	**2,163**	**–**	**21,970**
Depreciation	29	1,011	254	–	1,294
Impairment losses	1	–	–	–	1
Disposals	(16)	(920)	(189)	–	(1,125)
Reclassifications to non-current assets held for sale	(8)	–	–	–	(8)
Foreign currency translation adjustments	–	(27)	–	–	(27)
Balance at 31 December 2011	**2,131**	**17,746**	**2,228**	**–**	**22,105**
Depreciation	29	1,016	259	–	1,304
Disposals	(98)	(232)	(188)	–	(518)
Reclassifications to non-current assets held for sale	(16)	–	–	–	(16)
Reclassifications	–	(2)	(2)	–	(4)
Foreign currency translation adjustments	–	(7)	–	–	(7)
Balance at 31 December 2012	**2,046**	**18,521**	**2,297**	**–**	**22,864**
Net carrying amount					
Net carrying amount at 31 December 2012	**826**	**6,051**	**1,023**	**649**	**8,549**
Net carrying amount at 31 December 2011	**843**	**5,801**	**988**	**590**	**8,222**
Net carrying amount at 31 December 2010	**866**	**5,675**	**938**	**420**	**7,899**

The mobile phone network of Swisscom Switzerland was the object of a total overall renewal. As part of a modernisation process, Swisscom replaced all base stations, upgraded the planned stations or reconstructed them and enhanced the density of the mobile phone network with microcells. As a result of the replacement of the whole network equipment, the economic useful lives of existing installations were reduced. In compliance with IAS 8, the change was applied prospectively as from 1 January 2012. The impact on depreciation and amortisation for the whole of 2012 amounted to CHF 25 million.

In 2012, borrowing costs amounting to CHF 14 million were capitalised (prior year: CHF 11 million). The average interest rate used for the capitalisation of borrowing costs was 2.5% (prior year: 2.5%). As of 31 December 2012, the carrying amount of property, plant and equipment acquired under finance leases amounted to CHF 542 million (prior year: CHF 581 million). For further information on the adjustments to the costs of dismantling and restoration – see Note 28.

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 2010	**6,272**	**1,023**	**1,331**	**1,122**	**281**	**502**	**10,531**
Additions	–	131	184	–	–	169	484
Disposals	–	(82)	(30)	(4)	(6)	(27)	(149)
Reclassifications	–	92	78	–	–	(170)	–
Additions from acquisition of subsidiaries	15	5	–	6	–	–	26
Foreign-currency translation adjustments	(60)	(2)	(19)	(29)	(7)	(1)	(118)
Balance at 31 December 2011	**6,227**	**1,167**	**1,544**	**1,095**	**268**	**473**	**10,774**
Additions	–	88	167	–	–	626	881
Disposals	–	(107)	(60)	(7)	–	(12)	(186)
Reclassifications	–	69	46	–	–	(109)	6
Additions from acquisition of subsidiaries	3	3	–	9	–	–	15
Foreign-currency translation adjustments	(20)	(2)	(4)	(8)	(2)	–	(36)
Balance at 31 December 2012	**6,210**	**1,218**	**1,693**	**1,089**	**266**	**978**	**11,454**
Accumulated amortisation and impairment losses							
Balance at 31 December 2010	**11**	**672**	**854**	**474**	**105**	**131**	**2,247**
Amortisation	–	181	226	126	27	45	605
Impairment losses	1,555	–	3	–	–	–	1,558
Disposals	–	(82)	(28)	(4)	(6)	(26)	(146)
Foreign-currency translation adjustments	(3)	(2)	(11)	(13)	(3)	(1)	(33)
Balance at 31 December 2011	**1,563**	**769**	**1,044**	**583**	**123**	**149**	**4,231**
Amortisation	–	175	260	125	26	60	646
Disposals	–	(107)	(60)	(7)	–	(12)	(186)
Reclassifications	–	2	2	–	–	–	4
Foreign-currency translation adjustments	(15)	(1)	(3)	(4)	(1)	–	(24)
Balance at 31 December 2012	**1,548**	**838**	**1,243**	**697**	**148**	**197**	**4,671**
Net carrying amount							
Net carrying amount at 31 December 2012	**4,662**	**380**	**450**	**392**	**118**	**781**	**6,783**
Net carrying amount at 31 December 2011	**4,664**	**398**	**500**	**512**	**145**	**324**	**6,543**
Net carrying amount at 31 December 2010	**6,261**	**351**	**477**	**648**	**176**	**371**	**8,284**

As of 31 December 2012, other intangible assets included advance payments and assets under construction of CHF 223 million (prior year: CHF 150 million). Apart from the position goodwill, there are no intangible assets with indefinite useful lives. As of 31 December 2012, accumulated impairment losses on goodwill of CHF 1,548 million were recorded. Included therein is an impairment loss on Fastweb goodwill arising in 2011 amounting to CHF 1,540 million (EUR 1,276 million). Goodwill arising from investments in associates is classified as part of the investments in associates.

Auctioning of mobile phone frequencies

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

Goodwill impairment testing

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

In CHF million	31.12.2012	31.12.2011
Residential Customers	2,495	2,495
Small and Medium-Sized Enterprises	656	656
Corporate Business	734	734
Wholesale	45	45
Cash-generating units of Swisscom Switzerland	**3,930**	**3,930**
Fastweb	594	598
Other cash-generating units	138	136
Total goodwill	**4,662**	**4,664**

Goodwill was tested for impairment in the fourth quarter of 2012 after the business planning had been completed. The recoverable amount of a cash-generating unit is determined based on its value in use, using the discounted cash flow (DCF) method. The projected cash flows are estimated on the basis of the business plans approved by management in general covering a three-year period. A planning horizon of five years is used for the impairment test of Fastweb. For the free cash flows extending beyond the detailed planning period, a terminal value was computed by capitalising the normalised cash flows using a constant growth rate. The growth rates applied are those customarily assumed for the country or market. The key assumptions underlying the calculations are as follows:

	2012			2011		
Disclosures in %	WACC pre-tax	WACC post-tax	Long-term growth rate	WACC pre-tax	WACC post-tax	Long-term growth rate
Residential Customers	7.33	4.63	(1.0)	5.76	3.77	(1.0)
Small and Medium-Sized Enterprises	7.32	4.63	(1.1)	5.76	3.77	(1.1)
Corporate Business	7.47	4.63	(0.9)	5.96	3.77	(0.9)
Wholesale	7.31	4.63	(1.2)	5.78	3.77	(1.2)
Fastweb	10.34	7.60	1.0	9.70	7.75	1.0
Other cash-generating units	6.9–11.8	5.7–9.7	0–1.5	6.3–11.4	5.4–9.1	1.0–1.5

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

Swisscom Switzerland

The cash-generating units of Swisscom Switzerland are the operating segments Residential Customers, Small- and Medium-Sized Enterprises, Corporate Business and Wholesale. The impairment test of goodwill is conducted on these cash-generating units. The recoverable amount was determined based on the value in use using the discounted cash flow (DCF) method. The forecast of future cash flows is based upon the three-year business plan approved by management. Free cash flows extending beyond the detailed planning period were extrapolated using a negative long-term growth rate of –1.2% to –0.9%. 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 no reasonably expected changes in key assumptions made would cause the carrying amount of the cash-generating units to exceed the recoverable amount.

Fastweb

The impairment test in Fastweb was undertaken in the fourth quarter of 2012. 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 2013 to 2017. The latter 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 3.6% is expected for the detailed planning period up to 2017. In the prior year, an average annual growth in revenue of 2.5% had been expected for the detailed planning period 2012–2016.
Projected EBITDA margin (EBITDA as % of net revenue)	The projected EBITDA margin in 2017 is 36%. In the previous year, an EBITDA margin of 34% was assumed.
Projected capital expenditure rate (capex as % of net revenue)	In the period up to 2017, it is anticipated that capital expenditure in relation to net revenue will decline to less than 16% (prior year: 18%) as a high level of capital expenditure in the network infrastructure has already been made.
Post-tax discount rate	The post-tax discount rate is 7.60% (prior year: 7.75%) and the related pre-tax discount rate is 10.34% (prior year: 10.31%). 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 is derived from ten-year bonds issued by the German government with a zero interest rate. A premium for the country risk of Italy is then added.
Long-term growth rate	The normalised free cash flows in the terminal value were capitalised with a constant growth rate of 1.0% as in the prior year. The growth rate employed corresponds to that customarily used for the country and market based upon experience values as well as future projections and which are corroborated by external information sources. The growth rate employed does not exceed the long-term average growth rate customarily used for the country and market.

As of the date of the impairment test, no impairment of goodwill resulted. The recoverable amount exceeded the carrying amount by EUR 839 million (CHF 1,020 million). The following changes in material assumptions lead to a situation where the value in use equals the carrying amount:

	2012	Sensitivity
Average annual growth rate through 2017 with unchanged EBITDA margin in business plan.	3.6%	1.0%
Projected EBITDA margin 2017	36%	32%
Capital expenditure rate 2017	16%	20%
Post-tax discount rate	7.60%	9.42%
Long-term growth rate	1.0%	–1.4%

25 Investments in associates

In CHF million	2012	2011
Balance at 1 January	**233**	**231**
Additions	49	3
Dividends	(38)	(29)
Share of net results	32	30
Share of equity transaction	(7)	–
Foreign currency translation adjustments	(1)	(2)
Balance at 31 December	**268**	**233**

The most significant participations classified as associates are LTV Yellow Pages, Cinetrade and Belgacom International Carrier Services. Dividends received totalling CHF 38 million (prior year: CHF 29 million) are attributable mainly to the dividends paid by LTV Yellow Pages, Cinetrade and Belgacom International Carrier Services.
On 21 March 2012, Swisscom acquired an 11.1% minority shareholding in the Italian company Metroweb for a purchase price of EUR 37 million (CHF 45 million). Metroweb is the operator of the largest glass fibre network in Milan and Lombardy. Through its representation on the Board of Directors of the company, inter alia, Swisscom can exercise a significant influence over Metroweb. For this reason, Metroweb is reflected in the consolidated financial statements of Swisscom as an associated company.
The following table provides selected summarised key financial data of the associates:

In CHF million	2012	2011
Income statement		
Net revenue	2,354	2,258
Operating expense	(2,170)	(2,131)
Operating income	184	127
Net income	**153**	**104**
Balance sheet at 31 December		
Current assets	993	970
Non-current assets	382	318
Current liabilities	(858)	(806)
Non-current liabilities	(48)	(22)
Equity	**469**	**460**

26 Financial liabilities

In CHF million	31.12.2012	31.12.2011
Money market borrowings	–	130
Bank loans	196	158
Debenture bonds	631	326
Private placements	131	151
Finance lease liabilities	7	20
Other interest-bearing financial liabilities	8	9
Derivative financial instruments. See Note 33.	75	6
Other non-interest-bearing financial liabilities	5	4
Total current financial liabilities	**1,053**	**804**
Bank loans	973	1,019
Debenture bonds	4,824	4,873
Private placements	1,121	1,248
Finance lease liabilities	632	640
Other interest-bearing financial liabilities	3	5
Derivative financial instruments. See Note 33.	161	225
Other non-interest-bearing financial liabilities	16	17
Total non-current financial liabilities	**7,730**	**8,027**
Total financial liabilities	**8,783**	**8,831**

Money market borrowings

As of 31 December 2011, Swisscom had money market borrowings of CHF 130 million which were repaid in full in 2012. Swisscom employs this instrument for short-term liquidity management.

Bank loans and credit limit

			Carrying amount	
In CHF million	Due within	Par value in CHF	31.12.2012	31.12.2011
Bank loans in CHF variable interest-bearing	2013–2017	580	580	580
Bank loans in EUR variable interest-bearing	2015	422	422	426
Bank loans in USD fixed interest-bearing	2013–2028	123	167	171
Total			**1,169**	**1,177**

In 2012, Swisscom took up variable interest rate bank loans with a nominal amount of CHF 150 million maturing in one year. In 2012, Swisscom repaid bank loans amounting to CHF 150 million (prior year: CHF 225 million). In 2011, following an agreement with the counterparty, receivables totalling USD 166 million (CHF 146 million) were offset against financial liabilities in the same amount and removed from the balance sheet. The total EUR-denominated bank loans were swapped into variable interest-bearing CHF financing through foreign currency swaps. As of 31 December 2012, no transaction costs were recognised (prior year CHF 1 million). The transaction costs are amortised over the terms of the bank loans using the effective interest method. The effective interest rate of the CHF denominated bank loans is 0.56%. For the bank loans in USD and EUR, the rate is 4.53% and 0.37%, respectively. 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 guaranteed line of credit of CHF 2,000 million from banks maturing in 2015. As of 31 December 2012, this line of credit had not been drawn down, as in the prior year.

Debenture bonds

In CHF million	Maturity years	Par value	Nominal interest rate	Carrying amount 31.12.2012	Carrying amount 31.12.2011
Debenture bonds in CHF	2010–2012	250	0.75%	–	250
Debenture bonds in CHF	2007–2013	550	3.50%	560	562
Debenture bonds in CHF	2007–2017	600	3.75%	611	611
Debenture bonds in CHF	2008–2015	500	4.00%	504	504
Debenture bonds in CHF	2009–2014	1,250	3.50%	1,280	1,279
Debenture bonds in CHF	2009–2018	1,500	3.25%	1,500	1,498
Debenture bonds in CHF	2010–2022	500	2.63%	497	495
Debenture bonds in CHF	2012–2024	500	1.75%	503	–
Total				**5,455**	**5,199**

In 2012, Swisscom issued one debenture bond aggregating CHF 500 million with a coupon rate of 1.75% and a term of twelve years. The amount taken up was applied to refinance existing loans. In 2012, a debenture bond totalling CHF 250 million was redeemed upon maturity. The effective interest rate on the debenture bonds is 3.23%. The investors are entitled to sell the debentures back to Swisscom 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 31.12.2012	Carrying amount 31.12.2011
Private placements in CHF abroad	2017–2019	600	567	560
Private placements in CHF domestic	2012–2016	350	350	500
Private placements in EUR abroad	2013–2014	332	335	339
Total			**1,252**	**1,399**

In 2012, a private placement amounting to CHF 150 million was repaid. The interest rate risk of private placements maturing in 2016 is hedged with interest-rate swaps and was designated as cash flow hedges for hedge accounting purposes. The duration of the hedges is identical to the duration of the hedged private placements. The total EUR-denominated private placement was swapped to variable CHF financing using currency swaps. The swap of fixed interest-bearing EUR financing into variable CHF financing was designated as a fair value hedge. As in the prior year, no transaction costs were recorded as of 31 December 2012 in connection with the private placements. The effective interest rate on the private placements in CHF is 1.42%. For the EUR-denominated private placements, the rate is 0.71%. The Swiss-franc-denominated private placements maturing in 2017 through 2019 of CHF 600 million 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.

Financial liabilities from cross-border lease agreements

Between 1996 and 2002, Swisscom entered into various cross-border lease agreements under the terms of which parts of its fixed 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 investments and payment under-taking agreements and the liabilities in the same amount are offset and not recorded in the balance sheet. At 31 December 2012, the financial liabilities and assets including accrued interest which arose from cross-border lease agreements amounted to USD 44 million or CHF 40 million, respectively, which, in compliance with SIC 27, were not recognised in the balance sheet (prior year: USD 42 million or CHF 39 million).

Liabilities arising from finance leases

In addition to the cross-border lease agreements described above, 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 2012, the deferred gains totalled CHF 187 million (prior year: CHF 191 million). The deferred gains are released to other income over the term of the individual leases. In 2012, CHF 4 million (prior year: CHF 5 million) of the deferred gains was released. The effective interest rate of the finance lease liabilities was 6.65%. The minimum lease payments relating to these leaseback agreements are included in the table below. In addition, other real estate has been leased under operating leases over durations ranging from 1 to 26 years. See Note 35. In 2012, contingent rental payments of CHF 4 million (prior year: CHF 4 million) were recorded as rental expense. As of the balance sheet date, future minimum lease payments and financial liabilities aggregated:

In CHF million	31.12.2012	31.12.2011
Within 1 year	48	61
Within 1 to 2 years	47	51
Within 2 to 3 years	47	46
Within 3 to 4 years	47	46
Within 4 to 5 years	47	46
After 5 years	1,611	1,659
Total future minimum lease payments	**1,847**	**1,909**
Less future financing costs	(1,208)	(1,249)
Total finance lease liabilities	**639**	**660**
Thereof current finance lease liabilities	7	20
Thereof non-current finance lease liabilities	632	640

The future payments of the liabilities arising under finance leases, expressed in terms of their present value, as of 31 December 2011 and 2012 were as follows:

In CHF million	31.12.2012	31.12.2011
Within 1 year	7	20
Within 1 to 2 years	6	10
Within 2 to 3 years	7	6
Within 3 to 4 years	7	6
Within 4 to 5 years	7	6
After 5 years	605	612
Total present value of finance lease liabilities	**639**	**660**

27 Trade and other payables

In CHF million	31.12.2012	31.12.2011
Supplier invoices received	1,284	1,260
Goods and services received not yet invoiced	423	379
Total trade payables	**1,707**	**1,639**
Accrual from international roaming traffic	187	268
Liabilities from collection activities	22	27
Liabilities from construction contracts	5	3
Miscellaneous liabilities	238	253
Total other liabilities	**452**	**551**
Total trade and other payables	**2,159**	**2,190**

28 Provisions

In CHF million	Termination benefits	Dismantlement and restoration costs	Regulatory proceedings	Other	Total
Balance at 31 December 2010	**25**	**487**	**159**	**191**	**862**
Additions to provisions	9	62	27	69	167
Present-value adjustments	–	11	3	3	17
Release of unused provisions	(11)	(8)	(9)	(23)	(51)
Use of provisions	(13)	(3)	(49)	(25)	(90)
Foreign currency translation adjustments	–	–	–	(2)	(2)
Balance at 31 December 2011	**10**	**549**	**131**	**213**	**903**
Additions to provisions	74	4	22	33	133
Present-value adjustments	–	9	3	3	15
Release of unused provisions	(8)	(49)	(3)	(27)	(87)
Use of provisions	(10)	(1)	(49)	(63)	(123)
Foreign currency translation adjustments	–	–	–	(1)	(1)
Balance at 31 December 2012	**66**	**512**	**104**	**158**	**840**
Thereof current provisions	63	1	18	72	154
Thereof non-current provisions	3	511	86	86	686

Provisions for termination benefits

On 31 October 2012, Swisscom announced a personnel downsizing plan involving some 400 positions with the objective of securing the Group's competitiveness. The plan involves costs of CHF 50 million which were recognised in the fourth quarter of 2012. For further information see Note 9.

Provisions for dismantling and restoration costs

The provisions for dismantling and restoration costs relate to the dismantling of mobile phone and broadcasting stations of Swisscom Switzerland and Swisscom Broadcast and the restoration to its original state of the land owned by third parties on which the transmitters are located. The provisions are computed by reference to estimates of future dismantling costs and are discounted using an average interest rate of 1.63% (prior year: 1.88%). The effect of using different interest rates amounted to CHF 18 million (prior year: CHF 56 million). In addition, the assumption regarding the indexation of construction costs was subjected to a review and reduced by 0.50% to 1.5%. This resulted in a reduction of the provision of CHF 60 million. In 2012, adjustments in the amount of CHF 42 million (prior year: CHF 59 million) were recorded under the dismantling costs capitalised as part of property, plant and equipment and CHF 4 million (prior year: CHF 4 million) was recognised in the income statement. The non-current portion of the provisions is expected to be settled subsequent to 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. Interconnection regulates the joint hook-up of Swisscom's networks and those of other telecommunication service providers. Since 2000, Swisscom charges its interconnection prices in accordance with the cost-accounting method of long-run incremental costs (LRIC) prescribed in the Ordinance on Telecommunication Services (FDV). The amended Telecommunications Act (TCA) and its implementing ordinances obligate Swisscom, from 1 April 2007 onwards, to offer further access services to the other providers of telecommunication services at prices which – with the exception of charges for subscriber connections over fixed landlines – are also computed in accordance with the LRIC cost-accounting method prescribed in the Ordinance on Telecommunication Services (FDV). Following a petition by two telecommunication service providers, ComCom established in its rulings of 10 March 2010 that Swisscom occupies a position of market dominance regarding all transmission technologies capable of being used for rental lines of all bandwidths throughout Switzerland. The only exception was connections between localities where the services of at least two alternative service providers are available in addition to those supplied by Swisscom. For this reason, ComCom ruled on cost-based prices for rental lines with bandwidths of 2 Mbit/s to 10 Gbit/s for the years 2007-2009 and thus lowered the related prices charged by Swisscom by 15–30%. On 26 April 2010, Swisscom appealed against these rulings. With its decisions of 28 February 2012 and 22 March 2012, the Federal Administrative Court largely dismissed the appeal of Swisscom. As a result, however, Swisscom was not required to adjust the provisions raised in prior year.
As of 31 December 2012, the provisions relating to the proceedings for interconnection and other access services of Swisscom (Switzerland) Ltd amounted to CHF 104 million. Settlements made in 2012 amounted to CHF 49 million. Settlements of the remaining claims are dependent upon the date on which legally binding rulings and decisions are issued.

Other provisions

Other provisions include provisions for environmental, contractual and tax risks, as well as provisions for insurance claims. The non-current portion of the provisions will most likely be settled between 2014 and 2016.

Tax risks Fastweb

On 23 February 2010, the Italian investigatory authorities, based upon an investigatory report concerning VAT fraud and criminal organisation, initiated penal proceedings against Fastweb and other individuals and companies. In addition, tax audits by the Italian Tax Police took place in respect of the years 2003 through 2009. The object of the investigations was, inter alia, the purchase and resale of telephone cards by Fastweb in 2003 as well as interconnection services of Fastweb in 2005 through the beginning of 2007. In prior years, Swisscom recognised provisions and income tax liabilities on the basis of a legal opinion. In the fourth quarter of 2010, a preliminary agreement was reached with the Italian authorities for part of the VAT proceedings. In the third quarter of 2012, a second agreement was reached with the Italian authorities on the remaining value-added tax proceedings as well as on the tax audits for 2003-2009, the results of which were for the most part settled. The provisions and income-tax liabilities recognised covered the costs arising from the agreement reached.

29 Contingent liabilities

Proceedings conducted by the Competition Commission

The Competition Commission (ComCo) is currently investigating a number of companies in the Swisscom Group which are described below. If it is proven that Swisscom has violated Antitrust Law, ComCo is entitled to impose sanctions. This sanction depends on the length and severity and nature of the violation and may amount to up to 10% of the revenue generated by the company in question in the relevant markets in Switzerland over the last three financial years.
On 20 October 2005, ComCo launched an investigation into Swisscom Ltd and Swisscom (Switzerland) Ltd into abuse of a dominant market position. The object of the investigation is the question whether Swisscom has set the prices for ADSL pre-services for Internet service providers at such a high level that no scope remains for these providers for an adequate profit margin in relation to the end-customer prices charged by Swisscom itself (price squeezing). Swisscom contests the allegation of market dominance and refutes the accusation of price squeezing. It is of the opinion that the prices for its ADSL pre-services leave its ADSL competitors enough room for a reasonable profit margin. With its decision of 5 November 2009, ComCo sanctioned Swisscom for abuse of a market-dominant position in the case of ADSL services and levied a fine of CHF 220 million. Swisscom appealed against the ruling at the Federal Administrative Court on 7 December 2009. On the basis of a legal opinion, Swisscom concludes that, from the present-day perspective, it is not probable that a court of final appeal will levy sanctions. It thus has raised no provisions in the consolidated financial statements as of 31 December 2011 and 2012. In the event of a legally binding decision on abuse, claims could be asserted against Swisscom under civil law. Swisscom considers it unlikely that such civil claims can be enforced.

Regulatory proceedings

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

Other contingent liabilities

In the second quarter of 2012, one competitor of Fastweb lodged a complaint against Fastweb in connection with the invitation to tender for large customer contracts. Based upon a legal opinion, Swisscom concluded that an outflow of resources as a result of the complaint is not probable. Accordingly, no provision was established. An adverse outcome of the proceedings could give rise to an outflow of resources of approx. EUR 60 million (CHF 72 million).

30 Other non-financial liabilities

In CHF million	31.12.2012	31.12.2011
Deferred revenue	338	354
Value-added taxes payable	117	144
Advance payments received	56	21
Other current non-financial liabilities	132	157
Total other current non-financial liabilities	**643**	**676**
Deferred gain on sale and leaseback of real estate	187	191
Other non-current non-financial liabilities	100	105
Total other non-current non-financial liabilities	**287**	**296**

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

31 Additional information concerning equity

Share capital and treasury shares

As of 31 December 2012, the total number of shares issued remained unchanged from the prior year at 51,801,943 shares. All shares have a par value of CHF 1 and are fully paid up. Each share entitles the holder to one vote. Shares with a market value aggregating CHF 6 million (prior year: CHF 9 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 2010	**3,859**	**332**	**1**
Purchases on the market	18,253	404	7
Allocated for share-based compensation	(21,677)	391	(8)
Balance at 31 December 2011	**435**	**404**	**–**
Purchases on the market	15,500	361	6
Allocated for share-based compensation	(15,489)	361	(6)
Balance at 31 December 2012	**446**	**361**	**–**

After deducting 446 treasury shares (prior year: 435 shares), the balance of shares outstanding as at 31 December 2012 totalled 51,801,497 (prior year: 51,801,508 shares).

Other reserves

In CHF million	Hedging reserve	Fair value reserve	Foreign currency translation adjustments	Total other reserves
Balance at 31 December 2010	**(38)**	**2**	**(1,550)**	**(1,586)**
Foreign currency translation adjustments of foreign subsidiaries	–	–	(149)	(149)
Change in fair value of available-for-sale financial assets	–	(3)	–	(3)
Gains and losses from available-for-sale financial assets transferred to income statement	–	3	–	3
Change in fair value of cash flow hedges	(24)	–	–	(24)
Ineffective portion of cash flow hedges transferred to income statement	31	–	–	31
Income tax expense	(3)	–	111	108
Balance at 31 December 2011	**(34)**	**2**	**(1,588)**	**(1,620)**
Foreign currency translation adjustments of foreign subsidiaries	–	–	(26)	(26)
Gains and losses from available-for-sale financial assets transferred to income statement	–	5	–	5
Change in fair value of cash flow hedges	(5)	–	–	(5)
Fair value losses of cash flow hedges transferred to income statement	8	–	–	8
Income tax expense	–	(1)	6	5
Balance at 31 December 2012	**(31)**	**6**	**(1,608)**	**(1,633)**

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 2012, cumulative foreign currency translation losses at Fastweb amounted to CHF 1,978 million (prior year: CHF 1,951 million).

Other comprehensive income

Other comprehensive income in 2012 may be analysed as follows:

2012, 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
Foreign currency translation adjustments of foreign subsidiaries	–	–	–	(26)	(26)	–	(26)
Actuarial gains and losses from defined benefit pension plans	(904)	–	–	–	(904)	(4)	(908)
Gains and losses from available-for-sale financial assets transferred to income statement	–	–	5	–	5	–	5
Change in fair value of cash flow hedges	–	(5)	–	–	(5)	–	(5)
Fair value losses of cash flow hedges transferred to income statement	–	8	–	–	8	–	8
Income tax expense	179	–	(1)	6	184	1	185
Total other comprehensive income	**(725)**	**3**	**4**	**(20)**	**(738)**	**(3)**	**(741)**

Other comprehensive income in 2011 may be analysed as follows:

2011, 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
Foreign currency translation adjustments of foreign subsidiaries	–	–	–	(149)	(149)	–	(149)
Actuarial gains and losses from defined benefit pension plans	(781)	–	–	–	(781)	–	(781)
Change in fair value of available-for-sale financial assets	–	–	(3)	–	(3)	–	(3)
Gains and losses from available-for-sale financial assets transferred to income statement	–	–	3	–	3	–	3
Change in fair value of cash flow hedges	–	(24)	–	–	(24)	–	(24)
Ineffective portion of cash flow hedges transferred to income statement	–	31	–	–	31	–	31
Income tax expense	160	(3)	–	111	268	–	268
Total other comprehensive income	**(621)**	**4**	**–**	**(38)**	**(655)**	**–**	**(655)**

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 2012, Swisscom Ltd's distributable reserves amounted to CHF 5,082 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 2012 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 2011 and 2012:

In CHF million, except where indicated	2012	2011
Number of registered shares eligible for dividend (in millions of shares)	51.801	51.802
Ordinary dividend per share (in CHF)	22.00	21.00
Dividends paid	**1,140**	**1,088**

In 2012, dividend payments were funded entirely from retained earnings. In the prior year, dividends of CHF 234 million were paid from capital reserves and CHF 854 million from retained earnings. The Board of Directors proposes to the Annual Shareholders' Meeting to be held on 4 April 2013 the payment of an ordinary dividend of CHF 22 per share in respect of the 2012 financial year. This equates a total dividend distribution of CHF 1,140 million. The dividend payment is foreseen on 11 April 2013.

33 Financial risk management and supplementary disclosures regarding financial instruments

Swisscom is exposed to a variety of 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 is 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 credit-risk management from business operations, is handled by the central Treasury Department. It identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. The implemented risk management process also requires routine reports on the development of financial risks.

Market price risks

Foreign exchange risks
Swisscom is exposed to foreign exchange risks; these can impact the Group's financial results and consolidated equity. Foreign exchange risks which have an impact on cash flows (transaction risks) are partially hedged by financial instruments and designated for hedge accounting. However, foreign exchange risks with an impact on equity (translation risks) are not hedged. 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 are employed to hedge transaction risks. Mainly affected are USD and EUR. As of 31 December 2012, Swisscom did not hedge foreign currency translation risks in connection with the translation of financial statements expressed in foreign currency (translation risk) using financial instruments, as in the prior year.

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

In CHF million	EUR	USD	Other
At 31 December 2012			
Cash and cash equivalents	59	2	–
Trade and other receivables	14	5	11
Other financial assets	2	146	–
Financial liabilities	(757)	(166)	–
Trade and other payables	(254)	(71)	(23)
Net exposure at carrying amounts	**(936)**	**(84)**	**(12)**
Net forecasted cash flows exposure in the next 12 months	(118)	(313)	–
Net exposure before hedges	**(1,054)**	**(397)**	**(12)**
Forward currency contracts	–	146	–
Foreign currency swaps	83	18	–
Currency swaps	755	37	–
Hedges	**838**	**201**	**–**
Net exposure	**(216)**	**(196)**	**(12)**

The currency risks and hedging contracts for foreign currencies as of 31 December 2011 are to be analysed as follows:

In CHF million	EUR	USD	Other
At 31 December 2011			
Cash and cash equivalents	4	5	1
Trade and other receivables	9	7	21
Other financial assets	–	177	–
Financial liabilities	(928)	(196)	–
Trade and other payables	(336)	(45)	(26)
Net exposure at carrying amounts	**(1,251)**	**(52)**	**(4)**
Net forecasted cash flows exposure in the next 12 months	(648)	(345)	–
Net exposure before hedges	**(1,899)**	**(397)**	**(4)**
Forward currency contracts	286	162	–
Foreign currency swaps	37	–	–
Currency swaps	760	37	–
Hedges	**1,083**	**199**	**–**
Net exposure	**(816)**	**(198)**	**(4)**

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	31.12.2012	31.12.2011
Income impact on balance sheet items		
EUR volatility of 4.85% (previous year: 9.86%)	45	123
USD volatility of 8.94% previous year: 15.56%)	8	8
Hedges for balance sheet items		
EUR volatility of 4.85% (previous year: 9.86%)	(37)	(75)
USD volatility of 8.94% previous year: 15.56%)	(3)	(6)
Planned cash flows		
EUR volatility of 4.85% (previous year: 9.86%)	6	64
USD volatility of 8.94% previous year: 15.56%)	28	54
Hedges for planned cash flows		
EUR volatility of 4.85% (previous year: 9.86%)	(4)	(32)
USD volatility of 8.94% previous year: 15.56%)	(15)	(25)

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	31.12.2012	31.12.2011
Fixed interest-bearing financial liabilities	6,472	5,978
Variable interest-bearing financial liabilities	1,985	2,537
Total interest-bearing financial liabilities	**8,457**	**8,515**
Fixed interest-bearing financial assets	(93)	(115)
Variable interest-bearing financial assets	(572)	(359)
Total interest-bearing financial assets	**(665)**	**(474)**
Total interest-bearing financial assets and liabilities, net	**7,792**	**8,041**
Variable interest-bearing	1,413	2,178
Fixed through interest rate swaps	(350)	(350)
Variable through interest rate swaps	57	58
Variable interest-bearing, net	**1,120**	**1,886**
Fixed interest-bearing	6,379	5,863
Fixed through interest rate swaps	350	350
Variable through interest rate swaps	(57)	(58)
Fixed interest-bearing, net	**6,672**	**6,155**
Total interest-bearing financial assets and liabilities, net	**7,792**	**8,041**

Sensitivity analysis

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

	Income statement		Equity	
In CHF million	Increase 100 base points	Decrease 100 base points	Increase 100 base points	Decrease 100 base points
At 31 December 2012				
Variable financing	(14)	14	–	–
Interest rate swaps	3	(3)	12	(2)
Cash flow sensitivity, net	**(11)**	**11**	**12**	**(2)**
At 31 December 2011				
Variable financing	(22)	22	–	–
Interest rate swaps	3	(3)	16	(8)
Cash flow sensitivity, net	**(19)**	**19**	**16**	**(8)**

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 allowances. In addition, the danger of risk concentrations is minimised by the large number of customers. As regards financial assets which are neither impaired nor in default as of the balance sheet date, there are no indications that the debtors will not be capable of meeting their payment obligations. Further information on financial assets is set out in Notes 17, 18 and 19.

Credit risks from financial transactions

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

The carrying amount of financial assets corresponds to the credit risk and is to be analysed as follows:

In CHF million	Note	31.12.2012	31.12.2011
Cash and cash equivalents	17	538	314
Trade and other receivables	18	2,824	2,978
Loans and receivables	19	173	210
Derivative financial instruments	19	23	28
Total carrying amount of financial assets		**3,558**	**3,530**

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	31.12.2012	31.12.2011
AAA	28	1
AA	–	–
AA–	139	168
A+	150	87
A	99	9
A–	9	11
BBB+	8	1
BBB	–	2
Without rating, with government guarantee	234	189
Without rating	67	84
Total	**734**	**552**

Liquidity risk

Prudent liquidity management includes the holding of adequate reserves of cash and cash equivalents and marketable securities as well as the provision of adequate financing. Swisscom has processes and policies in place that guarantee sufficient liquidity in order to settle current and future obligations. Swisscom has an unchanged confirmed line of credit from banks with a maturity ending in 2015 of CHF 2,000 million. As of 31 December 2012, this line 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 2012 are as follows:

In CHF million	Carrying amount	Contractual payments	Due within 1 year	Due within 1 to 2 years	Due within 3 to 5 years	Due after 5 years
At 31 December 2012						
Non-derivative financial liabilities						
Bank loans	1,169	1,271	199	11	877	184
Debenture bonds	5,455	6,211	727	1,407	1,400	2,677
Private placements	1,252	1,338	145	214	622	357
Finance lease liabilities	639	1,847	48	47	141	1,611
Other interest-bearing financial liabilities	11	11	8	1	1	1
Other non-interest-bearing financial liabilities	21	21	5	16	–	–
Trade and other payables	2,159	2,159	2,159	–	–	–
Derivative financial liabilities						
Derivative financial instruments	236	313	81	83	65	84
Total	**10,942**	**13,171**	**3,372**	**1,779**	**3,106**	**4,914**

The contractual maturities of financial liabilities including estimated interest payments as of 31 December 2011 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 2011						
Non-derivative financial liabilities						
Money market borrowings	130	130	130	–	–	–
Bank loans	1,177	1,268	166	17	891	194
Debenture bonds	5,199	6,025	420	718	2,087	2,800
Private placements	1,399	1,473	163	144	566	600
Finance lease liabilities	660	1,909	61	51	138	1,659
Other interest-bearing financial liabilities	14	14	10	2	1	1
Other non-interest-bearing financial liabilities	21	21	4	15	2	–
Trade and other payables	2,190	2,190	2,190	–	–	–
Derivative financial liabilities						
Derivative financial instruments	231	309	4	85	129	91
Total	**11,021**	**13,339**	**3,148**	**1,032**	**3,814**	**5,345**

Estimation of fair values

The carrying amounts of trade receivables and payables as well as other receivables and payables are a reasonable estimate of their fair value because of their short-term maturities. The carrying amounts of cash and cash equivalents and current loans receivable correspond to the fair values. The fair value of available-for-sale financial investments is based on quoted stock exchange prices or equates their purchase cost. The fair values of other non-current financial assets are computed on the basis of the maturing future payments, discounted at market interest rates. The fair value of fixed interest-bearing financial liabilities is estimated on the basis of the maturing future payments discounted at market interest rates. 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 exchange forward contracts are valued by reference to foreign exchange forward rates as of the balance sheet date. Foreign currency options are measured using option pricing models.

Asset/liability categories and fair value of financial instruments

In CHF million	Carrying amount Loans and receivables	Available-for-sale	At fair value through profit or loss	Financial liabilities	Fair value
At 31 December 2012					
Cash and cash equivalents	538	–	–	–	538
Trade and other receivables	2,824	–	–	–	2,824
Other financial assets					
Term deposits with maturities over 90 days	6	–	–	–	6
Other loans and receivables	167	–	–	–	185
Available-for-sale financial assets	–	41	–	–	41
Derivative financial instruments	–	–	23	–	23
Total financial assets	**3,535**	**41**	**23**	**–**	**3,617**
Money market borrowings	–	–	–	–	–
Bank loans	–	–	–	1,169	1,217
Debenture bonds	–	–	–	5,455	5,896
Private placements	–	–	–	1,252	1,284
Finance lease liabilities	–	–	–	639	1,344
Other interest-bearing financial liabilities	–	–	–	11	11
Other non-interest-bearing financial liabilities	–	–	–	21	21
Derivative financial instruments	–	–	236	–	236
Trade and other payables	–	–	–	2,159	2,159
Total financial liabilities	**–**	**–**	**236**	**10,706**	**12,168**

In CHF million	Carrying amount Loans and receivables	Available-for-sale	At fair value through profit or loss	Financial liabilities	Fair value
At 31 December 2011					
Cash and cash equivalents	314	–	–	–	314
Trade and other receivables	2,978	–	–	–	2,978
Other financial assets					
Term deposits with maturities over 90 days	5	–	–	–	5
Other loans and receivables	205	–	–	–	222
Available-for-sale financial assets	–	31	–	–	31
Derivative financial instruments	–	–	28	–	28
Total financial assets	**3,502**	**31**	**28**	**–**	**3,578**
Money market borrowings	–	–	–	130	130
Bank loans	–	–	–	1,177	1,216
Debenture bonds	–	–	–	5,199	5,657
Private placements	–	–	–	1,399	1,458
Finance lease liabilities	–	–	–	660	1,253
Other interest-bearing financial liabilities	–	–	–	14	15
Other non-interest-bearing financial liabilities	–	–	–	21	21
Derivative financial instruments	–	–	231	–	231
Trade and other payables	–	–	–	2,190	2,190
Total financial liabilities	**–**	**–**	**231**	**10,790**	**12,171**

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.

In CHF million	Level 1	Level 2	Level 3	Total
At 31 December 2012				
Financial assets				
Available-for-sale financial assets	1	–	20	21
Derivative financial assets	–	–	23	23
Financial liabilities				
Derivative financial liabilities	–	236	–	236
At 31 December 2011				
Financial assets				
Available-for-sale financial assets	2	–	16	18
Derivative financial assets	–	5	23	28
Financial liabilities				
Derivative financial liabilities	–	231	–	231

In addition, available-for-sale financial assets as of 31 December 2012 with a carrying amount of CHF 20 million (prior year: CHF 13 million) were measured at cost. The level-3 assets consist of investments in various investment funds. The fair value was arrived at using a valuation model. In 2011 and 2012, there were no reclassifications between the various levels.

Asset/liability categories and results of financial instruments

The results for each asset/liability 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
2012					
Interest income (interest expense)	14	–	(4)	(258)	(5)
Foreign currency translation adjustments	(4)	–	(3)	6	–
Gains and losses transferred from equity	–	(5)	–	–	(3)
Net result recognised in income statement	**10**	**(5)**	**(7)**	**(252)**	**(8)**
Change in fair value	–	–	–	–	(5)
Gains and losses transferred to income statement	–	5	–	–	8
Net result recognised in other comprehensive income	**–**	**5**	**–**	**–**	**3**
Total net result by asset/liability category	**10**	**–**	**(7)**	**(252)**	**(5)**

In CHF million	Loans and receivables	Available-for-sale	At fair value through profit or loss	Financial liabilities	Hedging transactions
2011					
Interest income (interest expense)	25	–	(38)	(257)	(4)
Change in fair value	–	–	9	–	–
Foreign currency translation adjustments	(2)	–	(17)	21	–
Gains and losses transferred from equity	–	(3)	–	–	(27)
Net result recognised in income statement	**23**	**(3)**	**(46)**	**(236)**	**(31)**
Change in fair value	–	(3)	–	–	(24)
Gains and losses transferred to income statement	–	3	–	–	31
Net result recognised in other comprehensive income	**–**	**–**	**–**	**–**	**7**
Total net result by asset/liability category	**23**	**(3)**	**(46)**	**(236)**	**(24)**

In addition, in 2012, allowances for trade and other receivables amounting to CHF 70 million (prior year: CHF 111 million) were recorded under other operating expenses.

Derivative financial instruments

At 31 December 2011 and 2012, the following derivative financial instruments were recorded:

	Contract value		Positive fair value		Negative fair value	
In CHF million	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Fair value hedges	58	58	–	–	(18)	(17)
Cash flow hedges	533	835	–	5	(43)	(43)
Other derivative financial instruments	1,215	1,489	23	23	(175)	(171)
Total derivative financial instruments	**1,806**	**2,382**	**23**	**28**	**(236)**	**(231)**
Thereof current derivative financial instruments			23	28	(75)	(6)
Thereof non-current derivative financial instruments			–	–	(161)	(225)

Fair Value Hedges

	Contract value		Positive fair value		Negative fair value	
In CHF million	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Cross currency interest rate swaps in EUR	58	58	–	–	(18)	(17)
Total fair value hedges	**58**	**58**	**–**	**–**	**(18)**	**(17)**

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. As of 31 December 2012, the instruments designated for hedge accounting had negative fair values of CHF 18 million (prior year: CHF 17 million).

Cash Flow Hedges

	Contract value		Positive fair value		Negative fair value	
In CHF million	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Cross currency interest rate swaps in USD	37	37	–	–	(23)	(22)
Interest rate swaps in CHF	350	350	–	–	(17)	(17)
Forward currency contracts in USD	146	162	–	5	(3)	–
Forward currency contracts in EUR	–	286	–	–	–	(4)
Total cash flow hedges	**533**	**835**	**–**	**5**	**(43)**	**(43)**

As of 31 December 2012, derivative financial instruments include cross-currency swaps to hedge foreign exchange risks with respect to USD-denominated bank loans. These hedging instruments were designated for hedge accounting purposes, and, as of the balance-sheet date, had negative fair values of CHF 23 million (prior year: CHF 22 million). CHF 2 million (prior year: CHF 5 million) was recorded in the hedging reserve within consolidated equity as of 31 December 2012. The maximum remaining term of the hedges is one year.
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 2012, these interest rate swaps were recorded with a negative fair value of CHF 17 million (prior year: CHF 17 million). CHF 18 million was recognised in the hedging reserve within consolidated equity for these hedging instruments (prior year: CHF 18 million). In 2009, interest rate swaps designated for hedge accounting for the premature hedging of the interest rate risk for the intended issuance of debenture loans totalling CHF 500 million were closed out. The effective share of CHF 24 million was left in the other reserves and is being released to interest expense over the hedged duration of debenture bonds issued in 2009. As of 31 December 2012, a negative amount of CHF 10 million (prior year: CHF 15 million) is recognised in the hedging reserve as part of consolidated equity.
As of 31 December 2012, derivative financial instruments include forward currency contracts of USD 159 million which serve to hedge future purchases of goods and services in the respective currencies. The hedges were designated for hedge accounting purposes. The hedges disclose a negative fair value of CHF 3 million (prior year: positive market value of CHF 5 million). In addition, hedging transactions in EUR were recognised in the prior year in a negative amount of CHF 4 million. A negative amount of CHF 3 million was recorded in the hedging reserve within consolidated equity for these designated hedging instruments (prior year: positive amount of CHF 1 million).

Other derivative financial instruments

	Contract value		Positive fair value		Negative fair value	
In CHF million	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Cross currency interest rate swaps in EUR	697	702	–	–	(150)	(145)
Interest rate swaps in CHF	200	700	–	–	(25)	(24)
Currency swaps in USD	42	–	–	–	–	–
Currency swaps in EUR	226	285	–	–	–	(2)
Options related to business combinations	50	50	23	23	–	–
Total other derivative finanicial instruments	**1,215**	**1,737**	**23**	**23**	**(175)**	**(171)**

In 2010 and in order to hedge currency and interest rate risks arising in connection with EUR-denominated financing, interest rate swaps were entered into covering EUR 350 million with a duration of up to five years. These hedges were not designated for hedge accounting. Already in 2007, interest rate swaps for EUR 228 million had been entered into in order to hedge currency and interest rate risks arising in connection with EUR-denominated financing and which had not been designated for hedge accounting.
Furthermore, derivative financial instruments as at 31 December 2012 include interest rate swaps covering CHF 200 million with maturities ending in 2040 with a negative market value of CHF 25 million (prior year: CHF 24 million) which were not designated for hedge accounting. In the prior year, there was a further interest rate swap which was not designated for hedge accounting covering CHF 500 million with a fair value of zero, which matured in 2012.
In addition, included in derivative financial instruments are foreign currency forward contracts and currency swaps for EUR and USD which serve to hedge future transactions in connection with Swisscom's operating activities and which were not designated for hedge accounting purposes. Included in derivative financial instruments are also options in connection with company acquisitions with a positive market value of CHF 23 million (prior year: CHF 23 million).

Management of equity resources

Managed capital is defined as equity including non-controlling interests. Swisscom seeks to maintain a strong equity basis which 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	31.12.2012	31.12.2011
Share of equity attributable to equity holders of Swisscom Ltd	4,132	4,272
Share of equity attributable to non-controlling interests	24	24
Total capital	**4,156**	**4,296**
Total assets	20,094	19,450
Equity ratio in %	20.7	22.1

In its strategic targets effective as from 1 January 2008, the Federal Council has ruled that Swisscom's net indebtedness shall not exceed 2.1 times the operating result before taxes, interest and depreciation and amortisation (EBITDA). Swisscom's internal target for the ratio of net indebtedness to EBITDA is 2.0. The target value may be temporarily exceeded. Financial leeway exists if the target is not reached.
The net-debt-to-EBITDA ratio is as follows:

In CHF million	31.12.2012	31.12.2011
Money market borrowings	–	130
Debenture bonds	5,455	5,199
Bank loans	1,169	1,177
Private placements	1,252	1,399
Finance lease liabilities	639	660
Other financial liabilities	268	266
Total financial liabilities	**8,783**	**8,831**
Cash and cash equivalents	(538)	(314)
Current financial assets	(40)	(73)
Non-current fixed interest-bearing deposits	(134)	(135)
Net debt	**8,071**	**8,309**
Operating income before depreciation and amortisation (EBITDA)	4,381	4,584
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

In CHF million	2012	2011
Trade and other receivables	135	(256)
Inventories	(16)	6
Other non-financial assets	135	(24)
Trade and other payables	(31)	(7)
Provisions	(34)	(37)
Other non-financial liabilities	(48)	(33)
Defined benefit obligations	(84)	(91)
Total changes in operating assets and liabilities	**57**	**(442)**

Purchase of minority shares in Fastweb

In 2010, Swisscom acquired the outstanding shares of Fastweb S.p.A. for a total purchase consideration of EUR 256 million (CHF 342 million). The remaining payment of EUR 71 million (CHF 92 million) from the minority-share purchase was made in the first quarter of 2011.

Other cash flows from financing activities

In 2012, other cash flows from financing activities aggregated CHF 12 million (prior year: CHF 4 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 8 million (prior year: CHF 5 million). See Note 23. In 2011, following an agreement with the counterparty, receivables totalling USD 166 million (CHF 146 million) were offset against financial liabilities in the same amount and derecognised from the balance sheet.

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 2012 aggregated CHF 868 million (prior year: CHF 658 million).

Operating leases

Operating leases relate primarily to the rental of real estate for business purposes. See Note 26. In 2012, payments for operating leases amounted to CHF 272 million (prior year: CHF 312 million).

Future minimum lease payments in respect of operating lease contracts are as follows:

In CHF million	31.12.2012	31.12.2011
Within 1 year	118	135
Within 1 to 2 years	98	115
Within 2 to 3 years	87	81
Within 3 to 4 years	69	65
Within 4 to 5 years	54	55
After 5 years	269	176
Total future minimum lease payments	**695**	**627**

36 Research and development

Costs aggregating CHF 28 million for research and development were expensed in 2012 (prior year: CHF 27 million).

37 Related parties

Majority shareholder

Pursuant to the Swiss Federal Telecommunication Enterprises Act ("Telekommunikationsunternehmungsgesetz, TUG"), the Swiss Confederation ("the Confederation") is obligated to hold a majority of the share capital and voting rights of Swisscom. On 31 December 2012, the Confederation as majority shareholder held 56.8% of the issued shares of Swisscom Ltd. Any reduction of the Confederation's holding below a majority would require a change in law which would need to be voted upon the Federal Assembly, which would also be subject to a facultative referendum by Swiss voters. As the majority shareholder, the 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, governmental agencies and the other companies controlled by the Confederation (primarily the Post, Swiss Federal Railways, RUAG, and Skyguide) and the Swiss Broadcasting Corporation, SRG-SSR. All transactions are conducted on the basis of normal relationships with customers and suppliers and on conditions applicable to unrelated third parties. In addition, financing transactions were entered into with the Swiss Post on normal commercial terms.

Associates

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

Minority shareholders

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

Post-employment benefits funds

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

Transactions and balances

Transactions and year-end balances with related parties in 2011 and 2012 are as follows:

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

In CHF million	Income	Expense	Receivables	Liabilities
Confederation	329	171	234	531
Associates	85	170	15	19
Other minority shareholders	11	–	1	–
Total 2011/balance at 31 December 2011	**425**	**341**	**250**	**550**

Key management compensation

In CHF million	2012	2011
Current compensation	1.6	1.7
Share-based payments	0.7	0.8
Social security contributions	0.3	0.2
Total compensation to members of the Board of Directors	**2.6**	**2.7**
Current compensation	7.5	7.3
Share-based payments	1.2	1.2
Benefits paid following retirement from Group Executive Board	–	–
Pension contributions	1.1	0.9
Benefits paid to former Members of the Group Executive Board	0.1	–
Social security contributions	0.6	0.6
Total compensation to members of the Group Executive Board	**10.5**	**10.0**
Total compensation to members of the Board of Directors and of the Group Executive Board	**13.1**	**12.7**

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

38 Service concession agreements

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

39 Risk assessment process

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

40 Events after the balance sheet date

Approval of the consolidated financial statements

The Board of Directors of Swisscom approved the release of these consolidated financial statements on 6 February 2013. As of this date, no significant post-balance sheet events occurred.

41 List of Group companies

Registered name	Registered office	Shareholding in %	Currency	Share capital in millions	Segment
Switzerland					
Alphapay Ltd	Zurich	100	CHF	0.5	Other
Axept Ltd	Opfikon	100	CHF	0.2	Swisscom Switzerland
BFM Business Fleet Management Ltd	Ittigen	100	CHF	1.0	Other
Billag Ltd	Fribourg	100	CHF	0.1	Other
cablex Ltd	Berne	100	CHF	5.0	Other
CT Cinetrade Ltd	Zurich	49	CHF	0.5	Swisscom Switzerland
Curabill Treuhand GmbH	St. Gallen	100	CHF	–	Other
Datasport Ltd	Gerlafingen	100	CHF	0.2	Other
local.ch Ltd	Zurich	51	CHF	3.0	Swisscom Switzerland
LTV Yellow Pages Ltd	Zurich	49	CHF	10.0	Swisscom Switzerland
Medgate Holding Ltd	Zug	40	CHF	6.2	Other
Mona Lisa Capital Ltd	Ittigen	99.5	CHF	5.0	Group Headquarters
MyStrom Ltd	Berne	80	CHF	0.1	Other
Sicap Ltd	Berne	81.5	CHF	2.0	Other
Swisscom Broadcast Ltd	Berne	100	CHF	25.0	Other
Swisscom Directories Ltd	Berne	51	CHF	1.5	Swisscom Switzerland
Swisscom Energy Solutions Ltd	Ittigen	100	CHF	0.1	Other
Swisscom Event & Media Solutions Ltd	Ittigen	100	CHF	0.1	Other
Swisscom Real Estate Ltd	Ittigen	100	CHF	100.0	Other
Swisscom IT Services Ltd	Berne	100	CHF	150.0	Other
Swisscom IT Services Finance Custom Solutions Ltd	Olten	100	CHF	0.1	Other
Swisscom IT Services Sourcing Ltd	Münchenstein	60	CHF	3.0	Other
Swisscom Switzerland Ltd	Ittigen	100	CHF	1,000.0	Swisscom Switzerland
Transmedia Communications Ltd	Geneva	31.5	CHF	0.5	Swisscom Switzerland
Wingo Ltd	Fribourg	100	CHF	3.0	Swisscom Switzerland
Worklink AG	Berne	100	CHF	0.5	Group Headquarters
Belgium					
Belgacom International Carrier Services	Brussels	22.4	EUR	1.5	Swisscom Switzerland
Hospitality Services Belgium SA	Brussels	100	EUR	0.6	Other
Swisscom Belgium N.V.	Brussels	100	EUR	4,330.2	Group Headquarters
China					
Swisscom Hospitality Hong Kong Ltd	Hong Kong	100	HKD	–	Other
Denmark					
Swisscom Hospitality Denmark A/S	Hellerup	100	DKK	0.6	Other
Germany					
Hospitality Services Germany GmbH	Munich	100	EUR	0.1	Other
Swisscom Telco GmbH	Eschborn	100	EUR	–	Group Headquarters
Finland					
Swisscom Hospitality Finland Oy	Helsinki	100	EUR	0.1	Other
Vilant Systems Oy	Espoo	20	EUR	–	Other
France					
Sicap France SA	Lyon	81.5	EUR	0.5	Other
Hospitality Services France SA	Paris	96	EUR	5.6	Other

Registered name	Registered office	Shareholding in %	Currency	Share capital in millions	Segment
Great Britain					
Hospitality Networks and Services UK Ltd	London	100	GBP	1.6	Other
Italy					
e.BisMedia S.p.A.	Milan	100	EUR	15.3	Fastweb
Fastweb S.p.A.	Milan	100	EUR	41.3	Fastweb
Fastweb Wholesale S.r.l.	Milan	100	EUR	5.0	Fastweb
Hospitality Services Italia S.r.l.	Milan	100	EUR	0.1	Other
Qualified eXchange Network S.c.p.A.	Rome	60	EUR	0.5	Fastweb
Metroweb S.p.A. [1]	Milan	11	EUR	27.6	Fastweb
Swisscom Italia S.r.l.	Milan	100	EUR	2,502.6	Group Headquarters
Liechtenstein					
Swisscom Re Ltd	Vaduz	100	CHF	5.0	Group Headquarters
Luxembourg					
Hospitality Services Luxembourg SA	Luxembourg	100	EUR	–	Other
Malaysia					
Sicap Malaysia SdnBhd	Kuala Lumpur	81.5	MYR	0.5	Other
Netherlands					
HSIA Hospitality Services Netherlands B.V.	The Hague	100	EUR	–	Other
NGT International B.V.	Capelle a/d IJssel	100	EUR	–	Swisscom Switzerland
Swisscom Investments B.V.	Hoofddorp	100	EUR	–	Group Headquarters
Norway					
Swisscom Hospitality Norway A/S	Stavanger	100	NOK	0.3	Other
Austria					
Hospitality Services GmbH	Vienna	100	EUR	0.3	Other
Swisscom IT Services Sourcing Ltd	Vienna	100	EUR	0.1	Other
Portugal					
HSIA Hospitality Services Portugal	Lisbon	100	EUR	1.1	Other
Romania					
Hospitality Services s.r.l.	Bucarest	100	RON	–	Other
Russia					
Swisscom Hospitality Russia LLC	Moscow	100	RUB	0.1	Other
Spain					
Hospitality Networks and Services Espana SA	Madrid	100	EUR	0.1	Other
Whisher S.L.	Barcelona	40	EUR	–	Group Headquarters
Singapore					
Sicap Asia Pacific Pte Ltd	Singapore	81.5	SGD	0.1	Other
Swisscom IT Services Finance Pte Ltd	Singapore	100	SGD	0.1	Other
South Africa					
Sicap Africa Pty Ltd	Johannesburg	81.5	ZAR	0.1	Other
USA					
Hospitality Services North America Corp.	Dulles	98	USD	1.6	Other

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

Report of the Statutory Auditor

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

As statutory auditor, we have audited the accompanying consolidated financial statements on pages 149 to 216 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 2012.

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 2012 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, 6 February 2013

Financial statements of Swisscom Ltd Income statement

In CHF million	Note	2012	2011
Net revenue from sale of goods and services		241	232
Other income		45	38
Total net revenue and other income		**286**	**270**
Personnel expense		(82)	(85)
Other operating expense		(107)	(121)
Depreciation and amortisation		(1)	(4)
Total operating expenses		**(190)**	**(210)**
Operating income		**96**	**60**
Financial expense		(223)	(249)
Financial income		254	255
Income from participations		1,637	150
Income tax expense		(15)	(28)
Extraordinary income	12	–	286
Net income		**1,749**	**474**

Balance sheet

In CHF million	Note	31.12.2012	31.12.2011
Assets			
Cash and cash equivalents		398	210
Other financial assets		–	25
Receivables from Group companies		155	164
Dividends receivable from subsidiaries	9	1,600	110
Other receivables from third parties		3	5
Other assets		10	11
Total current assets		**2,166**	**525**
Property, plant and equipment	3	–	1
Participations	9	7,087	6,951
Loans to third parties	10	108	113
Loans to Group companies		7,572	7,502
Total non-current assets		**14,767**	**14,567**
Total assets		**16,933**	**15,092**
Liabilities and equity			
Financial liabilities to third parties	5	887	690
Financial liabilities to Group companies		3,299	1,996
Trade payables due to third parties		5	9
Other payables to third parties	4	144	164
Other payables to Group companies		16	13
Total current liabilities		**4,351**	**2,872**
Financial liabilities to third parties	5	7,124	7,347
Financial liabilities to Group companies		254	269
Provisions		60	67
Other liabilities		–	2
Total non-current liabilities		**7,438**	**7,685**
Total liabilities		**11,789**	**10,557**
Share capital		52	52
Capital surplus reserves		21	21
Retained earnings		5,071	4,462
Total equity	7	**5,144**	**4,535**
Total liabilities and equity		**16,933**	**15,092**

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 2012, guarantees in favour of third parties for the account of Group companies amount to CHF 308 million (prior year: CHF 305 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 2012, there were no amounts payable to pension funds (prior year: CHF 1 million).

5 Debenture bonds issued

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

	31.12.2012		31.12.2011	
In CHF million	Par value	Nominal interest rate	Par value	Nominal interest rate
Debenture bond 2007–2013	550	3.50	550	3.50
Debenture bond 2007–2017	600	3.75	600	3.75
Debenture bond 2008–2015	500	4.00	500	4.00
Debenture bond 2009–2014	1,250	3.50	1,250	3.50
Debenture bond 2009–2018	1,500	3.25	1,500	3.25
Debenture bond 2010–2012	–	–	250	0.75
Debenture bond 2010–2022	500	2.63	500	2.63
Debenture bond 2012–2024	500	1.75	–	–

6 Treasury shares

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

7 Equity

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

In CHF million	Number of shares	Share capital	Capital surplus reserves	Reserve for treasury shares	Retained earnings	Total equity
Balance at 1 January 2011	**51,801,943**	**52**	**255**	**1**	**4,841**	**5,149**
Net income	–	–	–	–	474	474
Dividends paid	–	–	(234)	–	(854)	(1,088)
Proceeds from sale of treasury shares	–	–	–	(1)	1	–
Balance at 31 December 2011	**51,801,943**	**52**	**21**	**–**	**4,462**	**4,535**
Net income	–	–	–	–	1,749	1,749
Dividends paid	–	–	–	–	(1,140)	(1,140)
Balance at 31 December 2012	**51,801,943**	**52**	**21**	**–**	**5,071**	**5,144**

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 2012, distributable reserves aggregated CHF 5,082 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 2012, the Swiss Confederation (Confederation), as majority shareholder, held 56.8% of the issued share capital of Swisscom Ltd. The Federal Telecommunication Enterprises Act (TUG) stipulates that the Confederation must hold the majority of the capital and voting rights of Swisscom Ltd.

9 Participations and recording of dividends from subsidiaries

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

10 Assets subject to restriction

As of 31 December 2012, financial assets totalling CHF 93 million could not be freely disposed of. These assets serve to secure commitments arising from bank loans. In the prior year, all assets were freely available.

11 Information on risk assessment process

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

12 Net release of hidden reserves

In 2012, hidden reserves totalling CHF 4 million were released to income (prior year: CHF 194 million).

13 Management compensation

Compensation for the members of the Board of Directors

2012, in CHF thousand	Base salary and functional allowances: Cash compensation	Base salary and functional allowances: Share-based remuneration	Meeting attendance fees	Total 2012
Hansueli Loosli	330	195	38	563
Barbara Frei [1]	69	59	23	151
Hugo Gerber [2]	104	61	24	189
Michel Gobet	104	61	26	191
Torsten G. Kreindl	128	75	32	235
Catherine Mühlemann	104	61	25	190
Richard Roy	144	85	26	255
Theophil Schlatter	136	61	31	228
Othmar Vock [3]	50	4	7	61
Hans Werder	142	84	32	258
Total compensation to members of the Board of Directors	**1,311**	**746**	**264**	**2,321**

[1] Elected as of 4 April 2012.
[2] In addition, a cash compensation (inclusive meeting attendance fees) of CHF 9,500 was paid as member of the Board of Directors of Worklink AG.
[3] Resigned as of 4 April 2012.

2011, in CHF thousand	Base salary and functional allowances		Meeting attendance fees	Total 2011
	Cash compensation	Share-based remuneration		
Hansueli Loosli [1]	206	61	40	307
Hugo Gerber [2]	104	61	30	195
Michel Gobet	104	61	32	197
Torsten G. Kreindl	128	76	33	237
Catherine Mühlemann	104	61	32	197
Felix Rosenberg [3]	47	18	12	77
Richard Roy	144	85	32	261
Anton Scherrer [4]	182	194	65	441
Theophil Schlatter [5]	69	48	32	149
Othmar Vock	150	89	32	271
Hans Werder [6]	95	66	35	196
Total compensation to members of the Board of Directors	**1,333**	**820**	**375**	**2,528**

1 The pro-rata cash compensation was paid to Coop for the period up to 31 August 2011.
2 In addition, a cash compensation (inclusive meeting attendance fees) of CHF 9,500 was paid as member of the Board of Directors of Worklink AG.
3 Resigned as of 20 April 2011.
4 Resigned as of 31 August 2011.
5 Elected as of 20 April 2011.
6 Designated as of 20 April 2011 by the Swiss Confederation.

The compensation plan provides for basic emoluments as well as functional allowances and meeting attendance fees. No variable profit-related emoluments are paid. The basic emolument for the Chairman of the Board of Directors is CHF 385,000, net, and CHF 120,000, net, for the other Board members. Furthermore, additional fees are paid for specific duties (functional allowances). Accordingly, each member of the Finance and Audit Committees is entitled to an unchanged allowance of CHF 10,000, net. The members of the Compensation Committee also receive a functional allowance in the same amount. In addition, the Vice-Chairman and the Chairman of the Finance and Compensation Committees are each entitled to an allowance in an unchanged amount of CHF 20,000 net. The Chairman of the Audit Committee receives a net amount of CHF 50,000. The representative of the Swiss Confederation receives a net amount of CHF 40,000 for the special duties related to his function. Furthermore, meeting attendance fees of CHF 1,250 are paid for each full day and CHF 750 for each half-day. Out-of-pocket expenses are reimbursed on the basis of actual costs incurred. No significant non-cash benefits are paid.

The members of the Board of Directors are obligated to draw 25% of their basic emoluments including functional allowances in the form of equity shares, whereby Swisscom augments the amount to be invested in shares by 50%. In this manner, the compensation (excluding meeting attendance fees) is made up of a two-thirds cash portion and one-third equity share portion. The amount of the share purchase obligation can vary in the case of members who join, leave, assume or give up a function during the year. The shares are allocated on the basis of their value accepted for tax purposes – rounded up to the next whole number of shares – and are subject to a three-year retention period. The shares which are allocated in April of each reporting year are recorded at their market value as of the acquisition date, if purchased (usually three weeks before allocation) or at the market value on the date of allocation, if treasury shares are allocated. In April 2012, a total of 1,927 shares were allocated to the members of the Board of Directors (prior year: 1,895 shares) for a tax value of CHF 310 per share (prior year: CHF 346). Their market value was CHF 361 per share (prior year: CHF 412).

With regards to the disclosure of non-cash benefits and expenses, these are dealt with from a tax point of view. Accordingly, neither non-cash benefits nor expenses are included in reported compensation. No compensation was paid to former members of the Board of Directors in connection with their earlier activities as a member of a governing body of the Company and which is not at arm's length. The compensation disclosed does not include the employer's share of social security contributions in particular for old age, accident and unemployment insurance. The social security contributions for the Board of Directors in 2012 totalled CHF 0.3 million (prior year: CHF 0.2 million).

Compensation for the members of the Group Executive Board

In CHF thousand	Total Group Executive Board 2012	Total Group Executive Board 2011	Thereof Carsten Schloter 2012	Thereof Carsten Schloter 2011
Fixed base salary paid in cash	4,353	4,594	830	830
Variable earnings-related compensation paid in cash	3,092	2,641	635	442
Non-cash compensation	108	87	8	17
Share-based payments fixed [1]	35	–	–	–
Share-based payments variable [2]	1,191	1,168	252	175
Benefits paid following retirement from Group Executive Board	–	–	–	–
Retirement benefits [3]	1,064	922	106	106
Benefits paid to former Members of the Group Executive Board [4]	80	–	–	–
Severance payments	–	–	–	–
Total compensation to members of the Group Executive Board	**9,923**	**9,412**	**1,831**	**1,570**

1 The shares are blocked for three years and may not be sold. Should the employee end his employment contract prior to 2017, the remaining blocked shares revert to Swisscom.
2 The shares are blocked for three years.
3 During the reporting period CHF 170,000 was paid to one Group Executive Board member for retirement benefits as compensation for forfeited entitlements to share and option plans. He was awarded a total amount of CHF 500,000 spread over 2012–2014.
4 In 2012, CHF 80,000 was paid to one retired Group Executive Board member for advisory services in respect of support for the interim solution.

The compensation paid to the Group Executive Board consists of a basic salary settled in cash, a variable performance-related share of profits settled in cash and equity shares as well as non-cash benefits and additional benefits (primarily company car) as well as pension benefits. In addition, the Board of Directors may recognise exceptional individual performance by means of a discretionary premium settled in cash or shares. Furthermore, a part of the fixed compensation paid to one member of the Group Executive Board consists of equity shares. These shares are settled in April of the year following the reporting period, by analogy with the variable part of the compensation. They are allocated on the basis of their values accepted for tax purposes, rounded to the next whole number of shares and may not be sold during a period of three years. The variable performance-related share of profits is fixed in the subsequent year once the consolidated financial statements are available on the basis of the targets fixed in the year under review and is paid out in April of the same subsequent year. Apart from one Board member who receives a cash portion of 64% and an equity share portion of 36%, 75% of the variable performance-related share of profits is paid out in cash and 25% in Swisscom shares to the remaining members of the Group Executive Board. During the period under review, no premiums for individual services rendered were awarded. The shares are allocated on the basis of their value accepted for tax purposes – rounded up to the next whole number of shares – and are subject to a three-year retention period. The share-based compensation for the reporting period is augmented by a factor of 1.19 in order to take account of the difference between the market value and the tax value. The market value is determined as of the acquisition date of the shares in case of their purchase (usually three weeks before their allocation) or, if treasury shares are allocated, as of the date of their allocation. Shares in respect of the current year are allocated in April 2013. With regards to the financial year 2011, a total of 3,170 shares (prior year: 3,128 shares) with a tax value of CHF 310 (prior year: CHF 346) were allocated to the members of the Group Executive Board in April 2012. The market value was CHF 361 per share (prior year: CHF 412). With regards to the disclosure of non-cash benefits and expenses, these are dealt with from a tax point of view. Of the non-cash benefits reported, only a share of the use of a company car is thus included in the reported compensation. Reported pension benefits (amounts which give rise to pension entitlements or increase pension benefits) encompass all savings, guarantee and risk contributions paid by the employer to pension plans.
All compensation was accrued in accordance with the International Financial Reporting Standards (IFRS). The highest compensation in the reporting year and prior year was paid to the CEO of Swisscom Ltd, Carsten Schloter. Swisscom has granted no sureties, guarantees or pledges in favour of third parties or other collateral to any of the persons impacted by the reporting obligation. With the exception of compensation paid for advisory services, no compensation was paid to former members of the Group Executive Board in connection with their earlier activities as a member of a governing body of the Company and which is not at arm's length. The compensation disclosed

does not include the employer's share of social security contributions in particular for old age, accident and unemployment insurance. The social security contributions for the Group Executive Board in 2012 totalled CHF 0.6 million (prior year: CHF 0.6 million).

Payments to related parties

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

Loans and credits granted

Swisscom has granted no sureties, loans, advances and credits to present or former members of the Board of Directors and the Group Executive Board as well as parties related thereto nor has it waived any rights to amounts due from such individuals.

Further information

Further information on compensation paid to management members is set out in the Remuneration Report on page 138.

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

The table below discloses the restricted and freely available shares held by the members of the Board of Directors and the Group Executive Board as of 31 December 2011 and 2012.

Number	31.12.2012	31.12.2011
Hansueli Loosli [1]	915	412
Barbara Frei [2]	151	–
Hugo Gerber	888	730
Michel Gobet	1,255	1,097
Torsten G. Kreindl	899	705
Catherine Mühlemann	878	720
Richard Roy	1,087	869
Theophil Schlatter [3]	518	360
Othmar Vock [4]	–	1,058
Hans Werder [5]	506	288
Total shares of the members of the Board of Directors	**7,097**	**6,239**
Carsten Schloter (CEO)	5,328	4,852
Ueli Dietiker	3,447	3,132
Jürgen Galler [6]	–	–
Daniel Ritz [7]	–	1,007
Kathrin Amacker-Amann	178	68
Hans C. Werner [8]	49	–
Christian Petit	1,734	1,346
Roger Wüthrich-Hasenböhler [9]	481	351
Urs Schaeppi	1,441	1,081
Heinz Herren	1,097	750
Andreas König [10]	–	–
Eros Fregonas [11]	–	1,936
Total shares of the members of the Group Executive Board	**13,755**	**14,523**

1 Elected as of 21 April 2009 as member and as of 1 September 2011 as Chairman.
2 Elected as of 4 April 2012.
3 Elected as of 20 April 2011.
4 Resigned as of 4 April 2012.
5 Designated as of 20 April 2011 by the Swiss Confederation.
6 Joined as of 17 September 2012.
7 Resigned as of 31 January 2012.
8 Joined as of 1 September 2011.
9 Member of the Excecutive Board as of 1 January 2011.
10 Joined as of 1 October 2012.
11 Resigned as of 30 April 2012.

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

Proposed appropriation of retained earnings

Proposal of the Board of Directors

The Board of Directors proposes to the Annual General Meeting of Shareholders to be held on 4 April 2013 that the retained earnings of CHF 5,071 million for the year ended 31 December 2012 shall be appropriated as follows:

In CHF million	31.12.2012
Appropriation of retained earnings	
Balance carried forward from prior year	3,322
Net income for the year	1,749
Total retained earnings	**5,071**
Ordinary dividend of CHF 22.00 per share to 51,801,497 shares in total[1]	(1,140)
Balance to be carried forward	**3,931**

[1] Excluding treasury shares.

In the event that the proposal is approved, a dividend per share will be paid to shareholders on 11 April 2013 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)

As statutory auditor, we have audited the accompanying financial statements on pages 219 to 227 of Swisscom Ltd, which comprise the income statement, balance sheet and notes for the year ended 31 December 2012.

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 2012 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, 6 February 2013