2010

Annual Report

swisscom

About this Report

Reporting structure

This integrated report combines Swisscom's financial and sustainability reporting and is aimed at readers interested in both topics. References to additional content and information on sustainability issues are made in the respective sections of the report.

- Introduction
- Management Commentary
- Corporate Governance and Remuneration Report
- Financial Statements
- Further Information

Topics

Information on Swisscom's financial position, results of operations and cash flows complies with the requirements of the International Financial Reporting Standards (IFRS) and where applicable the provisions of Swiss law. Internal control mechanisms ensure reliability of the reported information

On the following pages Swisscom provides its stakeholders with a report on its economic, social and ecological performance. The scope and content of the sustainability report are based on the currently applicable guidelines of the Global Reporting Initiative (GRI 3). GRI is the leading global standard for corporate sustainability reporting.

The GRI Index offers a standardised overview of reporting broken down by subject area. The index contains references to the relevant pages of the Annual Report or other sources of information, and can be viewed online at:

- Global Reporting Initiative at www.globalreporting.org
- GRI-Index at www.swisscom.com/GRI/de

External auditing and evaluation

Parts of the Swisscom report are audited by a third party. The auditing firm KPMG AG has audited and certified the consolidated financial statements. The auditing of the consolidated financial statements, including the notes to the financial statements, is based on the audited financial statements of the Swisscom Group companies.

The Sustainability Report, prepared in accordance with GRI 3, was audited by SGS AG and certified with Level A+ of the Global Reporting Initiative.

- Reports of the Auditors Pages 222 and 233
- GRI certified by SGS Page 107

Our promise

We bring people together. We simplify and enrich our customers' lives. We inspire others with our expertise, reliability and zest for life.

Table of content

Facts & Figures

Net revenue

11,988 mio.
CHF net revenue in 2010

9,426 mio.
CHF revenue excluding Fastweb in 2010

+2.1%
revenue in local currency in 2010

Results

4,597 mio.
CHF operating income before depreciation and amortisation (EBITDA) in 2010

1,786 mio.
CHF net income in 2010

–7.1%
net income in 2010

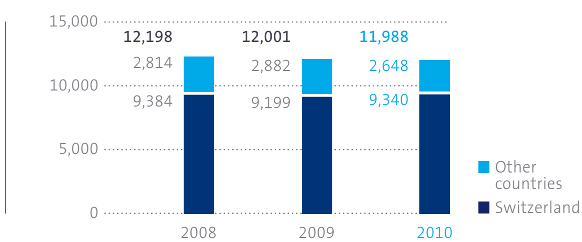
Customers

5.8 mio.
mobile subscribers in Switzerland at end of year 2010

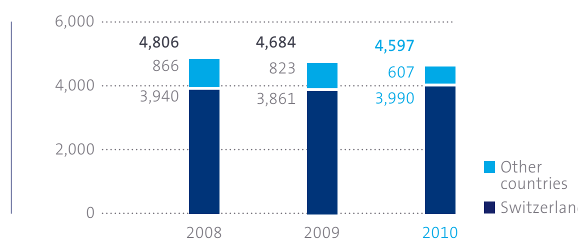
421,000
Swisscom TV subscribers at end of year 2010

+4.9%
broadband subscribers in Italy at end of year 2010

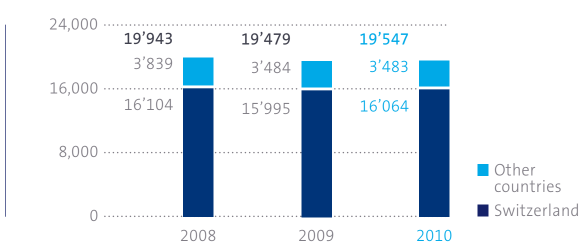
Net revenue in CHF million



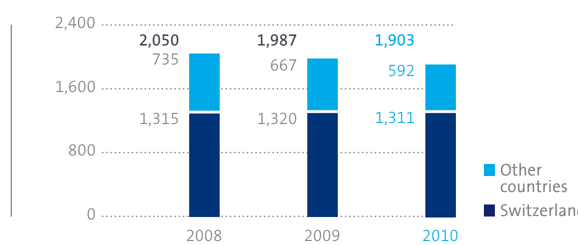
EBITDA in CHF million



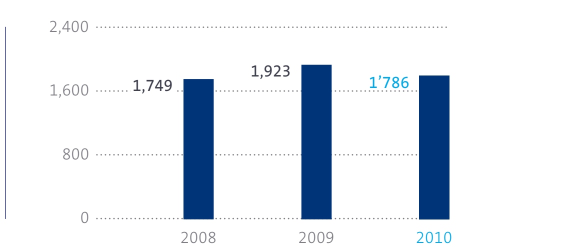
Number of full-time equivalent employees



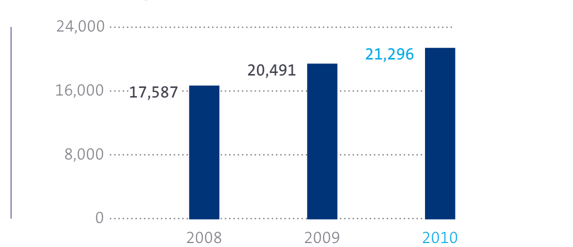
Capital expenditure in CHF million



Net income in CHF million



Market capitalisation in CHF million



KPI's of Swisscom Group

In CHF million, except where indicated		2010	2009	Change
Net revenue and results				
Net revenue		11,988	12,001	–0.1%
Operating income before depreciation and amortisation (EBITDA)		4,597	4,684	–1.9%
EBITDA as % of net revenue	%	38.3	39.0	
Operating income (EBIT)		2,625	2,689	–2.4%
Net income		1,786	1,923	–7.1%
Share of net income attributable to equity holders of Swisscom Ltd		1,811	1,926	–6.0%
Earnings per share	CHF	34.96	37.18	–6.0%
Balance sheet and cash flows				
Equity at end of year		6,284	6,610	–4.9%
Equity ratio at end of year	%	29.8	29.9	
Operating free cash flow		2,512	2,685	–6.4%
Capital expenditure in property, plant and equipment and other intangible assets		1,903	1,987	–4.2%
Net debt at end of period		8,848	9,141	–3.2%
employees				
Full-time equivalent employees at end of year	number	19,547	19,479	0.3%
Average number of full-time equivalent employees	number	19,464	19,813	–1.8%
Proportion of women	%	27.9	28.4	–1.8%
Operational data				
Telephone access lines PSTN/ISDN in Switzerland	in thousand	3,213	3,391	–5.2%
Broadband access lines retail in Switzerland	in thousand	1,584	1,478	7.2%
Mobile subscribers in Switzerland	in thousand	5,828	5,602	4.0%
Swisscom TV subscribers in Switzerland	in thousand	421	232	81.5%
Unbundled fixed access lines in Switzerland	in thousand	255	153	66.7%
Broadband subscribers in Italy	in thousand	1,724	1,644	4.9%
Swisscom share				
Par value per share at end of year	CHF	1.00	1.00	–
Number of issued shares at end of period	in millions of shares	51.802	51.802	–
Quoted price at end of year	CHF	411.10	395.60	3.9%
Market capitalisation at end of year		21,296	20,491	3.9%
Dividend per share	CHF	21.00 [1]	20.00	5.0%
Ratio payout/earnings per share	%	60.06	53.79	11.7%
Environmental key figures				
Electrical energy consumption	terajoule	404	402	0.5%
Carbon dioxide CO_2	tons	25,422	26,296	–3.3%
Rate of return handy recycling	%	4.8	6.0	–20.0%
Supplier audits	number	37	31	19.4%

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

Business Overview

Swisscom's financial reporting focuses mainly on the three operating divisions: Swisscom Switzerland, Fastweb and Swisscom IT Services.

Swisscom Switzerland

Swisscom Switzerland comprises the customer-focused divisions Residential Customers, Small and Medium-Sized Enterprises, Corporate Business and Wholesale, as well as the Network & IT division. These divisions are reported separately under segment reporting.

In CHF million, except where indicated	2008	2009	2010
Net revenue	8,681	8,453	8,566
Segment result before depreciation and amortisation	3,768	3,675	3,804
Margin as % of net revenue	43.4	43.5	44.4
Capital expenditure	1,171	1,219	1,204
Number of full-time equivalent employees	12,034	11,866	11,716

Residential Customers
The Residential Customers segment is the contact partner for fixed-line and mobile customers, provides Switzerland with broadband Internet access and also serves a growing number of Swisscom TV subscribers. This segment also combines national and international telephone and data traffic, value added services, handset sales and directories.

Small and Medium-Sized Enterprises
The Small and Medium-Sized Enterprises segment serves the whole of Switzerland, providing the full range of products and services, from fixed-line and mobile communications to Internet and data services to IT infrastructure maintenance and operation. The SMEs receive integrated solutions tailored to their needs: compatible lines, secure access, professional services and intelligent networks.

Corporate Business
Whether voice or data, mobile or fixed network, individual products or integrated solutions, the Corporate Business segment, a leading provider in the field of business communications, supports customers in the areas of planning, implementation and operation of their IT and communications infrastructure with cost-effective solutions and reliable services.

Wholesale
The Wholesale segment offers Swiss telecoms providers an array of wholesale services that allow them to implement their own service offerings. These include regulated interconnection services, access to the access network infrastructure (unbundled subscriber lines, cabling, co-location services) as well as broadband and data services. The Wholesale segment also includes roaming with foreign providers.

Network & IT
The Network & IT segment builds, operates and maintains Swisscom's nationwide fixed network and mobile communications infrastructure. It is also responsible for the respective IT platforms, and is driving forward migration of the networks to an integrated IT and IP-based platform (All-IP). Expenses incurred are not charged to the other segments. The Network & IT segment therefore reports only expenses but no revenue.

Fastweb

Fastweb is the third largest broadband telecoms company in Italy.

In EUR million, except where indicated	2008	2009	2010
Net revenue	1,708	1,853	1,880
Segment result before depreciation and amortisation	547	551	433
Margin as % of net revenue	32.0	29.7	23.0
Capital expenditure	438	434	427
Number of full-time equivalent employees	3,077	3,125	3,123

Fastweb offers products and services for voice, data, Internet and TV, as well as a full range of VPN and mobile communication services. Fastweb offers its services in all larger towns and cities in Italy as well as in all market segments. The services are offered directly via the company's own fibre-optic network, via unbundled access lines as well as via wholesale products of Telecom Italy.

Other operating segments and Group Headquarters

Other operating segments mainly consist of Swisscom Participations and Swisscom IT Services, which is a leading provider of information technology services in Switzerland.

In CHF million, except where indicated	2008	2009	2010
Net revenue	1,840	1,733	1,742
Segment result before depreciation and amortisation	190	191	215
Margin as % of net revenue	10.3	11.0	12.3
Capital expenditure	201	123	130
Number of full-time equivalent employees	4,832	4,488	4,708

Other operating segments mainly comprise the operating segments Swisscom IT Services, Swisscom Participations and Swisscom Hospitality Services. Swisscom IT Services' core business encompasses the realisation of large IT projects (including consultancy and the implementation of new systems), the management of complex IT infrastructures, end-user services and service desk services. Swisscom IT Services is also the leading provider of integrated banking solutions, including peripheral systems, as well as Business Process Outsourcing (BPO) for the Swiss financial sector. In addition, Swisscom IT Services offers its customers the full range of SAP services, from SAP consulting to SAP industry solutions to SAP operation. The sole mission of the companies belonging to the Swisscom Participations segment is to identify and tap growth potential in areas closely related to Swisscom's core business. Swisscom Hospitality Services specialises in serving the communications needs of the hotel industry
Group Headquarters chiefly comprises the Group divisions Finance & Controlling, Strategy & Business Development, Group Communications and Human Resources.

Shareholders' Letter

Anton Scherrer (second on the left) and Carsten Schloter (on the right) discuss with Bertrand Piccard and André Borschberg over the solution of communications from Solar Impulse, which will be developed by Swisscom.

Dear Shareholders

Swisscom can look back on a successful year, which saw a rise in consumer confidence despite a still uncertain business environment. Swisscom posted gains in all market segments, including double-digit growth in mobile data services and TV business. The three-pillar strategy launched in 2006 proved its worth and is now bearing fruit. Through its partnership with Solar Impulse, Swisscom has signalled its commitment to sustainability in its corporate activities.

Strong consolidated results

Although Group revenue of almost CHF 12 billon is only just at the prior-year level and net income fell by 7%, we still consider 2010 to have been a successful year due to a 2.1% increase in revenue, taking into account the weak euro. Net income increased by 1%, taking into account one-off special effects at Fastweb such as VAT proceedings, change in revenue recognition and restructuring expenses.

Revenue growth in Switzerland is attributable to a rise in consumer confidence, growth in Swisscom TV, mobile communications and bundled offerings as well as the acquisition of subsidiaries by Swisscom IT Services. Swisscom's Swiss business developed very positively, with performance exceeding expectations.

The Group's Italian subsidiary Fastweb increased net revenue in local currency by 1.5% and grew its customer base by a significant 4.9%. Conversely, operating income from Fastweb decreased by around a fifth as a result of the abovementioned special effects.

Swisscom share performance in 2010

The Swisscom share gained 3.9% over the course of the year, while the Swiss Market Index (SMI), which lists the 20 leading Swiss companies, dipped 1.7%. Payment of an ordinary dividend of CHF 21 per share (prior year: CHF 20) will be proposed at the Annual General Meeting. This will represent a total dividend payout of CHF 1,088 million. The Board of Directors is therefore continuing the dividend policy that it has been pursuing for the last few years.

Three-pillar strategy bears fruit

Swisscom's corporate strategy is based on the three pillars: "Maximise", "Extend" and "Expand".

Maximise

The first pillar "Maximise" is aimed at strengthening and expanding the Group's core business. The figures show that we have been particularly successful in that quest this year. We were able to offset price erosion in excess of CHF 500 million caused by fierce competition and regulation, thanks to customer growth in mobile and broadband business as well as an increase in data traffic. Price erosion in mobile communications compared with the previous year was around 13%. Data services continue to grow at a rapid pace, with the demand for mobile bandwidth doubling every seven months. Bundled offerings such as Vivo Casa, which combines fixed-line telephony, Internet and TV, are also doing extremely well. At the same time Swisscom achieved further improvements in efficiency by cutting costs.

Extend

The second pillar, aimed at expanding our core business along the value chain, is also making good headway. Swisscom made huge strides in its television business in 2010, virtually doubling the customer base to 421,000 and gaining over 60,000 new TV customers in the last quarter alone. Just four years after the market launch, Swisscom is now leader in digital television. The Group's subsidiary Swisscom IT Services, with its broad range of IT services, has grown by leaps and bounds during the past few years. Incoming orders in 2010 amounted to around CHF 464 million. Swisscom IT Services is now one of the biggest providers in the Swiss outsourcing market. The company continued its expansion course in 2010, acquiring Panatronic Schweiz AG. In connection with this a subsidiary was founded under the name Swisscom IT Services Workplace AG. The company specialises in workplace, printing and repair solutions, a market which offers similar growth potential to that of business process outsourcing for banks and SAP services.

Expand

The main focus of the third pillar – domestic and international expansion – continues to lie with Fastweb. 2010 was a difficult year for the company. The investigation against Fastweb commissioned by the Italian authorities in February 2010 did not affect Fastweb's good reputation. The Italian subsidiary reported revenue and customer growth in 2010 and won around 60% of business customer orders that were put out to tender. The value of Swisscom's shareholding in Fastweb was assessed when preparing the annual financial statements. Impairment testing revealed that the investment book value is covered and no value adjustment is required. In November 2010 Fastweb's former Chief Operating Officer, Alberto Calcagno, took over operational management of the company as General Manager.

Investment in network expansion in Switzerland

The high performance and quality of our networks are crucial to our strategy of maximising and expanding our core business. In 2010 Swisscom invested around a billion francs in cable and mobile network expansion, generating and securing several thousand jobs at suppliers. Work is focused on driving forward expansion of the fibre-optic network in partnership with electrical utilities willing to invest. The multi-fibre model adopted by the cooperation partners promotes infrastructure competition and creates the prerequisites for true differentiation and renewal of service offerings, which in turn facilitates effective competition. By the end of 2010 Swisscom had already connected around 230,000 homes and offices with fibre-optic cable. Over one million homes and offices will be connected by fibre-optic cable by 2015, which equates to one third of Swiss population. Intense infrastructure competition is forcing market players to speed up fibre-optic expansion – even without intervention by the regulator. Swisscom therefore welcomes the Federal Council's recommendation not to revise the Telecommunications Act. Stable legislation provides legal assurance, a precondition for such large-scale investments. Swisscom plans to invest a total of around CHF 2 billion in fibre-optic network expansion up to the end of 2015. At the same time it is investing in expanding the broadband network using VDSL. The aim is to provide 95 per cent of the population with VDSL within three years and the remaining 5 per cent with mobile broadband technology. As more and more people seek mobile Internet access, we are also investing in our mobile infrastructure by deploying mobile broadband technologies in the existing frequency band (UMTS 900) nationwide. Swisscom is also expanding capacities in heavily frequented locations such as city centres, tourist spots or along the train routes of the Swiss Federal Railways, primarily using HSPA+ mobile technology, but later will also deploy the new mobile communications standard LTE (Long Term Evolution). Whether fixed-line or mobile, Swisscom invests continuously in network expansion as well as the security and stability of existing networks. All these investments are designed to ensure that Switzerland as an information and knowledge society will continue to boast one of the world's best telecoms infrastructures.

Swisscom's approach to sustainability

Sustainable management and long-term responsibility are firmly anchored in Swisscom's corporate structure. One of our guiding principles states that Swisscom has a responsibility towards the environment and society – now and in the future. For example, Swisscom is the largest purchaser of solar and wind energy in Switzerland. Thanks to the Internet for Schools initiative, some 6,000 schools now enjoy free Internet access. Swisscom also runs a Help Point programme to train older users how to use mobile phones, smartphones and the Internet. We firmly believe that customers will pay far more attention in the future to whether a company acts in a sustainable manner – in economic, ecological and social terms – than is the case today. Which is why Swisscom defined the following principles:
> We act in an economically responsible manner in the interests of sustainability.
> We provide employees with a working environment that fosters their personal and professional development by setting them challenging tasks and allowing them to exercise responsibility.
> We act in a socially responsible manner and take the lead in promoting media competence and protecting minors in the media.
> We help our customers through the products and services we provide to act in an environmentally-friendly manner and, by so doing, we ourselves take on a pioneering role.

These positioning statements were used as the basis for defining action areas and setting concrete targets, which are explained in greater detail in this report.

Management changes

Stefan Nünlist, member of the Group Executive Board and long-serving Head of Group Communications, decided to pursue a new career challenge outside the company. He was succeeded on 1 October 2010 by Kathrin Amacker-Amann. Günter Pfeiffer, member of the Group Executive Board and Head of Corporate Human Resources, left the company after ten years of service. Human Resources is headed ad interim by Ueli Dietiker, Chief Financial Officer of Swisscom. Guido Garrone, member of the Group Executive Board and Head of Networks at Swisscom Switzerland, completed his fixed-term secondment from Fastweb to Swisscom. Heinz Herren, former Head of Small and Medium-Sized Enterprises at Swisscom Switzerland, took over as his successor on 1 January 2011. Heinz Herren was succeeded by Roger Wüthrich-Hasenböhler, who has served for several years as Head of Sales and Marketing in the Corporate Business segment. We express our thanks to all colleagues who left Swisscom in 2010 for their outstanding contribution and wish them every success in their new roles.

Changes to the Board of Directors

The Board of Directors will also see major changes in 2011: The Swisscom Board of Directors will propose Hansueli Loosli as its new Chairman at the forthcoming Annual General Meeting on 20 April 2011. Mr Loosli will assume his new role following the handover of his executive responsibilities at Coop on 1 September 2011. At the Annual General Meeting the current Chairman of the Swisscom Board of Directors, Dr Anton Scherrer, will stand for election as Chairman until 31 August 2011. Also at the Annual General Meeting, Theophil Schlatter will be proposed as a new member of the Board of Directors. Dr Hans Werder, current General Secretary of the Department of Environment, Transport, Energy and Communication, has been elected by the Federal Council as its new representative on the Swisscom Board of Directors. Hans Werder will succeed Felix Rosenberg as of 20 April 2011. We wish to express our warm thanks to Felix Rosenberg for his many years of untiring service and dedication to Swisscom.

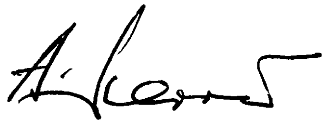
Financial outlook 2011

Swisscom expects to close 2011 with net revenue of at least CHF 11.8 billion, EBITDA in excess of CHF 4.6 billion and capital expenditure below CHF 2.0 billion. Swisscom expects marketing initiatives and efficiency enhancements at Fastweb to generate strong revenue and cash flow growth in the years following the transition year of 2011, which is expected to end with stable revenue but slightly higher EBITDA. The capital expenditure outlook does not include expenses in connection with the mobile frequency auction planned for 2011, since it is not possible at this point in time to reliably estimate the outcome and the prices that will ultimately be paid. For the same reason, Swisscom is also not making any projections concerning operating free cash flow. The outlook is also associated with uncertainty regarding currency movements. Fastweb's financial results are based on an assumed exchange rate for the euro of CHF 1.30 (prior year: CHF 1.37). If all targets are met, Swisscom will propose a minimum dividend of CHF 21 per share for the 2011 financial year.

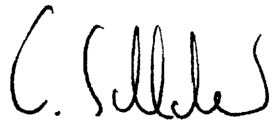
Thank you

All in all, we can look back on a successful and eventful year. We owe our achievements in 2010 to the trust of our customers, the loyalty of our shareholders and the tireless dedication and commitment of our employees. A warm thank you to you all.

Yours faithfully



Dr Anton Scherrer
Chairman of the Board of Directors
Swisscom Ltd



Carsten Schloter
CEO Swisscom Ltd

Management Commentary

We combine
the best ideas for our
customers' benefit.
We penetrate
new markets, foster
partnerships and
promote innovations.

Management structure

Swisscom Group

| Page 42–48

Swisscom Switzerland

| Page 50–56

Swisscom IT Services

| Page 58

Fastweb

| Page 57

Others

| Page 58

Environment, strategy and organisation

With around 5.8 million mobile subscribers and 3.2 million telephone lines, Swisscom is Switzerland's leading telecoms company as well as Swiss market leader in the provision of voice and data communications products and services for residential and business customers.

Business activities

Our business model/company profile

Swisscom is primarily active in Switzerland, where it generated around 78% of net revenue in 2010. Swisscom's activities abroad mainly focus on Italy, where it acquired the telecoms provider Fastweb in 2007. In 2010 Swisscom's 19,000-plus employees generated net revenue of around CHF 12 billion. Swisscom owes its business success to their dedication and commitment in developing consistently intelligent solutions for the telecommunications market.
In Switzerland Swisscom offers a full range of products and services for mobile, fixed and IP-based voice and data communication. Under its licence to provide basic service provision nationwide, Swisscom also serves remote parts of the country. Major investments in network infrastructure ensure that this will remain the case also in the future. Swisscom TV reflects the trend towards becoming a multimedia company. Thanks to the Italian provider Fastweb, Swisscom is present in one of Europe's most attractive broadband markets. Swisscom is also active in IT infrastructure outsourcing as well as in the management of communications infrastructures.

Our brand

The Swisscom brand was created in 1997 following the transformation of the former PTT into a postal and telecommunications company and in particular in anticipation of its flotation in 1998. It has systematically and consistently undergone further development. In spring 2008, Swisscom simplified its brand architecture in line with its guiding principles and new corporate strategy. All products and services have since been offered under the Swisscom brand.

Swisscom Ltd

swisscom

Swisscom Switzerland	Fastweb	Swisscom IT Services	Swisscom Participations	Others
swisscom	FASTWEB	swisscom	swisscom	swisscom
AXEPT		COMIT	alphapay	WORK_LINK EXPERIENCE IN TELECOMMUNICATIONS
directories		resource	BILLAG	
local.ch		sourcag	cablex	
webcall			curabill rechnen Sie mit Freiräumen	
			evita	
			sicap	

The brand strategy was further pursued in 2010. By stepping up the successful association with the Teleclub Cinetrade brand, the Swisscom brand gained in visibility in the film and cinema world, thereby enhancing the credibility of Swisscom's competence in the entertainment sector. With the new product Swisscom TV Air for television over the Internet and over mobile devices, the brand is media-appropriate and customer-focused.
According to Interbrand, the Swisscom brand is valued at CHF 4.8 billion (status in 2009), putting it in seventh place on the list of Switzerland's leading brands. With a recognition level of 98% (unprompted) and 100% (prompted), virtually the entire population of Switzerland knows the Swisscom brand. Swisscom's brand portfolio also includes brands such as Fastweb, Comit or Cablex, which represent other competencies.

The Swisscom network

Networks in Switzerland

Switzerland boasts one of the world's best telecommunications infrastructures. According to the International Telecommunications Union, it ranks seventh in terms of information and communications technologies (ICT). Switzerland is one of the few countries to include broadband access within the scope of universal service provision. Swisscom is responsible for universal telecoms provision, and has been granted this government mandate until the end of 2017.

Swisscom operates a fixed network with copper and fibre-optic lines as well as a latest-generation mobile communications network. The network infrastructure for wired and mobile voice and data communications provides blanket coverage throughout Switzerland.

The fixed network consists of an access network and a transport network. Swisscom already started to upgrade its fixed network with fibre-optic lines years ago. As a first step, Swisscom laid fibre-optic lines between the exchanges and subsequently extended them to residential districts. For some years now a large number of major companies and office complexes have been enjoying fibre-optic connectivity (Fibre To The Office, FTTO). Since autumn 2008 Swisscom has been extending access to residential customers (Fibre To The Home, FTTH) and to small and medium-sized enterprises. By the end of 2010. around 230,000 homes and offices had been connected, and over a million homes and offices, or a third of the Swiss population, are expected to be connected by the end of 2015. Swisscom holds GSM and UMTS licences which are due to expire at the end of 2013 and 2016 respectively. In view of the expiry of these licences, it is envisaged that an auction of all mobile licences will take place in 2011. All mobile antenna sites are equipped with the latest technologies such as EDGE or extended UMTS with HSPA/HSPA+. In 2010 Swisscom was the first mobile provider in Switzerland to conduct a field trial using LTE technology.

Data traffic in the mobile network is rising exponentially, doubling in volume every seven months. New mobile devices such as the Blackberry and iPhone are further accelerating this trend. To address this growing demand, Swisscom is continually expanding its broadband network, extending the range of mobile subscriptions and increasing the number of antenna sites. At the same time, Swisscom is committed to using modern, needs-appropriate technologies in order to ensure efficiency and comply with zoning requirements while reducing emissions to a minimum. Moreover, wherever possible, site expansion is coordinated with other mobile providers. Today Swisscom already shares around 23% of its 6,000 or so antenna sites with other providers, particularly in tunnels, where joint usage is just under 59%. With more than 1,200 hotspots, Swisscom is also the leading provider of public wireless WLAN (PWLAN) in Switzerland.

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

Over the next few years Swisscom intends to invest several billion Swiss francs in the Swiss telecoms and IT infrastructure. This includes expanding the fibre-optic network and increasing mobile broadband connectivity, as well as setting up the All-IP network infrastructure. Converting the data transport network to All-IP technology will allow Swisscom to offer innovative new services.

Networks in Italy

Fastweb is the owner/operator of Italy's second largest fixed network infrastructure, and is a leader in the development of multimedia and broadband communication services. The network consists of a backbone network with high-speed connections that provides residential and corporate customers with fibre-optic or copper-based broadband access infrastructures. The Fastweb fixed network covers 50% of Italy.

Fastweb has also been offering mobile communications since 2008 on the basis of an MVNO agreement with a mobile provider with its own network infrastructure.

General conditions

Macroeconomic environment

Swisscom's financial position, results of operations and cash flows are materially influenced by the macroeconomic environment, in particular by the development of the economy, interest rates, exchange rates and capital markets.

Economy

In the year under review the global economy recovered surprisingly well from the serious economic and financial crisis. The majority of industrialised countries in the West survived the recession and enjoyed above-average economic growth in 2010. Uncertainty to the further development of the global economy remains very high, however, with economic growth generally expected to flatten out in 2011 due to high sovereign debt and the high level of private debt in several key industrialised countries.

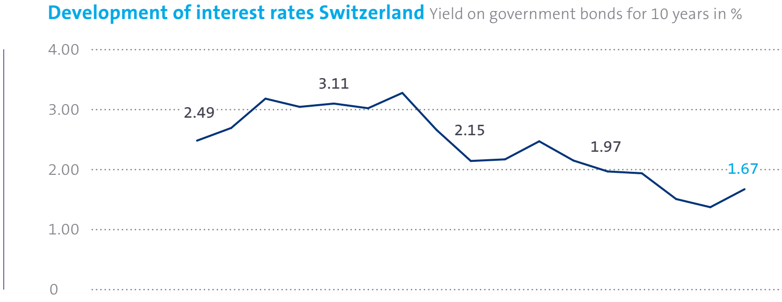
Gross domestic product Switzerland in CHF billion

In Switzerland gross domestic product (GDP) grew by 2.5% in 2010, driven mainly by growth in exports and private consumption. The unemployment rate has been on a constant decline for a year now and inflation is very low. Due to the strong appreciation of the Swiss franc and dampened prospects for global economic growth, a significant slowdown in growth of the Swiss economy is also expected for next year.
A substantial share of revenue from fixed-line and broadband connections as well as mobile contracts is based on monthly flat-rate charges. This means that economic fluctuations will have little impact on such revenue in the short term. However, project business with corporate customers as well as revenue from roaming are more subject to cyclical factors. In 2010 the economic recovery helped to grow revenue in all areas as well as at Group level.

Interest rates

For many years the general level of interest rates in Switzerland has been lower than in most other industrialised countries. Interest rates have fallen to historically low levels in the last three years, one example of which is the yield on ten-year government bonds, which fell by around 1.5 percentage point to 1.67% during this period.

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

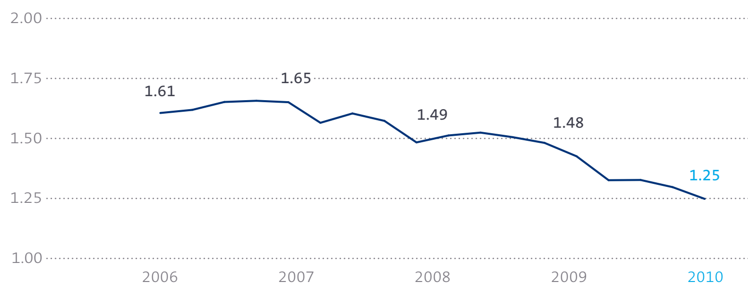


Swisscom took advantage of the favourable bond market conditions and, in August 2010, issued two debenture bonds totalling CHF 750 million with maturities of 2 and 12 years. In addition, further bank loans and private placements were raised in 2010. The funds were used to repay existing bank loans. This refinancing served to further optimise the interest rate and maturity structure of the Group's financial obligations. The share of the Group's variable rate financial liabilities amounts to around 30%.
Market-based interest rates influence the valuation of various items in the Swisscom consolidated financial statements such as goodwill related to Fastweb, accrued pension costs and the long-term provision for dismantlement and restoration costs. The interest rate level also has a considerable influence on the return potential and thus on the financial position of the Swisscom pension fund.

Exchange rates

In 2010 the value of the Swiss franc rose sharply against other currencies which are important for Swisscom's operations, appreciating by around 16% against the euro and around 9% against the US dollar.

Development of exchange rate CHF/EUR



Swisscom's business activities in Switzerland are not significantly influenced by currency movements. Only a small share of revenue is generated in foreign currencies. The procurement of handsets and technical systems and fees for the use of fixed networks and mobile networks abroad by Swisscom customers (roaming) give rise to transaction risks in foreign currencies (notably EUR and USD), which are largely hedged by forward foreign exchange transactions.
Outstanding financial liabilities are almost exclusively denominated in Swiss francs. Currency translations in respect of foreign Group companies, in particular Fastweb in Italy, affect the presentation of the financial position and results of operations in the consolidated financial statements. Cumulative currency losses recognised in Group equity rose by CHF 1.0 billion to CHF 1.8 billion in 2010.

Capital market

Although international equity markets performed positively in 2010, the SMI index fell by 1.68%. Bond markets profited from a further drop in interest rates. Swisscom holds surplus liquidity in the form of cash and cash equivalents and in short-term money-market investments. There are no direct financial investments in equities, bonds or other non-current financial assets. Swisscom pension fund assets of around CHF 7 billion, which are invested in equities, bonds and other investment categories, are subject to capital market risks and therefore indirectly affect Swisscom's assets and financial position.

See
www.swisscom.ch/Investor/en

Legal and regulatory environment

Legal framework for Swisscom

Swisscom is a public limited company with a special status under Swiss law. It is organised in compliance with the Telecommunications Enterprise Act, the company's Articles of Incorporation and company law and its business operations are governed primarily by the provisions of company law and telecommunications and broadcasting legislation. Swisscom is also subject to rules governing business as a whole, namely competition law. As a listed company, Swisscom is also required to comply with capital market legislation.

Telecommunications Enterprise Act (TEA)

On 1 January 1998 the former operations of Swiss Telecom PTT were legally transformed into "Swiss Post" and "Swisscom Ltd" (hence the term "public limited company with special status"). Under the terms of the TEA and the company's Articles of Incorporation, Swisscom is responsible for the provision of domestic and international telecommunications and broadcast services as well as related products and services. The TEA requires the Swiss Confederation to hold a majority of the capital and voting rights in Swisscom. Moreover, every four years the Federal Council defines the goals which the Confederation, as principal shareholder, aims to achieve and publishes these goals in the interest of transparency for other investors. The objectives of the Swiss Confederation are incorporated in the strategic and operating goals set by the Swisscom Board of Directors. Should the Swiss Confederation give up its majority shareholding in Swisscom Ltd, the TEA would need to be amended. Swisscom is also obliged to draw up a collective employment agreement in consultation with the employee associations. The current collective employment agreement dates back to 1 January 2006. There were no legal amendments made in the year under review.

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

Telecommunications Act (TCA)

The Telecommunications Act primarily governs the conditions under which market-dominant providers of telecoms services are required to make their network available to other providers. The Telecommunications Act covers a comprehensive catalogue of access types and, in terms of unbundling the "last mile", is restricted to the copper cables of the former PTT's network. The access services cited in the Act must be offered at regulated conditions and, in particular, at cost-based prices. In addition to network access, the Act governs universal service provision, laying down the framework for the reliable and affordable provision of basic telecommunications to all sections of the population in all regions of the country. The scope of services as well as the related quality and pricing requirements are determined periodically by the Federal Council. The universal service provision licence granted to Swisscom by the Federal Communications Commission (ComCom) in 2007 runs from 2008 to 2017. The Telecommunications Act also governs the conditions for use of the radio frequency spectrum, ensures fault-free telecommunications traffic that respects personal and intellectual property rights (data protection and telecommunications secrecy), and protects users against unfair mass advertising and misuse of value-added services.

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

Competition law/Federal Cartel Act

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

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

Capital market law

The shares of Swisscom Ltd are listed on the SIX Swiss Exchange in Zurich Additionally, Swisscom has issued bonds which are also traded on the SIX Swiss Exchange. Swisscom is therefore required to comply only with Swiss stock market legislation and regulations. The company is also subject to regulations governing accounting and financial reporting as well as rules relating to ad-hoc publicity and the disclosure of transactions in Swisscom securities by members of the Board of Directors and the Group Executive Board.

Regulatory developments in Switzerland in 2010

Ongoing proceedings relating to telecommunications and competition legislation

In recent years various proceedings relating to telecommunications and competition law have been initiated against Swisscom. No significant events occurred in 2010 which have changed existing expectations of the outcomes. The ongoing proceedings in connection with the Telecommunications Act and Cartel Act are described in Notes 28 and 29 to the consolidated financial statements.

Implementation of the revised Telecommunications Act

At the end of 2010 the Federal Communications Commission (ComCom) launched the auction procedure for granting a series of licences for mobile services. Among other things, the new licences will enable the rollout of new technologies such as the Long Term Evolution (LTE) standard. 2010 saw further progress in implementation of the access regime, including unbundling of the last mile. As of 31 December 2010, there were 255,000 unbundled access lines, and some 115,000 customers had opted to pay for their Swisscom telephone line via their selected telephone service provider. and now receive a single bill covering the line and services.

Telecommunications market evaluation

In response to a postulate by the Telecommunications Committee of the Council of States, the Federal Council published an analysis of the telecommunications market on 17 September 2010. The report concludes that Switzerland is essentially well-provided with telecommunications services, and recommends that the universal provision of high-quality telecoms services be achieved primarily through effective competition. Implementation of the liberalisation process, measures to strengthen competition and the effective provision of basic telecommunications services to date were judged favourably. The deficiencies it identified were deemed too insignificant to justify a revision of the law, since any such revision would provoke major uncertainty and undermine the legal assurance essential for investment. In the next phase, this report will be dealt with by parliament.

Regulatory differences between Switzerland and the European Union

In the European Union (EU) the regulatory authorities have extensive powers to analyse markets and impose on market-dominant companies obligations relating to non-discrimination, transparency and forms of access (“ex-ante regulation”). The Swiss regulator rejected such a regime, opting instead for ex-post regulation (primacy of negotiation and appeal principle). Market conditions in Switzerland differ from those in the larger EU member states. The Swiss market is characterised by virtually nation-wide competition between Swisscom and cable network operators. Another important trend in Switzerland at present is the growing number of municipal and regional electrical utilities entering this market. This market situation calls for a different set of regulations from those in place in countries such as France and Italy, where no platform competition has evolved due to the *de facto* existence of a single network provider.

Legal and regulatory environment in Italy

Legal framework for Fastweb

As a member of the EU, Italy is required to bring national legislation into line with the European legislative framework. The Italian regulatory authority AGCOM has the task – based on an analysis of the markets defined by the EU Commission – of imposing regulatory obligations on companies. Drafts of such measures must be submitted to the EU Commission and the regulatory authorities of the other member states, who have the right to comment on or veto the draft. The business operations of Swisscom’s Italian subsidiary Fastweb are therefore heavily influenced by European and Italian telecommunications legislation and its application. A decision taken by AGCOM may have major implications for Fastweb.

Regulatory developments in Italy in 2010

AGCOM is required to enshrine the EU framework approved at the end of 2009 in its national telecoms legislation by May 2011. No significant changes are expected. In June 2010 AGCOM decided to deregulate the remaining retail markets (local/national and international calls for private individuals and businesses), and in October 2010 confirmed a further increase in the price for an unbundled subscriber connection from EUR 8.70 at present to EUR 9.14 in 2011 and EUR 9.48 in 2012. By 2012, the price will have risen by 24% since the end of 2009 (EUR 7.64). Alternative providers, Fastweb included, have objected to the increase, arguing that this will prompt Telecom Italia to invest less in new networks.

Relationship with the Swiss Confederation

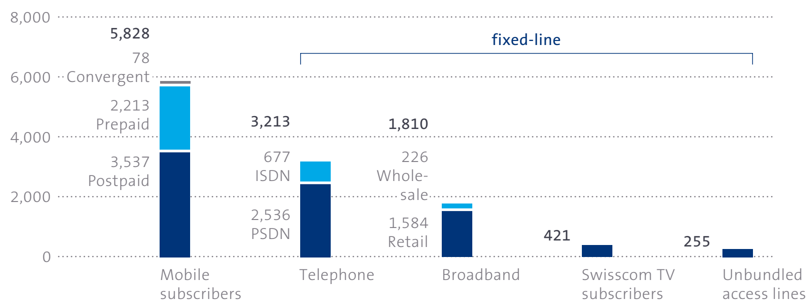
The Swiss Confederation is legally obliged to hold a majority of the capital and voting rights in Swisscom. This shareholding allows the Confederation to exert influence over business decisions. At the same time, it bears financial and business risks which it controls by formulating certain expectations of Swisscom in the context of its strategic goals (for example, requirements concerning maximum indebtedness, payments to shareholders and shareholdings outside Switzerland).

Telecommunications market trends

Swiss telecoms market

The Swiss telecoms market is highly developed by international standards and characterised by a wide range of voice and data communications services and ongoing innovation. The Swiss telecoms market has an estimated total revenue volume of some CHF 15 billion, which can be broken down into the submarkets of relevance to Swisscom: fixed line, mobile, broadband and digital TV.

Swisscom Switzerland access lines in thousand



Fixed-line market

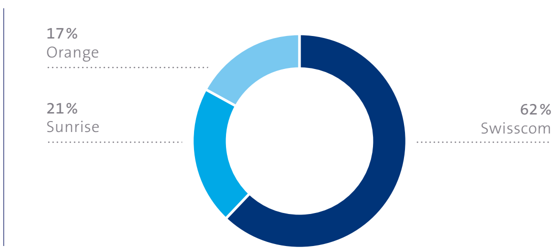
Fixed-line telephony is based mainly on the lines of the telephone network and of cable network operators. Expansion of mobile telephony in recent years has led to a rapid drop in the number of telephone calls made over the fixed-line network. The number of Swisscom fixed lines has likewise been declining steadily. This trend continued in 2010, with the number of fixed lines falling by 5.6% to 3.21 million. Besides substitution by mobile telephony, the possibility since 2007 of full unbundled access to Swisscom subscriber lines also contributed to this decline. By the end of 2010, the number of unbundled lines totalled 255,000.

Prices have fallen drastically as a consequence of competition in the wake of market liberalisation and are currently on a par with the rest of Europe on the whole. Prices are increasingly based on monthly flat-rate charges, and fixed-line services are being offered in combination with other products such as broadband, digital TV and mobile telephony.

Mobile communications market

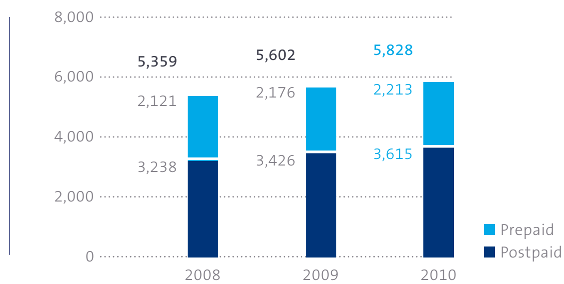
Three companies operate their own nationwide mobile networks in Switzerland: Swisscom, Orange Switzerland and Sunrise. Orange Switzerland is a subsidiary of France Telecom. Sunrise was sold in October 2010 by its Danish parent company TDC to CVC Capital Partners. Compared with earlier years, 2010 saw slower growth (4%) in the number of mobile lines (SIM cards) as a result of already high market penetration. In aggregate, the three network operators operated around 9.3 million lines at the end of 2010. which exceeds the total population. with many customers using additional SIM cards for mobile computers. smartphones and other devices.

Market shares mobile subscribers in Switzerland* in %



*Estimate Swisscom

Development of mobile subscribers in thousand

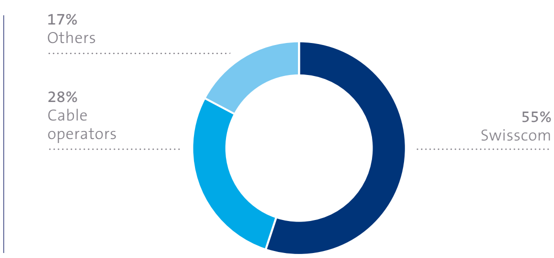


In 2010 Swisscom increased the number of mobile lines in tandem with growth of the overall market by some 4%, defending its market share of 62%. Switzerland has a much higher percentage of postpaid customers (around 62%) compared with the European average of 45%. Prices for mobile services were squeezed again by the competition in 2010, which resulted in a corresponding decline in average monthly revenue per user. The increasing use of smartphones also led to strong growth in mobile data traffic in 2010.

Broadband market

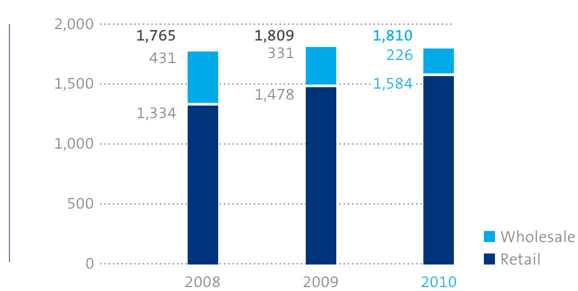
The two most widespread access technologies for fixed-line broadband connections in Switzerland are the telephone network on a DSL basis (Digital Subscriber Line) and the cable television network. At the end of 2010, the number of retail broadband connections in Switzerland totalled some 2.8 million, which corresponds to around 35% of the population, making market penetration in Switzerland significantly higher than the European average. In Europe, this high broadband penetration is exceeded only by Denmark, the Netherlands and Norway.

Market shares broadband access lines in Switzerland* in %



*Estimate Swisscom

Development of broadband access lines in thousand

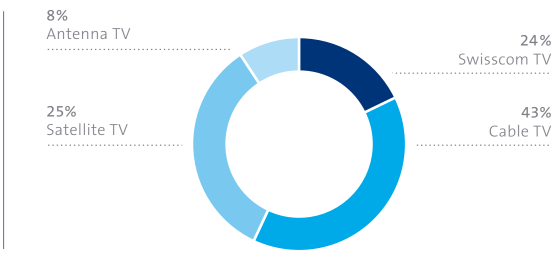


In the last few years, the growth in telephone-based DSL broadband connections has far outpaced the broadband connections provided by cable network operators, a trend which continued in 2010. DSL broadband accounted for 79% of new connections, representing an increase in market share of all broadband connections at the end of 2010 to around 72%. Of these, Swisscom end customers accounted for 55% and Swisscom wholesale offerings together with fully unbundled lines around 17%.

Digital TV market

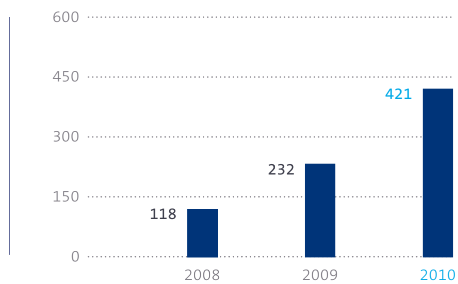
The importance and market penetration of digital television are constantly on the rise. The most important modes of transmission for digital television in Switzerland are satellite, antenna (terrestrial), cable, Internet and mobile. Cable television accounts for the largest market share, followed by satellite reception. Roughly 70% of households have an analogue or digital cable television connection, of which some 25% (as of September 2010) have a digital TV subscription. The biggest cable network operator is Cablecom with 432,000 digital TV subscribers as of the end of October 2010.

Market shares digital TV in Switzerland* in %



*Estimate Swisscom

Development of Swisscom TV subscribers in thousand

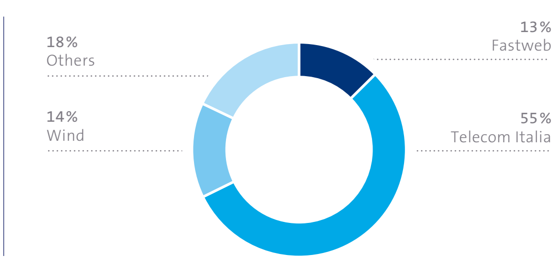


Swisscom has continuously increased the market share of its own digital TV offering in the last few years. In 2010 the 189,000 increase in the number of Swisscom customers was considerably higher than the number of new customers registered by the cable network providers.

Italian broadband market

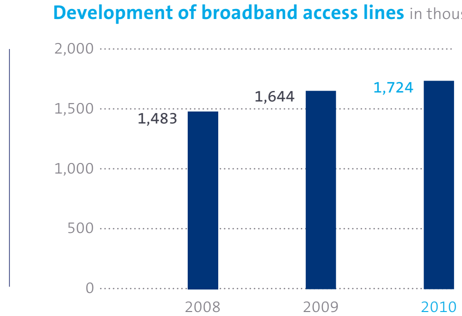
Italy's broadband market is the fourth largest in Europe, with end user spending on fixed and mobile services totalling around EUR 34 billion. In Italy, unlike in most European countries, there is no full-scale infrastructure competition in the broadband market between broadband providers and cable network operators. At 51%, market penetration is therefore relatively low by European standards. After several years of strong growth, the market is slowing. The number of broadband connections in Italy increased in 2010 by 8% to 13 million, with the number of Fastweb customers growing year-on-year by 4.9% to 1.7 million.

Market shares broadband access lines in Italy* in %



*Estimate Swisscom

Development of broadband access lines in thousand

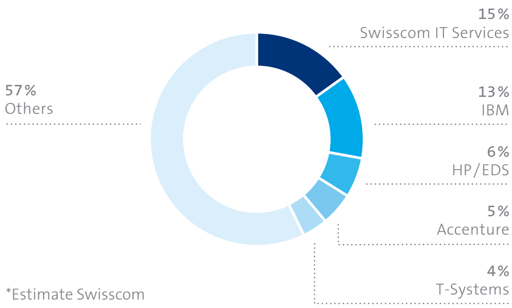


Telecom Italia is market leader with a share of 55%. With a market share of 13%, Fastweb is the third largest provider. However, Vodafone/Tele2 and Wind recorded the strongest growth in 2010.

IT services market in Switzerland

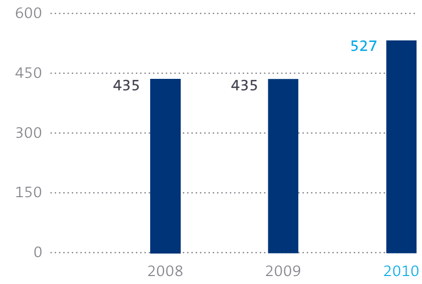
Around 25% of IT services are outsourced in Switzerland, which is a very low share by European standards. Outsourced IT services consist of project business as well as outsourcing services. In Switzerland this market generated a revenue volume of some CHF 6.2 billion in 2010. Following a sharp decline in 2009, positive growth was once more recorded in 2010 and Swisscom expects to see the market grow by around 5% per year over the next few years.

Market shares IT services in Switzerland* in %



*Estimate Swisscom

Development of third-revenue in CHF million



Including the services it delivers to other Group companies, Swisscom IT Services is the major provider in the Swiss market with a share of around 15%, followed by IBM and HP/EDS. It comprises the subsidiaries Swisscom IT Workplace Services Ltd, Comit Ltd, Resource Ltd and the majority interest in Sourcag Ltd. Comit is the clear market leader in the segment for integrated systems for banks. Together with the BPO (Business Process Outsourcing) expertise of Sourcag, a full range of services for the financial sector are offered. With a market share of around 7%, Resource Ltd ranks fourth in the SAP segment. Swisscom IT Services continued to expand in 2010, acquiring Panatronic Schweiz Ltd, which operates in the area of printing and repair solutions. Following the takeover, Panatronic Schweiz Ltd was renamed Swisscom IT Services Workplace Ltd and all skills relating to IT workplaces were bundled into the new company. Swisscom IT Services Workplace Ltd is active in a market that offers similar growth potential to that of business process outsourcing for banks and SAP services. Swisscom IT Services continues to enjoy attractive growth prospects, despite sustained high pressure from competitors and even greater volatility in the total contract volume on the Swiss IT market due to fewer larger customer contracts. The business of Swisscom IT Services is largely driven by the growing interest in on-demand services and the trend among customers to award outsourcing contracts selectively and to several providers rather than purchasing all services from a single provider. Thanks to customer proximity and a local presence, Swisscom IT Services is well-positioned and offers a portfolio of services tailored to the needs of Swiss enterprises.

Group structure and organisation

Management structure

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

Group structure

Swisscom Ltd and its four Group divisions, Finance & Controlling, Strategy & Business Development, Group Communications and Human Resources, together with its subsidiaries, comprises the Swisscom Group. The shares of Swisscom Ltd are listed on the SIX Swiss Exchange in Zurich and are also traded over the counter (OTC) in the form of Level 1 American Depositary Receipts (ADR). The majority shareholder at 31 December 2010 was the Swiss Confederation, with a share of 56.9% of the voting rights and capital. By law, the Confederation must hold the capital and voting majority in Swisscom Ltd.

Twenty-five Swiss subsidiaries (2009: 24) and 32 foreign subsidiaries (2009: 26) were fully consolidated in the 2010 financial statements, and 9 associated companies (2009: 9) were included according to the equity method. In 2010 Swisscom IT Services Ltd acquired Panatronic Schweiz Ltd, Swisscom Hospitality Services Plus Ltd acquired Wayport A/S of Denmark, and Swisscom (Switzerland) Ltd acquired Axept Ltd (Switzerland). Panatronic Schweiz Ltd was renamed Swisscom IT Services Workplace Ltd after the takeover.

Swisscom Ltd holds direct shareholdings in Swisscom (Switzerland) Ltd, Swisscom IT Services Ltd, Swisscom Broadcast Ltd and Swisscom Immobilien Ltd. Fastweb S.p.A. (Fastweb) is indirectly held via Swisscom (Switzerland) Ltd and intermediate companies in Belgium and Italy. In 2010 a public tender offer was submitted to the remaining minority shareholders in Fastweb, which was successful. Swisscom increased its interest in Fastweb by 12.9% to 94.9% and initiated the process to buy out the remaining minority shareholders and to delist the company from the Milan Stock Exchange. Following the conclusion of the process, Swisscom aims to acquire any remaining Fastweb shares held by minority shareholders. While Swisscom Participations does not constitute a legal entity, it is responsible for managing a portfolio comprising various small and medium-sized enterprises. Swisscom and Publigroup have reciprocal interests of 49% each in LTV Yellow Pages Ltd and Swisscom Directories Ltd respectively.

Board of Directors

Group Executive Board

- Group Finance & Controlling
- Group Strategy & Business Development
- Group Communications
- Group Human Resources

	Swisscom Switzerland[1]	Fastweb	Swisscom IT Services	Swisscom Participations	Other operating segments	Group Headquarters
Subsidiaries	Swisscom (Switzerland) Ltd Swisscom Directories Ltd local.ch Ltd Webcall GmbH Wingo Ltd Axept Ltd	Fastweb S.p.A.[6] Fastweb Wholesale S.r.l.[6]	Swisscom IT Services Ltd Comit Ltd[2] Comit Strategic Sourcing Ltd Resource Ltd Sourcag Ltd Swisscom IT Services Workplace Ltd	Alphapay Ltd Billag Ltd Cablex Ltd Curabill Ltd Evita Ltd Sicap Ltd[3] Swisscom Broadcast Ltd Swisscom Real Estate Ltd	Hospitality Services Plus Ltd[4] Venturing Investments[5]	Swisscom Ltd Worklink Ltd Swisscom Belgium N. V.[6] Swisscom Re Ltd[6] Swisscom Italia S.r.l.[6]
Associates[6]	CT Cinetrade Ltd LTV Yellow Pages Ltd Belgacom International Carrier SA			Medgate Holding Ltd	Venturing Investments	

[1] Swisscom Switzerland comprises the operating segments Residential Customers, Small and Medium-Sized Enterprises, Corporate Business, Wholesale and Networks & IT.

[2] Comit Ltd has subsidiaries in Luxembourg and Singapore.

[3] Sicap Ltd has subsidiaries in France, Malaysia, Singapore and South Africa.

[4] Hospitality Services Plus Ltd has subsidiaries in Belgium, Germany, Great Britain, Italy, Luxembourg, Austria, Portugal, Romania, Spain, USA, Denmark, Norway and Russia.

[5] Complete consolidated Venturing Investments are Swisscom Auto-ID Services Ltd and Mona Lisa Capital Ltd.

[6] All subsidiaries based abroad – noted in the Notes 2, 3, 4 and 6 – as well as all holdings in associates and joint ventures are excluded in the scope of GRI. See the definition of GRI-Scope in the chapter of Corporate Responsibility and the overview to the scope of reporting on internet under www.swisscom.com/scopeofreporting.

Guiding principles

Our promise

- We are Swisscom – we are full of life.
- We bring people together.
- We simplify and enrich our customers' lives.
- We inspire them with our expertise, reliability and zest for life.

Our goals

- **Winning hearts:** Our customers are the focal point of our thoughts and actions. They value our unmistakable and consummate experiences. We arouse emotions and convey enjoyment, offering first-class quality and service all from a single source. Swisscom is one of Switzerland's favourite brands.
- **Making things simple:** We are optimising our activities. We constantly ask ourselves what we can make simpler and how we can reduce our costs while still delivering the same or even better service to our customers. We tap into the resulting potential with a view to consistently enhancing customer benefits as well as our own competitiveness. We achieve sustainable success through focus and simplicity.
- **Shaping the future:** The world is full of ideas. We combine the best of these for the benefit of our customers. To this end we penetrate new markets, foster successful partnerships, participate in projects with future potential and promote innovations that promise added value both for our customers and for Swisscom.

Our principles

- **Passionate about customers:** I am passionate about the work I do for our customers. I work closely with them, listen to what they have to say, identify and empathise with them. Our customers are the inspiration for the experiences that we create for them. I surprise them, convey enjoyment and inspire by providing the best service.
- **Heart and soul:** I put my heart and soul into everything I do. I unleash individual potential and promote both diversity and creativity in myself and in others. I am committed to creating an inspiring working environment. As a line manager, I give my staff freedom and opportunities to develop their skills and take on responsibility.
- **Dialogue and cooperation:** I encourage dialogue and cooperation with a view to enhancing impact. I am bold, inquisitive, learn from others and promote shared developments. I stand for the whole company and act consistently and efficiently. I analyse my own actions objectively, with no ifs or buts.
- **Focus on the essentials:** I make things simple and better. I avoid activities that offer no added value for customers. I generate savings without compromising the customer experience.
- **Responsible for today and tomorrow:** I am responsible for today and tomorrow. I am reliable, deliver on my promise and take responsibility for society and our environment. This is how I convey security and establish trust. Swisscom is true to its Swiss roots.

Corporate strategy

While Swisscom commands a leading position in the mobile, fixed and broadband submarkets in Switzerland, it is continually faced with eroding prices and volumes due to fierce competition. Network access business is set to become even more competitive as more and more lines become unbundled, cable providers enter the fray and fibre-optic initiatives are rolled out. Moreover, service offerings are increasingly being provided on a network-independent basis and by new market players, leading to declines in revenue and income which need to be offset. Swisscom is pursuing a three-pillar corporate strategy: "Maximise", "Extend" and "Expand".

Maximise

Maximise our market position in the core business in Switzerland

Extend

Grow in core-related business areas in Switzerland

Expand

Grow in other business internationally and out of core and core-related business areas in Switzerland

The focus in 2010 was on implementing the three-pillar strategy and safeguarding profitability. The three-pillar strategy will continue to determine Swisscom's strategic direction in the years to come. The priorities are summarised below.

1. Maximise

For Swisscom, maximising existing core business means strengthening its competitive position in Switzerland on the basis of high customer loyalty and cost-efficient service provision.
Swisscom Switzerland is boosting its already high level of customer loyalty by further developing its customer-focused service culture. Targeted investments, particularly in fibre-optic expansion and further expansion of the mobile network, are improving the high quality of the network infrastructure which, combined with outstanding services and a strong brand, will guarantee high market share. The aim is to set Swisscom clearly apart, by delivering first-class customer service and top-quality products that generate compelling customer benefits and justify its price premium vis-à-vis its competitors. The rollout of new bundled offerings is another element in the differentiation strategy. Systematic cost management to increase cost efficiency and safeguard investment is becoming increasingly important in strategic terms. Alongside continual improvement, efficiency enhancements will be achieved by reducing complexity as well as through integration synergies and technology transformation such as the switch to an All-IP based infrastructure. Another way of exploiting the potential for savings is to minimise energy and resource consumption within Swisscom. Energy efficiency is also a requirement to which Swisscom is committed for its products and services. For example, Swisscom is a signatory to the European Commission's Code of Conduct on Energy Consumption of Broadband Equipment.
As an internal service provider, Swisscom IT Services supports Swisscom Switzerland in this context by helping to reduce IT costs and by delivering more flexible services. Swisscom Participations also supports Swisscom Switzerland in its bid to achieve efficiency gains in the areas of fibre-optic expansion and real estate management.

2. Extend

Swisscom is extending the current core business by offering customers a broad array of information and communication services. To this end it is continually developing its business activities in telecoms, informatics, media and entertainment along the entire value chain.
The transition from analogue to digital television is already under way, and is set to continue over the next few years. Swisscom aims to use this time to stimulate demand for Swisscom TV and further increase Swisscom's share of the digital TV market.
In the corporate business segment the aim is to ensure the growth of Swisscom IT Services. Swisscom's acquisition of Resource Ltd, Sourcag Ltd and the Panatronic Group has systematically extended the portfolio in selected market segments over the past few years, and plans are in place to extend the service portfolio of Swisscom IT Services further in the future. Ongoing improvements and the harmonisation of operating processes and customer focus will further increase competitiveness and profitability.
Swisscom Participations is pursuing various eHealth activities with the aim of capturing a slice of the growing healthcare market.

3. Expand

Swisscom seeks to identify and capitalise on growth opportunities outside its core business in Switzerland, based on clear industrial and strategic criteria. Fastweb's successful further development and consolidation is accorded to high priority.
The acquisition of Fastweb in 2007 marked Swisscom's entry into the Italian broadband market. In September 2010 Swisscom announced a public takeover offer for the minority shares in Fastweb, and went on to acquire 12.9% of the shares of Fastweb on 19 November 2010, thereby increasing its stake to 94.9%. The process to delist Fastweb from the Milan Stock Exchange was then initiated. Against the backdrop of dynamic market development and the possibility of further consolidation in the Italian telecommunications market, Swisscom is gaining strategic and operational flexibility thanks to this targeted 100% takeover. The current priority is to grow market share further, expand the product portfolio – with the emphasis on the corporate customer segment – and improve operational excellence.
Larger investments in shareholdings are strategically restricted to the two core markets of Switzerland and Italy. At the same time Swisscom is also making targeted investments with a view to further expanding existing interests, for example in Swisscom Hospitality Services, a company that provides Internet access and TV services for hotel chains and their guests. By acquiring the EMEA business of Wayport in 2010, Swisscom Hospitality further expanded its presence in Europe, particularly in Scandinavia. Besides this consolidation in Europe, Swisscom Hospitality Services is aiming to expand its service portfolio and increase efficiency in order to grow revenue and enhance profitability.
In addition, Swisscom invests smaller amounts in venture capital funds as well as directly in start-up companies in order to gain early access to new technologies and business ideas.

Value-driven corporate steering

The key financial figures with regard to the planning and operational steering of cash flow are operating income before, depreciation and amortisation (EBITDA) and investments in property, plant and equipment and intangible assets. EBITDA is driven mainly by revenue and margin development. Swisscom's remuneration system is tied to value generation via variable performance-related components. The variable performance-related component is based on financial targets for net revenue, EBITDA margin and operating free cash flow, defined as EBITDA less capital expenditure, and changes in net working capital.

Enterprise value

In CHF million, except where indicated	31.12.2010	31.12.2009
Enterprise value		
Market capitalisation at end of year	21,296	20,491
Net debt	8,848	9,141
Minority interests from subsidiaries	28	319
Enterprise value (EV)	**30,172**	**29,951**
Operating income before depreciation and amortisation (EBITDA)	4,597	4,684
Ratio enterprise value/EBITDA	**6.6**	**6.4**

The sum of market capitalisation, net debt and minority interests in subsidiaries is the enterprise value (EV) derived from the share price. The minority interests were stated at carrying value. The enterprise value only increased slightly by 0.7% to CHF 30.2 billion in 2010. The increase in market capitalisation on the basis of the share price was compensated by a decline in net debt. The enterprise value/EBITDA ratio is a key figure used in relative comparisons with other companies. With a factor of 6.6 (2009: 6.4) Swisscom is above the average of Europe's former state telephone companies. A lower interest rate and lower average tax rates make a significant contribution to this higher.

Current operations value and future growth value

In CHF million, except where indicated	31.12.2010	31.12.2009
NOPAT, COV and FGV		
Operating income (EBIT)	2,625	2,689
Adjustments [1]	187	218
Share of results of associated companies	28	43
Operating taxes	(603)	(613)
NOPAT [2]	**2,237**	**2,337**
Weighted average cost of capital (WACC)	6.5%	6.5%
Current operations value (COV)	**34,415**	**35,954**
Future growth value (FGV)	(4,243)	(6,003)
Enterprise value (EV)	**30,172**	**29,951**

[1] Adjustments: depreciation and amortisation from purchase price allocations, termination benefits.
[2] NOPAT: net operating profit after taxes

The current operations value is calculated by dividing NOPAT (net operating profit after tax) by the weighted average cost of capital (WACC). This assumes zero future growth and investments at the level of depreciation and amortisation. Capital costs are calculated on the basis of the enterprise value. In both years an estimated long-term average rate of 6.5% was used as the weighted average cost of capital, which does not take into account the current extraordinarily low interest rate. A comparison of the enterprise value – derived from the share price – with the current operations value gives the present value of the future long-term growth of the operating results or cash flows which is implicit in the share price and expected by the capital market. The current operations value based on the assumptions made exceeded the enterprise value by around CHF 4 billion or 14% at the end of 2010. Based on the market capitalisation, the difference is 20%. This means that, in comparison with the current performance of the capital market, long-term lower operational results or cash flows are expected. Comparable growth estimates implied in the share performance can also be observed in the other established former state telephone companies in Europe. In contrast to most other companies, Swisscom successfully achieved growth in the domestic market in 2010.

Capital market

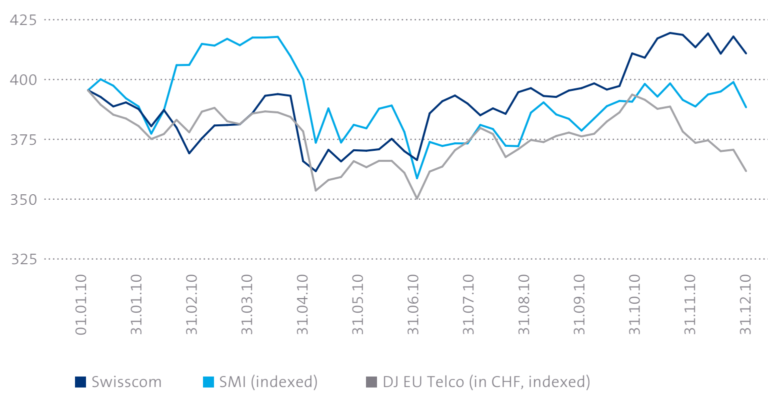
Swisscom's shares are listed on the SIX Swiss Exchange. The Group's creditworthiness is regularly assessed by international rating agencies.

Swisscom share

As at 31 December 2010 Swisscom's market capitalisation stood at CHF 21.3 billion, with 51.8 million shares outstanding. Swisscom shares are listed on the SIX Swiss Exchange under the symbol "SCMN" (Securities No. 874251). In the United States they are traded in the form of American Depositary Receipts (ADR) at a ratio of 1:10 (Over The Counter, Level -1) under the symbol "SCMWY" (Pink Sheet No. 69769).

Share performance in 2010

Share performance 2010 in CHF



In contrast with the high share price volatility seen in recent years, equities recorded a lacklustre performance in 2010, with the Swiss Market Index SMI recording a 1.7% loss. In contrast, Swisscom shares were sought after and rose by 3.9% to CHF 411.10. As a result of the strength of the Swiss franc, the Swisscom share price outperformed the European sector index DJ EU Stoxx Telco Index in Swiss francs (–13.3% in CHF; +8.6% in EUR). Average daily trading volume fell by 17.0% to 116,289 shares. The total trading volume of Swisscom shares in 2010 amounted to CHF 11.4 billion. On 27 April 2010, Swisscom paid out an ordinary dividend of CHF 20 per share. Based on the closing price at the end of 2009, this equates to a return of 5.1%. Taking into account the increase in share price, the Swisscom share achieved a total shareholder return of 9.0% in 2010, thereby exceeding the TSR (total shareholder return) of the SMI (+1.3%) and the DJ EU Stoxx Telco Index in Swiss francs (–7.1% in CHF; +12.5% in EUR).

See **www.swisscom.ch/shareprice**

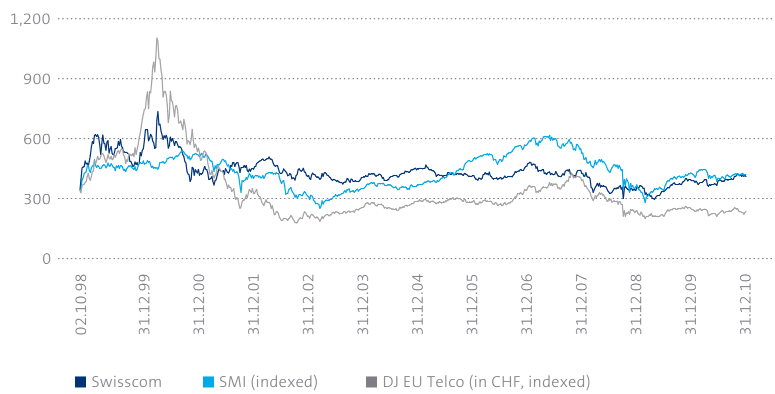
Swisscom share performance indicators

		2006	2007	2008	2009	2010
Par value per share at end of year	CHF	1.00	1.00	1.00	1.00	1.00
Number of shares issued at end of period	in thousand	56,719	56,719	53,441	51,802	51,802
Closing price at end of period	CHF	461.25	442.00	339.50	395.60	411.10
Earnings per share	CHF	28.86	39.88	33.87	37.18	34.96
Ordinary dividend per share	CHF	17.00	18.00	19.00	20.00	21.00 [1]
Extraordinary dividend per share	CHF	–	2.00	–	–	–
Ratio payout/earnings per share	%	58.91	50.15	56.10	53.79	60.06
Equity per share	CHF	83.03	105.40	101.79	121.45	120.77
Market capitalisation at end of year	in CHF mio.	23,894	22,896	17,587	20,491	21,296

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

Share performance since IPO

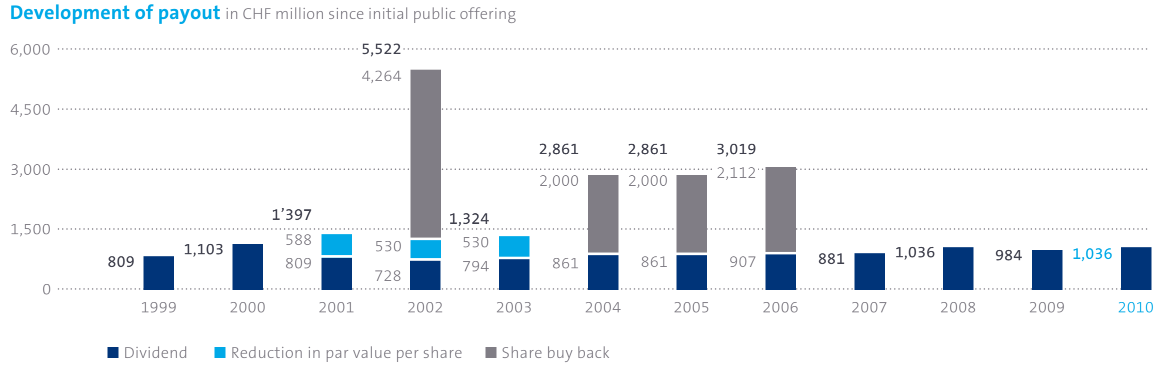
Share performance 1998–2010 in CHF



Payout policy

In accordance with Swisscom's payout policy, up to half of the operating free cash flow is paid out to shareholders in the subsequent year, with payment at least on a par with the previous year's dividend. Operating free cash flow in 2010 amounted to CHF 2,512 million. At the Annual General Meeting on 20 April 2011, the Swisscom Board of Directors will propose that the ordinary dividend be increased to CHF 21 per share (2009: CHF 20). This will represent a total dividend payout of CHF 1,088 million.

Development of payout in CHF million since initial public offering



Since going public in 1998 Swisscom has distributed a total of CHF 22.8 billion to shareholders: CHF 10.8 billion in dividend payments, CHF 1.6 billion in capital reductions and CHF 10.4 billion in share buybacks. Since the initial public offering Swisscom has paid out CHF 214 per share. Together with the overall increase in share price of CHF 71 per share, this corresponds to an average annual total return of 5.1%.

Analysts' recommendations

Some 20 analysts regularly publish studies on Swisscom. At the end of 2010, 46% of the analysts recommended a buy rating for the Swisscom share, 42% a hold rating and 12% a sell rating. The average price target at 31 December 2010 according to the analysts' estimates was CHF 422.

Indebtedness

Credit ratings and financing

With an A (stable) and A2 (stable) respectively, Swisscom enjoys good ratings with the Standard & Poor's and Moody's rating agencies. Swisscom's solid financial standing enabled unrestricted access to money and capital markets also in 2010. As a result, Swisscom issued debenture bonds and raised long-term bank loans and private placements totalling around CHF 2.2 billion, all of which were used to pay back existing bank loans. At 31 December 2010 net debt amounted to CHF 8.8 billion and had been reduced by CHF 0.3 billion during the reporting period. Around 90% of financial liabilities have a term to maturity of more than one year. At 31 December 2010 financial liabilities with a term of one year or less amounted to CHF 0.7 billion.

Ongoing dialogue with the capital market

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

Employees

Swisscom offers employees a working environment that fosters their personal and professional development by setting them challenging tasks and allowing them to exercise responsibility.

Introduction

Today's dynamic markets and the pace of technological change present major challenges to companies: change is often unpredictable, and the increasingly fast pace of change is a key factor influencing business performance. Given this situation, how can human resources management contribute strategically and sustainably to a company's success? The key lies in a constructive and creative approach to change. This calls not only for a corporate culture that fosters and promotes such an approach, but also for the requisite expertise.
The complexity of change is now virtually impossible to master, and the amount of available information is becoming overwhelming. As a result of this dynamic situation, know-how rapidly becomes outdated. Yet in their bid to remain globally competitive, companies are constantly obliged to stay one step ahead in the knowledge stakes. Against this backdrop, the technical expertise and the personal attitudes and conduct of employees are becoming increasingly business-critical. Swisscom seeks and supports visionary individuals who are team players and have the drive to turn their visions into reality. Swisscom's business success depends on its employees consistently focusing on customer needs.

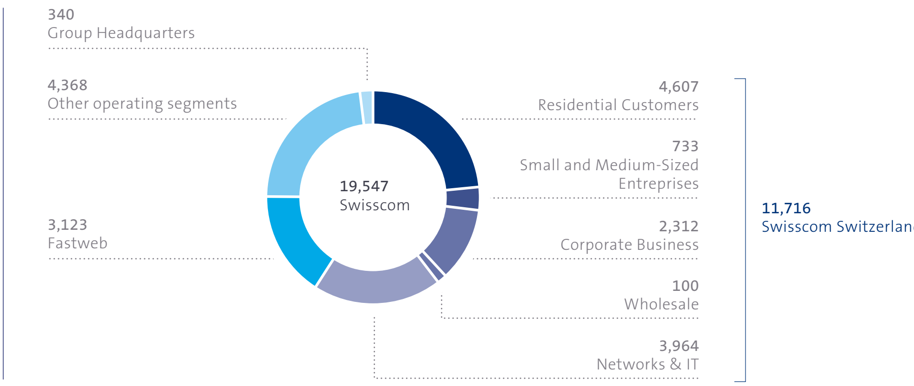
Management approach and objectives in Switzerland

Swisscom's Group Human Resources division is responsible for promulgating a Group-wide personnel policy. The operating segments, covering everything from recruitment to termination of employment. Group Human Resources formulates and promulgates Group-wide standards, guidelines and principles governing human resources policy. It provides support to the Group Executive Board and Board of Directors for issues related to human resources policy, recruits senior management staff and manages programmes to foster junior talent and succession planning. Group Human Resources is also responsible for professional and vocational training throughout the Group. In its dealings with the social partners, Group Human Resources advocates the interests of the Group as a whole.
For the next few years, Group Human Resources has set itself the following priorities and goals: Swisscom applies strategies and measures for age management so as to address demographic trends in good time and seek profitable solutions for approaches to older employees. Demographic trends also affect Swisscom's pension fund: Swisscom is committed to a solid pension fund and an equitable spread of contributions. Swisscom liaises with the social partners to seek fair solutions for the collective employment agreement (CEA) and social plan. Swisscom aims to position itself on the job market as an attractive employer to attract new talent. At the same time Swisscom invests in the employability of its employees and its progressive vocational training programme makes an important contribution to Switzerland's status as a skills-based economy. As the wide range of initiatives and programmes demonstrate, Swisscom also accords great value to the health of its employee and to cultural diversity within the Group. With the support of Human Resources, Swisscom management consistently devotes its efforts to people as a key success factor, developing strategies that unleash employees' potential and create an open culture in which mistakes are admissible. Showing appreciation, rewarding achievement and acting as role models play a key role in this context.

Headcount

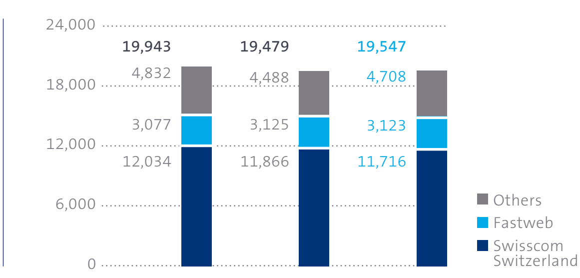
At the end of 2010 Swisscom had 19,547 full-time equivalent employees (FTEs), of which 16,064 were in Switzerland. A breakdown of employees by operating segment is presented below:

Headcount in full-time equivalent



0.9% of employees in Switzerland were on fixed-term contracts. Part-time employees accounted for 13.6% of the workforce, with 46 fewer employees compared with 2009. In 2010 termination of employment by employees in Switzerland amounted to 5.7% of the workforce. According to GRI, the fluctuation amounted to 11.4%. In mid-2010, Swisscom IT Services acquired Panatronic Schweiz Ltd with a workforce of 130. After the takeover, Panatronic Schweiz Ltd was renamed Swisscom IT Services Workplace Ltd. In addition, Swisscom Switzerland took over 138 employees as a result of the acquisition of a service business of Siemens, Axept Ltd and the outsourcing of UBS ICT Infrastructure. Swisscom Hospitality Services also took over the Danish Wayport Group, with 27 employees. As a result of efficiency enhancements, the headcount at Swisscom Switzerland fell by 221 or 1.9% FTEs.

Development of number of employees
in full-time equivalent



	2008	2009	2010
Full-time equivalent employees at end of year			
Residential Customers	4,692	4,671	4,607
Small & Medium-Sized Enterprises	758	765	733
Corporate Business	2,215	2,224	2,312
Wholesale	105	92	100
Networks & IT	4,264	4,114	3,964
Swisscom Switzerland	**12,034**	**11,866**	**11,716**
Fastweb	**3,077**	**3,125**	**3,123**
Swisscom IT Services Ltd	2,438	2,677	2,858
Swisscom Participations	1,461	1,223	1,241
Swisscom Hospitality Services	281	236	263
Other	316	15	6
Other operating segments	**4,496**	**4,151**	**4,368**
Group Headquarters	**336**	**337**	**340**
Total Group	**19,943**	**19,479**	**19,547**
Thereof employees in Switzerland	16,104	15,995	16,064

Collective employment agreement and social plan

Employer's positioning

In December 2010, the collective employment agreement (CEA) covered some 14,200 employees in Switzerland, or 85.9% of the total workforce. Special terms and conditions of employment apply to management staff. The CEA sets out the key terms and conditions of employment between the employer and employees and also contains contractual provisions governing relations between Swisscom and the unions. The CEA offers employees flexibility and progressive employment conditions: The working week consists of 40 hours. The social plan sets out the benefits provided by Swisscom to employees affected by redundancy.

Responsibility for implementing the social plan lies with Worklink Ltd, a wholly owned subsidiary of Swisscom. Worklink Ltd opens up new prospects for Swisscom employees affected by job cuts, by providing them with advice and support in their search for new employment outside the company or arranging temporary external or internal placements. Worklink Ltd also operates separate outplacement schemes to assist management staff affected by redundancy. The success rate is high; around 46% of those affected found another job within a short space of time.

Swisscom operates a wide range of programmes to ensure fair solutions for older employees who are reaching retirement or are affected by skill change or redundancies. A retirement concept enables partial retirement, and employees opting for early retirement (from age 58) receive financial support in the form of a bridging pension until they reach statutory retirement age. The social plan takes into account age and length of service. In addition, internal age management programmes create new prospects and opportunities for older employees to continue in active employment.

Employee representation and union relations

Swisscom is committed to engaging in active partnership with its social partners and fostering constructive dialogue, as best exemplified by the fairness of the CEA. In the event of important operational changes and issues such as salary negotiations and working hours, Swisscom involves the unions at an early stage. The CEA grants employee representatives co-determination rights in a number of areas. These rights are exercised by the employee association, whose members are elected by Swisscom employees in general and free elections. The employee association and Swisscom engage in a mutual exchange of information. Employees are also entitled to propose two employee representatives to sit on the Board of Directors of Swisscom Ltd. The employee association also exercises direct co-determination rights at the individual Swisscom locations, with each member representing around 250 employees.
Swisscom promotes work-life balance by providing the right conditions under which employees can achieve an effective equilibrium between their working and private lives. This includes the following options for full- and part-time employees: flexible working-hour models such as annual working hours, variable working hours and teleworking, five weeks' annual leave (six weeks from age 60), 16 weeks' maternity leave and 10 days' paternity leave. Moreover, employees are entitled to an additional week of paid leave after five years of service, and Swisscom pays the pension fund contribution for unpaid leave of up to three months.
Swisscom pays a child and education allowance which in most cases is above the statutory allowance under cantonal law, and grants generous leave on family-related grounds including adoption leave. It supports external childcare facilities not only through financial contributions, but also by providing access to free counselling services through its "family service". In the case of incapacity to work due to illness or accident, Swisscom continues to pay the employee's salary in Switzerland for 730 days.
Unlike employees governed by the CEA, management staff are exempted from the obligation to pay a contribution to non-work-related accident insurance. They also have the opportunity to take several months' sabbatical leave, regardless of their length of service.
Employee benefits such as healthcare provision, insurance cover, maternity and paternity leave and retirement provision apply in equal measure to full- and part-time employees. Fringe benefits are commensurate with the level of employment and trainees enjoy the same benefits. Temporary staff have no entitlement to these benefits since such benefits are provided by their placement agencies. However, Swisscom has framework agreements with placement agencies under the terms of which temporary staff receive benefits that mirror as closely as possible those of permanent staff performing the same work. Management staff also benefit from a management risk insurance covering disability and death.

Pension plans

Obligatory and supplementary retirement provision for the majority of Swisscom employees in Switzerland is managed by the company's own pension foundation, comPlan. At the end of 2010, 17,600 Swisscom employees and 6,000 pensioners were insured under comPlan. In 2010 comPlan posted a net return of 4.35% on plan assets. The market value of the plan assets amounted to CHF 7.2 billion at 31 December 2010. The coverage ratio amounts to 100.0% according to Swiss accounting standards for pension funds. The Board of Trustees approved various amendments aimed at securing the long-term financial stability of the pension fund against the backdrop of low interest rates and rising life expectancy. The amendments enter into force in 2011 and comprise measures with regard to benefits and contributions, one of the main measures being the reduction in future retirement pensions for new pensioners. Current retirement pensions remain unchanged, however.

Staff development

Swisscom makes targeted investments in management and staff development in order to increase the marketability of their skills. Employees are supported in their development by a wide range of on-the-job and off-the-job options as well as internal programmes and courses. A statistical breakdown of training hours per employee cannot be provided due to the diverse range of systems and training courses at Swisscom. However, Swisscom operates a broad spectrum of further training and education programmes. In addition to professional, technical and management courses available within Swisscom, the organisational units receive a fixed annual contribution which they can use for external courses and further education. Swisscom welcomes opportunities for further training and provides financial support for employees attending such courses.

In 2010 Swisscom further developed its Performance Management System with a view to assessing and rewarding employee achievements in a targeted manner. The basis of this system is the performance dialogue: Guided by the principle of "agreeing objectives, recognising achievements and following a development plan", employees and line managers engage in dialogue in which they discuss future tasks, expectations and personal development. In 2010 line managers conducted a performance dialogue with 90.5% of all Swisscom employees in Switzerland. The management review process introduced in 2009 now also applies to organisational units within the Group divisions. The process supports succession planning for key functions and promotes the placement of top talents. In 2010, Swisscom drew up a Top Talent Programme in order to develop and foster promising talents. Among other things, the programme aims to encourage regular exchanges of information and informal discussions between members of the Group Executive Board and top talents.

Also in 2010, Swisscom made targeted investments in development programmes designed for specific groups such as members of management and project managers. In the field of customer care, an initiative was launched with the aim of developing interdisciplinary opportunities for further development in various job categories and the Leadership Forum was established as a platform for addressing key management issues.

Human resources strategy

Swisscom's human resources policy lays down clear principles for a good working relationship, defining management principles and governing Swisscom's approach to social issues. Individuals in a management position at Swisscom pledge to abide by these principles and employees know what they can expect of their line managers.

> **Management:** Management at Swisscom means: exercising and delegating responsibility, jointly defining and achieving objectives irrespective of personal preferences, promoting and supporting talent, and practising a policy of equal opportunities. While this is a challenging remit, it is also a source of satisfaction for managers who succeed in motivating their employees in their work.

> **Social responsibility:** Social responsibility is broadly embraced at Swisscom, founded as it is on a commitment to provide adequate insurance cover. As far as operationally possible, Swisscom aims to integrate disadvantaged individuals, stand by employees in times of crisis, avoid redundancies, and exercise care and consideration when it comes to workforce reductions. Aided by a wide range of initiatives and programmes, Swisscom raises employees' awareness of health issues and offers a broad array of additional social benefits to promote safety and provide support. These include counselling services, support for childcare outside the family, and economically priced catering facilities.

> **Discrimination:** Swisscom employees have the right to non-discriminatory treatment in the workplace that safeguards their personal dignity and integrity. In the event of discrimination – even in matters relating to lifestyle, cohabitation, health, finances and other such issues – employees can call on the services of counsellors at various locations throughout Switzerland. Over the past three years, an average of 4% to 5% of Swisscom employees have taken advantage of the opportunity to have one-to-one counselling. The counselling service offers various courses on how to prevent psychological and social tension and discrimination, as well as stress management courses. Every year, several hundred employees and line managers attend these courses.

Employee remuneration

Competitive pay packages help to attract and retain highly skilled and motivated specialists and managerial staff. Swisscom's salary system comprises a basic salary and a variable performance-related component. The basic salary is determined on the basis of position, individual performance and market value, while the variable component is dependent on the achievement of overarching objectives such as customer loyalty. Employees who delivered an outstanding performance due to exemplary behaviour in 2010 will receive an additional bonus.

The management remuneration system and the terms and conditions of employment comply with the recommendations of economiesuisse on the "Swiss Code of Best Practice in Corporate Governance".

In this year's salary negotiations Swisscom reached an agreement with the social partners for the next two years, according to which the salary bill in 2011 will increase by 2.6%, of which 0.9% will be for general and 1.7% for individual salary increases. In 2012 the salary bill will increase by 2.4%, of which 0.8% will be available for general and 1.6% for individual salary increases. Employees whose salaries are significantly in excess of the going market rate for their function will receive a general salary increase of 0.5% in both years. This will help to reduce existing salary disparities compared with the market. The salaries of management staff will be raised on a case-by-case basis only. This salary agreement applies to all Group companies that were affiliated to the Swisscom collective employment contract (CEC) as per the end of 2010, with the exception of the Swisscom IT Services Group. The companies of the Swisscom IT Services Group have taken advantage of their right under the relevant affiliation agreements to renegotiate. A salary agreement at this level for a two-year period would reduce the competitiveness of Swisscom IT Services vis-à-vis its international competitors in a strongly contested market. The renegotiations have so far failed to produce an agreement and arbitration proceedings have been implemented.

There is no legally defined minimum wage in Switzerland. Instead, this is negotiated by the social partners in the context of collective employment agreements. Swisscom complies with the CEA-defined minimum wage of CHF 45,500 (for a 40-hour week or 2,080 hours per year).

Swisscom is active throughout Switzerland and the various locations differ little in terms of defining salaries. The principal locations are the cities of Bellinzona, Berne, Chur, Lausanne, Lucerne, Olten, St. Gallen, Sion and Zurich (locations with more than 400 employees). A survey of the initial salaries of the youngest members of Swisscom's call centres (up to age 21) at the widely-applied starting function level found that the average hourly pay for this category is CHF 27.90. This corresponds to 127% of the minimum rate of CHF 21.90. Swisscom takes great care to ensure equality of pay for men and women. The Swiss Confederation's equal pay instrument (Logib), developed by the Federal Office for Equality, regularly reviews salary structures to identify differences between men's and women's salaries.

Reviews conducted to date, most recently covering salaries for July 2010, have determined only minimal differences in pay. Moreover, these differences were well below the tolerance threshold of 5% defined by the Federal Procurement Office.

Personnel expense

In CHF million	2010	2009	Change
Salary and wage costs	2,035	2,049	–0.7%
Social security expenses	224	232	–3.4%
Pension cost	152	176	–13.6%
Other personnel expense	109	120	–9.2%
Total personnel expense	**2,520**	**2,577**	**–2.2%**
Full-time equivalent employees at end of year	19,547	19,479	0.3%
Average number of full-time equivalent employees	19,464	19,813	–1.8%

Personnel expense decreased by CHF 57 million or 2.2% to CHF 2,520 million, largely due to lower headcount at Swisscom Switzerland.

Employee satisfaction

In May 2010 Swisscom conducted an extensive survey to gauge the mood among Swisscom staff. Around three quarters of the workforce participated. This high response coupled with the clear findings are an incentive for the future. Swisscom fosters high levels of job satisfaction and above-average staff commitment. However, it is also important to ensure that employees understand why financial resources are used in a particular way and to demonstrate the rationale behind large-scale investments in the future and the associated outlooks. This special task must be accorded even greater attention by management at all levels.

The main findings

- Commitment to Swisscom continues to be above average and at 86 out of a possible 100 points is gratifyingly high.
- Job satisfaction remains high (71 out of 100) but has declined slightly compared to earlier surveys.
- Employees also rated the enjoyment factor, job content, pay and team spirit as good,
- While topics such as cost orientation, professional development, open communication and customer focus attracted more criticism.

The Group Executive Board has agreed on the following measures:

- In its decision-making processes, the Group Executive Board will pay closer heed to achieving a balance between customer satisfaction, employee satisfaction and cost orientation, examine the related challenges and address them more vigorously through organisational measures, taking particular account of critical feedback on cost orientation within the Group.
- Creating personal and corporate perspectives calls for initiatives at all levels. Employees should discuss their personal views and perspectives with their line managers during the performance dialogue.
- Divisional management has been assigned concrete tasks: to concentrate its efforts on strengthening management in an exceptionally dynamic environment, and to promote trust and self-confidence throughout the organisation.

Feedback culture

Information and communication foster motivation and create transparency. At Swisscom, the principle of reciprocity applies to both management and employees. Actively gathering information and actively informing are part of Swisscom’s communication culture.

Health and safety in the workplace

Healthy, satisfied employees are a top priority at Swisscom. With this in mind, Swisscom makes targeted investments in strategies, initiatives and programmes for Occupational Health Management (OHM). These measures are firmly entrenched with the support of the Board of Directors, Group Executive Board and line managers.
In 2008 Swisscom drew up an OHM strategy, defining methods, financial resources, roles, responsibilities and processes, and in 2009 introduced the OHM system across the Group. OHM officers held 1,800 courses on presence management for management staff and provided instruction and training for the operational OHM units (Case Management, Human Resources Consultants, Counselling). Rehabilitation was the first area to benefit from the OHM in 2010, with 1,100 successful rehabilitation interviews held and roughly 11,000 fewer days of absence than in 2009. This corresponds to a reduction in the absence rate from 3.26% in 2009 to 3.00% in 2010. The system is also bearing fruit in other divisions: on the initiative of the OHM and with scientific support from vivit Ltd, staff restaurants extended their menus. Swisscom leads the national reintegration project ConCerto (employers, social insurance agencies, disability agency conference/Federal Office of Social Security) and works with key integration partners to create trainee positions and internships

for employees with health problems. The OHM focus for 2011 will be on prevention. The OHM aims to reduce absence rates to 2.09% by 2015.
As set out in the collective employment agreement (CEA), Swisscom undertakes to respect and protect the persons of its employees and provide an appropriate level of health protection according to ergonomic principles. In terms of ergonomics (design of workstations and working environment, health protection/health care, prevention of work-related accident and occupational illnesses, workplace safety), the CEA grants employees right of co-determination and the unions the right of information. Various committees coordinate and organise training courses, initiatives and measures aimed at safety and health protection in the workplace. In areas where workplace safety is particularly important for employees, Swisscom operates an integrated, process-based management system and is ISO 9001:2000 certified.
The criteria, processes and tools for regulating and implementing workplace safety and health protection are integrated in a quality, environmental and safety management system. For example, Swisscom's subsidiary Cablex implements the FCOS 6508 (Federal Coordination Commission for Occupational Safety) guidelines, which cover the ten elements of the operational safety system and ensures that measures are taken to safeguard the health and safety of employees engaged in installing infrastructure.

Diversity

Diversity@Swisscom

Men and women from all kinds of cultural backgrounds, of widely varying ages, different religions and different sexual orientations work at Swisscom. Swisscom makes a conscious effort to promote such diversity, because it encourages creativity and innovativeness. Diversity means dialogue: Employees are encouraged to exchange and question views and values in order to find new solutions.
At present Swisscom has two main priorities in terms of diversity: the proportion of women in management positions
and the cultural diversity across the Group.
Women make up around 28% of the workforce. The share of women at senior management level is 12%. Swisscom aims to be an attractive employer for men and women. Swisscom operates special programmes to foster the development of talented employees, and seeks promising talents both internally and externally.
People from different cultures bring with them a diverse range of views, ideas, skills and creative capabilities. Employees from almost 80 different nations attest to Swisscom's commitment to diversity. Employees are given the opportunity to exchange ideas and get to know other attitudes and values at various workshops, training courses and presentations.
Launched in 2010, Swisscom's gender development programme is specifically designed to encourage female employees and underscores the economic and social importance that Swisscom attaches to women in management. To promote women in middle management, Swisscom operates a special development programme in which members of the Management Board and Group Executive Board mentor talented female employees and groom them for promotion.

Staff recruitment

Recruiting new staff

Swisscom seeks individuals who are forward-looking and enthusiastically embrace change. At all its locations Swisscom endeavours to give priority to people from the surrounding region. In all areas and at all hierarchical levels, the percentage of local employees is exceptionally high.

Student interns and trainees

Many students gather initial professional experience during their studies by working as interns to complete the practical part of their Bachelor's or Master's course. This gives them a valuable insight into the professional world and plays a pivotal role in their ultimate choice of a future employer. At Swisscom, undergraduates and graduates can acquire practical experience during their studies and embark on the first step of the career ladder by joining the trainee programme or taking up a junior position. And by engaging in a number of activities at Swiss universities, Swisscom maintains a high profile so as to attract the best graduates.

New opportunities for the future of apprentices

Swisscom is currently training 805 young people in five professions. At more than 5% of the workforce, the percentage of apprentices remains stable. More than 92% of the 265 apprentices in mediamatics, IT, commercial studies, retailing and telematics successfully completed their training at Swisscom in the summer of 2010. Of this number, 138 found a position at Swisscom, while the remainder either went on to further education or sought alternative options. A bridging scheme helped many apprentices to find a position within Swisscom on completing their apprenticeship. At present, Swisscom vocational trainers are drawing up a concept for developing young talents. The pilot two-year training programmes with federal certificate aimed at office assistants and IT technicians which were successfully completed this year. This qualification makes it easier for practically gifted young people to enter the working world. Some apprentices can follow this up with a shorter course of training for the Federal Certificate of Proficiency, which they would have been unable to access without the professional certificate. Based on the overwhelmingly positive experiences, Swisscom decided to continue offering federally certified apprenticeships for basic training in 2010 and 2011.
Since August 2010 school-leavers have had the opportunity to apply for the new apprenticeship for a Federal Certificate of Proficiency as Specialist in Customer Dialogue, for which training is primarily the responsibility of Swisscom customer contact centres. This new course evaluates students' dealings with customers over the phone and, thanks to the recognised qualification, reduces staff turnover in this area. By working with the largest customer service centres in Switzerland, Swisscom intends to support this new apprenticeship and offer young people new opportunities for vocational training.

Personnel statistics

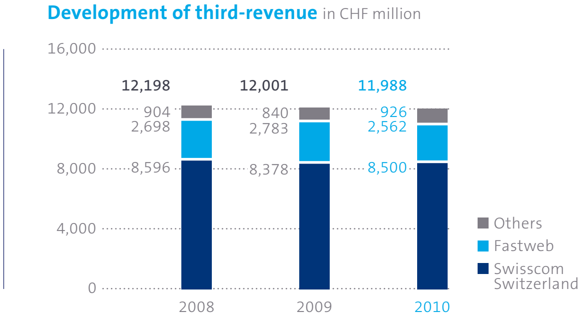
	Unit	2008	2008 in %	2009	2009 in %	2010	2010 in %
Personnel structure in Switzerland							
Employees in FTE accrding to GRI scope	FTE/%	16,104	100.0%	15,995	100.0%	16,064	100.0%
Thereof employees included in the following analysis	FTE/%	**16,046**	**99.6%**	**15,641**	**97.8%**	**15,616**	**97.2%**
Employees with full-time employment	FTE/%	13,909	86.7%	13,571	86.8%	13,500	86.4%
Employees with part-time employment	FTE/%	2,137	13.3%	2,070	13.2%	2,116	13.6%
Employees with unlimited employment	FTE/%	15,935	99.3%	15,538	99.3%	15,478	99.1%
Employees with limited employment	FTE/%	111	0.7%	103	0.7%	138	0.9%
Female employees	FTE/%	4,641	28.9%	4,435	28.4%	4,357	27.9%
Male employees	FTE/%	11,405	71.1%	11,206	71.6%	11,259	72.1%
Employees up to age of 30 years	FTE/%	2,796	17.4%	2,589	16.6%	2,531	16.2%
Employees between age of 30 and 50 years	FTE/%	10,218	63.7%	9,885	63.2%	9,798	62.8%
Employees over age of 30 years	FTE/%	3,032	18.9%	3,167	20.2%	3,287	21.0%
Average age	Years	40.5	n.a.	41.0	n.a.	41.2	n.a.
Female employees in top management	FTE/%	7	6.1%	12	9.8%	15	12.0%
Male employees in top management	FTE/%	107	93.9%	110	90.2%	110	88.0%
Female employees in other management	FTE/%	194	10.2%	207	10.0%	212	9.7%
Male employees in other management	FTE/%	1,711	89.8%	1,868	90.0%	1,968	90.3%
Temporary employees	FTE	1,122	7.0%	1,217	7.8%	1,415	9.1%
Traineeship positions	number of jobs	850	5.3%	840	5.4%	805	5.2%
Development of employees in Switzerland							
Number of performance dialogues held	number	12,905	80.4%	13,481	86.2%	14,137	90.5%
Fluctuation in Switzerland							
Leavings/fluctuation women	FTE/%	870	14.4%	575	12.2%	551	13.1%
Leavings/fluctuation men	FTE/%	1,660	11.1%	1,177	9.2%	1,179	10.7%
Fluctuation rate total	FTE/%	2,530	12.1%	1,751	10.1%	1,730	11.4%
Leavings up to 30 years of age	FTE/%	599	23.7%	411	23.5%	419	24.2%
Leavings from 30 to 50 years of age	FTE/%	1,601	63.3%	969	55.3%	905	52.3%
Leavings up to 50 years of age	FTE/%	330	13.0%	371	21.2%	406	23.5%
Absences due to accidents and sickness in Switzerland							
Days lost due to work-related sickness	number of days	200	0.005%	580	0.015%	176	0.005%
Days lost due to sickness	number of days	106,930	2.66%	111,731	2.79%	98,125	2.46%
Days lost due to work-related accidents/	number of days	n.a.	n.a.	2,821	0.07%	3,140	0.08%
Days lost due to non-work-related accidents	number of days	16,543	0.41%	15,394	0.38%	18,083	0.45%
Days lost total	number of days	107,130	3.11%	115,132	3.26%	101,441	3.00%
Days lost per FTE	number of days/FTE	6.7	n.a.	7.4	n.a.	6.5	n.a.

Financial review Group

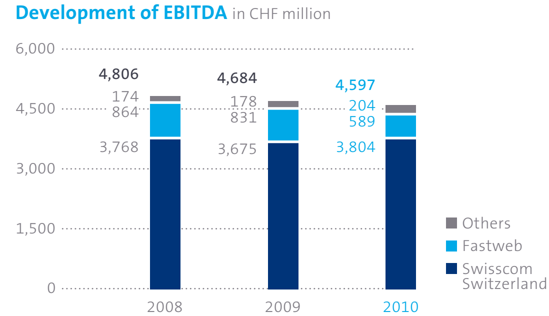
Key financial figures

In CHF million, except where indicated	2010	2009	Change
Net revenue	11,988	12,001	–0.1%
Operating income before depreciation and amortisation (EBITDA)	4,597	4,684	–1.9%
EBITDA as % of net revenue	38.3	39.0	
Operating income (EBIT)	2,625	2,689	–2.4%
Net income	1,786	1,923	–7.1%
Share of net income attributable to equity holders of Swisscom Ltd	1,811	1,926	–6.0%
Earnings per share (in CHF)	34.96	37.18	–6.0%
Operating free cash flow	2,512	2,685	–6.4%
Capital expenditure in property, plant and equipment and other intangible assets	1,903	1,987	–4.2%
Net debt at end of period	8,848	9,141	–3.2%
Number of full-time equivalent employees	19,547	19,479	0.3%

Development of third-revenue in CHF million



Development of EBITDA in CHF million



- At constant exchange rates, net revenue increased by 2.1%.
- Adjusted operating income before depreciation and amortisation (EBITDA) was up 1.7%.
- Net income fell by 7.1% year-on-year, earnings per share by 6.0%.

Summary

Swisscom's net revenue fell by CHF 13 million or 0.1% to CHF 11,988 million. At constant exchange rates this represents an increase of 2.1%. The Italian subsidiary Fastweb increased net revenue in local currency terms by 1.5% to EUR 1,880 million. Excluding Fastweb, revenue rose by CHF 208 million or 2.3% to CHF 9,426 million, primarily due to the economic recovery, acquisition of subsidiaries by Swisscom IT Services and growth in mobile communications and bundled products. Growth in customer numbers and volume of CHF 546 million more than compensated for price erosion in Swiss core business of CHF 526 million.

Operating income before depreciation and amortisation (EBITDA) fell by CHF 87 million or 1.9% to CHF 4,597 million. The decrease in EBITDA was primarily attributable to a provision of EUR 70 million (CHF 102 million) for VAT proceedings against Fastweb. The provision was created following an investigation report against Fastweb and other persons and companies relating to VAT fraud and criminal association, published by Italian investigating authorities on 23 February 2010. Adjusted for the provision recognised in the first quarter of 2010 for the VAT proceedings against Fastweb and currency effects, EBITDA increased year-on-year by 1.7%.

Net income declined by 7.1% or CHF 137 million to CHF 1,786 million, largely as a result of the provision for the VAT proceedings against Fastweb, as well as higher income tax expense. The share of net income attributable to equity holders of Swisscom Ltd decreased year-on-year by 6.0% to CHF 1,811 million. This resulted in a fall in earnings per share from CHF 37.18 to CHF 34.96.

Capital expenditure declined by 4.2% to CHF 1,903 million and amounted to 15.9% (prior year: 16.6%) of net revenue. The decrease in capital expenditure was mainly due to currency effects. Adjusted for currency effects, capital expenditure fell by 1.2%.

Operating free cash flow fell by CHF 173 million or 6.4% to CHF 2,512 million, mainly due to the settlement of provisions in respect of interconnection proceedings in Switzerland. A dividend of CHF 21 per share (prior year: CHF 20 per share) will be proposed at the Annual General Meeting on 20 April 2011. This will represent a total dividend payout of CHF 1,088 million.

Net debt declined during the reporting period by CHF 293 million to CHF 8,848 million. The ratio of net debt to EBITDA fell from 2.0 to 1.9. Two debenture bonds were issued and long-term bank loans and private placements totalling around CHF 2,200 million were raised in 2010 and used in full to repay existing bank loans.

Headcount increased during the reporting period by 68 full-time equivalent employees or 0.3% to 19,547 FTEs. Headcount in Switzerland increased year-on-year by 69 to 16,064 full-time equivalent employees.

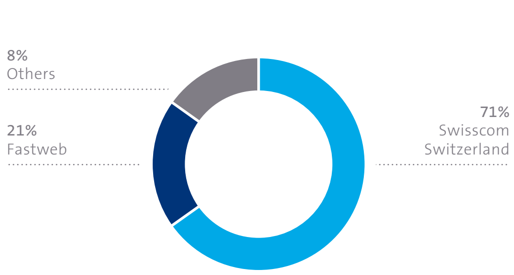
Swisscom expects to close 2011 with net revenue of at least CHF 11.8 billion, EBITDA in excess of CHF 4.6 billion and capital expenditure below CHF 2.0 billion. Swisscom expects marketing initiatives and efficiency enhancements at Fastweb to generate strong revenue and cash flow growth in the years following the transition year of 2011, which is expected to end with stable revenue but slightly higher EBITDA. The capital expenditure outlook does not include expenses in connection with the mobile frequency auction planned for 2011, since it is not possible at this point in time to reliably estimate the outcome and the prices that will ultimately be paid. For the same reason, Swisscom is also not making any projections concerning operating free cash flow. The outlook is also associated with uncertainty regarding currency movements. Fastweb's financial results are based on an assumed exchange rate for the euro of CHF 1.30 (prior year: CHF 1.37). If all targets are met, Swisscom will propose a minimum dividend of CHF 21 per share for the 2011 financial year.

Results of operations

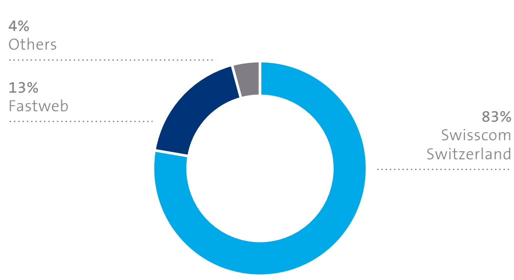
Income statement

In CHF million, except where indicated	2010	2009	Change
Swisscom Switzerland	8,500	8,378	1.5%
Fastweb	2,562	2,783	–7.9%
Other operating segments	925	839	10.3%
Group Headquarters and elimination	1	1	–
Revenue from external customers	**11,988**	**12,001**	**–0.1%**
Swisscom Switzerland	3,804	3,675	3.5%
Fastweb	589	831	–29.1%
Other operating segments	340	351	–3.1%
Group Headquarters and elimination	(136)	(173)	–21.4%
Operating income before depreciation and amortisation (EBITDA)	**4,597**	**4,684**	**–1.9%**
Net revenue	**11,988**	**12,001**	**–0.1%**
Goods and services purchased	(2,665)	(2,648)	0.6%
Personnel expenses	(2,520)	(2,577)	–2.2%
Other operating expenses	(2,510)	(2,509)	0.0%
Capitalised self-constructed assets and other income	304	417	–27.1%
Operating expenses	**(7,391)**	**(7,317)**	**1.0%**
Operating income before depreciation and amortisation (EBITDA)	**4,597**	**4,684**	**–1.9%**
Depreciation, amortisation and impairment losses	(1,972)	(1,995)	–1.2%
Operating income (EBIT)	**2,625**	**2,689**	**–2.4%**
Financial income and financial expense, net	(365)	(349)	4.6%
Equity in net income of affiliated companies	28	43	–34.9%
Income before income taxes	**2,288**	**2,383**	**–4.0%**
Income tax expense	(502)	(460)	9.1%
Net income	**1,786**	**1,923**	**–7.1%**
Share of net income attributable to equity holders of Swisscom Ltd	1,811	1,926	–6.0%
Share of net income attributable to minority interests	(25)	(3)	–
Average number of shares outstanding (in mio.)	51.798	51.800	–
Earnings per share (in CHF)	34.96	37.18	–6.0%

Share of operating segments in net revenue in %



Share of operating segments in EBITDA in %



Net revenue

Swisscom's net revenue fell by CHF 13 million or 0.1% to CHF 11,988 million. At constant exchange rates this represents an increase of 2.1%, primarily due to the economic recovery, company acquisitions by Swisscom IT Services and the growth in mobile business and bundled offerings. At Swisscom Switzerland, revenue from external customers increased by 1.5% to CHF 8,500 million. Growth in customer numbers and volume of CHF 546 million more than compensated for price erosion in Swiss core business of CHF 526 million. In comparison with the previous year, revenue from mobile data traffic with Swisscom customers rose by 33.2% to CHF 435 million. Revenue from external customers at Fastweb increased by 7.9% in Swiss francs to CHF 2,562 million, while in local currency net revenue was up 1.3%. Fastweb consolidated its market position in the business customer segment, while the residential customers and SME segments felt the effects of intensifying competitive pressure. Revenue from external customers in other operating segments increased by 10.3% to CHF 925 million, mainly due to the acquisition of subsidiaries by Swisscom IT Services. Adjusted for acquisitions, revenue from external customers generated by other operating segments increased year-on-year by 3.3%.

Goods and services purchased

Goods and services purchased rose slightly year-on-year by CHF 17 million or 0.6% to CHF 2,665 million. Excluding acquisition of subsidiaries, goods and services purchased fell by CHF 15 million or 0.6%. Operating expense at Swisscom Switzerland increased; at Fastweb the fall is currency-related. At Swisscom Switzerland the increase was largely due to an increase in goods purchased, and was partially offset by lower termination rates. The fall in traffic charges was mainly the result of lower roaming and termination rates. The increase in goods purchased is attributable to higher sales of multifunctional mobile devices (smartphones). At Fastweb, operating expense increased in local currency terms largely due to customer growth.

Personnel expense

Personnel expense decreased by CHF 57 million or 2.2% to CHF 2,520 million, largely due to lower headcount at Swisscom Switzerland. At 19,547 full-time equivalent employees, headcount at 31 December 2010 was 68 full-time equivalent employees or 0.3% higher than in the prior year. An increase at Swisscom Switzerland and Swisscom IT Services due to acquisitions was partly offset by efficiency improvements.

Other operating expense

At CHF 2,510 million, other operating expense remained at the previous year's level. Adjusted for the EUR 70 million (CHF 102 million) provision recorded in the first quarter of 2010 for VAT proceedings against Fastweb, other operating expense fell year-on-year by 4.0%. The fall is largely currency-related.

Capitalised self-constructed assets and other income

At CHF 304 million, capitalised self-constructed assets and other income were CHF 113 million or 27.1% lower year-on-year. Other income in the previous year included compensation payments totalling EUR 20 million (CHF 30 million), received by Fastweb from Telecom Italia for unfair soliciting of customers.

Operating income before depreciation and amortisation (EBITDA)

Operating income before depreciation and amortisation (EBITDA) fell by CHF 87 million or 1.9% to CHF 4,597 million. The decrease in EBITDA was primarily attributable to a provision of EUR 70 million (CHF 102 million) for VAT proceedings against Fastweb, recognised in the first quarter of 2010. Adjusted for this item and for currency effects, EBITDA rose by 1.7% or CHF 78 million year-on-year, mainly as a result of the improvement in operating income at Swisscom Switzerland.

Depreciation, amortisation and impairment losses

Depreciation, amortisation and impairment losses fell by CHF 23 million or 1.2% to CHF 1,972 million. Adjusted for currency effects, depreciation and amortisation increased by CHF 52 million or 2.6%, predominantly as a result of Swisscom Switzerland's investment in a new customer relationship management system, which is amortised over its estimated useful life using the straight-line method from the beginning of 2010. Depreciation and amortisation includes scheduled amortisation related to business combinations in the amount of CHF 149 million (prior year: CHF 163 million), which were capitalised as intangible assets for purchase price allocation purposes.

Net financial result

Net financial expense increased by CHF 16 million year-on-year to CHF 365 million, while net interest expense declined by CHF 20 million. The foreign exchange result fell by CHF 72 million due to the strong Swiss franc. In the third quarter of 2009 and 2010, hedging relationships were terminated in connection with the early repayment of bank loans, resulting in an expense of CHF 34 million (prior year: CHF 96 million).

Associated companies

This position mainly comprises the share of results attributable to investments in Belgacom International Carrier Services, Cinetrade and LTV Yellow Pages (formerly PubliDirect). The share of results of associated companies fell year-on-year by CHF 15 million to CHF 28 million. Dividends received, amounting to CHF 55 million (prior year: CHF 93 million), largely concern dividends paid by LTV Yellow Pages, Cinetrade and Belgacom International Carrier Services.

Income tax expense

Income tax expense amounted to CHF 502 million (prior year: CHF 460 million), corresponding to an effective income tax rate of 21.9% (prior year: 19.3%). The increase in the effective income tax rate is mainly attributable to the fact that no positive tax effects were recognised on the provision for the VAT proceedings against Fastweb in the first quarter of 2010. Excluding one-off items, a long-term income tax rate of around 21% is expected in future. Income taxes paid were CHF 65 million higher than a year earlier at CHF 365 million.

Net income and earnings per share

Net income declined by 7.1% or CHF 137 million to CHF 1,786 million. This was primarily attributable to the provision for the VAT proceedings against Fastweb, which was recognised in the first quarter of 2010, as well as higher income tax expense. Earnings per share are calculated on the basis of net income attributable to the equity holders of Swisscom Ltd and the average number of shares outstanding. The share of net income attributable to equity holders of Swisscom Ltd decreased year-on-year by 6.0% to CHF 1,811 million. Earnings per share fell accordingly from CHF 37.18 to CHF 34.96.

Impact of exchange rate fluctuations

Swisscom is exposed to the effects of exchange rate fluctuations due to the translation of financial statements of foreign subsidiaries into Swiss francs. Foreign business operations primarily concern the Italian subsidiary Fastweb. The average exchange rates were as follows:

Currency	2010	2009	Change
1 EUR	1.370	1.508	–9.1%
1 GBP	1.600	1.697	–5.7%
1 USD	1.038	1.083	–4.1%

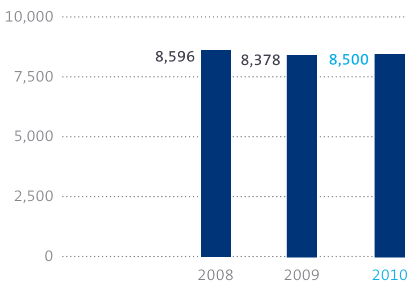
The following table shows the impact of exchange rate fluctuations on net revenue, operating income before depreciation and amortisation (EBITDA) and operating free cash flow:

Development in %	Change in CHF	Change in local currency
Net revenue	–0.1%	2.1%
Operating income before depreciation and amortisation (EBITDA)	–1.9%	–0.5%
Operating free cash flow	–6.4%	–6.3%

Operating segment results

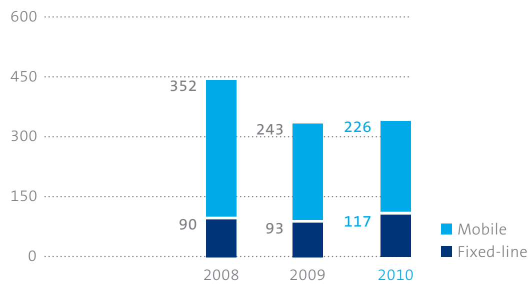
Segment reporting is broken down into the segments Residential Customers, Small and Medium-Sized Enterprises, Corporate Business, Wholesale, and Networks & IT, which are grouped together as Swisscom Switzerland, and Fastweb and Other operating segments. Group Headquarters is disclosed separately.

Development of third-revenue Swisscom Switzerland in CHF million



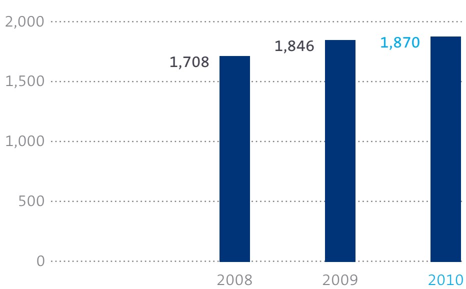
	2008	2009	2010
Revenue mobile	3,456	3,398	3,476
Revenue fixed-line	4,106	4,000	3,856
Revenue others	1,034	980	1,168
Total	**8,596**	**8,378**	**8,500**

Changes in customer contracts Retail Swisscom Switzerland in thousand



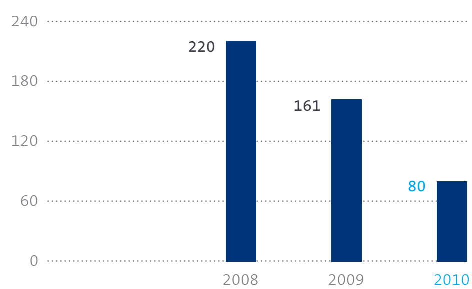
	2008	2009	2010
Telephone (PSDN/ISDN)	–130	–165	–178
Broadband	161	144	106
Swisscom TV	59	114	189
Contracts in fixed-line	**90**	**93**	**117**
Contracts in mobile	**352**	**243**	**226**

Development of third-revenue Fastweb in EUR million



	2008	2009	2010
Residential Customers	658	697	702
Small and Medium-Sized Enterprises	379	406	392
Corporate Business	671	743	776
Third-revenue	**1,708**	**1'846**	**1'870**

Changes in broadband access lines Fastweb in thousand

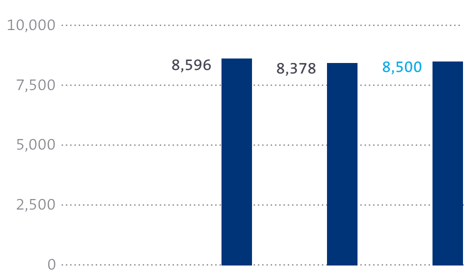


Segment revenues and results

Swisscom Switzerland

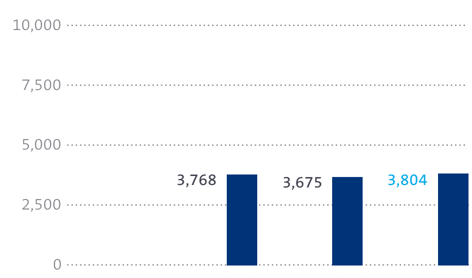
In CHF million, except where indicated	2010	2009	Change
Revenue from external customers	8,500	8,378	1.5%
Intersegment revenue	66	75	–12.0%
Net revenue of Swisscom Switzerland	**8,566**	**8,453**	**1.3%**
Direct costs	(1,877)	(1,870)	0.4%
Indirect costs (including capitalised costs and other income)	(2,885)	(2,908)	–0.8%
Total segment expense	**(4,762)**	**(4,778)**	**–0.3%**
Segment result before depreciation and amortisation	**3,804**	**3,675**	**3.5%**
Margin as % of net revenue	*44.4*	*43.5*	
Depreciation, amortisation and impairment losses	(1,031)	(962)	7.2%
Segment result	**2,773**	**2,713**	**2.2%**
Capital expenditure in property, plant and equipment and other intangible assets	1,204	1,219	–1.2%
Full-time equivalent employees at end of year	11,716	11,866	–1.3%
Telephone access lines PSTN/ISDN in thousand	3,213	3,391	–5.2%
Unbundled fixed access lines in thousand	255	153	66.7%
Total telephone access lines in thousand	**3,468**	**3,544**	–2.1%
Broadband access lines retail in thousand	1,584	1,478	7.2%
Broadband access lines wholesale in thousand	226	331	–31.7%
Total broadband access lines in thousand	**1,810**	**1,809**	0.1%
Swisscom TV subscribers in thousand	421	232	81.5%
Mobile subscribers (SIM cards) in thousand	5,828	5,602	4.0%
Average revenue in CHF per mobile user (ARPU) per month	49	50	–2.0%
Average minutes per mobile user (AMPU) per month	119	115	3.5%

Development of third-revenue Swisscom Switzerland in CHF million



	2008	2009	2010
Residential Customers	4,778	4,725	4,897
Small and Medium-Sized Enterprises	1,085	1,090	1,123
Corporate Business	1,758	1,686	1,732
Wholesale	975	877	748
Third-revenue	**8,596**	**8,378**	**8,500**

Development of EBITDA Swisscom Switzerland in CHF million



	2008	2009	2010
Residental Customers	2,966	2,917	3,008
Small and Medium-Sized Enterprises	805	835	869
Corporate Business	949	957	991
Wholesale	603	471	439
Networks & IT	–1,555	–1,504	–1,502
EBITDA	**3,768**	**3,675**	**3,804**

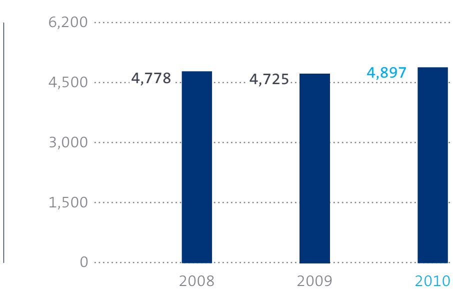
- Swisscom TV customer base increased by over 80% to 421,000 customers.
- Mobile subscriber base grew by another 4.0%.
- 172,000 customers in 2010 signed up for the bundled product Vivo Casa.
- Revenue from mobile data services rose by 33.2% to CHF 435 million.

Swisscom Switzerland increased its revenue from external customers by CHF 122 million or 1.5% to CHF 8,500 million, A growth in customer numbers and volume of CHF 546 million more than compensated for the price erosion in the Swiss core business of CHF 526 million. In addition, the economic recovery and the increased number of multifunctional mobile devices (smartphones) sold also boosted net revenue, with around 1.38 million mobile devices sold in 2010, of which around half were smartphones. The trend towards bundled offerings and new pricing models (flat-rate tariffs) continued unabated, with the number of Swisscom customers subscribing to bundled products more than doubling year-on-year. By the end of 2010, Swisscom had signed up 327,000 customers for its bundled product Vivo Casa (Swisscom TV, Internet and fixed-line telephony). The year also saw a sharp rise in the number of flat-rate customers, with the customer base more than doubling year-on-year from 83,000 to 145,000. The number of PSTN/ISDN access lines declined by 178,000 or 5.2% to just over 3.2 million. Besides loss of market share to cable network operators, the decline was mainly attributable to the increase in unbundled access lines by 102,000 to 255,000. This increase was driven primarily by migration of wholesale customers from broadband access lines to unbundled access lines, as a result of which wholesale broadband access lines declined by 105,000 to 226,000, while retail broadband access lines rose by 106,000 or 7.2% to just under 1.6 million. The number of Swisscom TV customers grew year-on-year by 81.5% to 421,000, while the number of mobile subscribers increased by 226,000 or 4.0% to 5.8 million. Thanks to sustained customer growth and higher smartphone sales, revenue from data services rose by 33.2% to CHF 435 million. Average monthly revenue per mobile user (ARPU) fell by 2.0% to CHF 49 due to price reductions and new tariff models. At CHF 3,804 million, the segment result before depreciation and amortisation was CHF 129 million, or 3.5% higher year-on-year due to a combination of revenue growth and cost savings, which increased the profit margin from 43.5% to 44.4%.

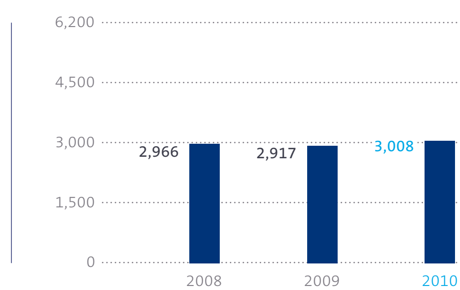
Residential Customers

In CHF million, except where indicated	2010	2009	Change
Revenue from external customers	4,897	4,725	3.6%
Intersegment revenue	293	292	0.3%
Net revenue	**5,190**	**5,017**	**3.4%**
Segment expenses	(2,182)	(2,100)	3.9%
Segment result before depreciation and amortisation	**3,008**	**2,917**	**3.1%**
Margin as % of net revenue	*58.0*	*58.1*	
Capital expenditure in property, plant and equipment and other intangible assets	128	131	−2.3%
Full-time equivalent employees at end of year	4,607	4,671	−1.4%
Telephone access lines PSTN/ISDN in thousand	2,471	2,639	−6.4%
Broadband access lines in thousand	1,396	1,306	6.9%
Swisscom TV subscribers in thousand	409	231	77.1%
Mobile subscribers (SIM cards) in thousand	4,519	4,422	2.2%

Development of third-revenue in CHF million



Development of EBITDA in CHF million



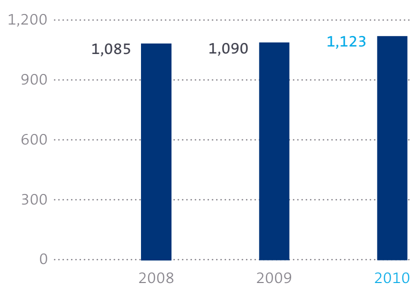
- Swisscom TV customer base increased by 77.1% to 409,000 customers.
- Mobile subscribers base grew by 2.2%.
- Revenue from mobile data services rose by 37.1%.

Revenue from external customers grew year-on-year by CHF 172 million or 3.6% to CHF 4,897 million, driven largely by the economic recovery, growth in the customer base and in mobile data business, and higher sales of smartphones. Mobile revenue rose thanks to increased use of mobile data services and customer growth and despite continuing price erosion and the introduction of new tariff models (flat-rate tariffs). The number of mobile subscribers increased year-on-year by 97,000 or 2.2% to 4.5 million. Despite falling prices, average revenue per mobile user per month (ARPU) remained stable at CHF 42, mainly thanks to growth in mobile data services. In the fixed-network area, the decline in traditional voice and phone line business was largely offset by customer growth in broadband, Swisscom TV and bundled offerings. The number of broadband access lines increased year-on-year by 6.9% or a net 90,000 to 1.4 million, while the number of Swisscom TV customers grew by 77.1% to 409,000. Bundled offerings continued to gain in popularity, with 306,000 residential customers having signed up for the bundled product Vivo Casa (Swisscom TV, Internet and fixed-line telephony) by the end of 2010. This represents an increase of 163,000 compared with the previous year. Segment expense increased by CHF 82 million or 3.9% year-on-year and was primarily attributable to the higher number of smartphones sold, coupled with higher customer acquisition and retention costs. Personnel expense was down as a result of the lower headcount, which decreased year-on-year by 64 or 1.4% to 4,607 full-time equivalent employees due to improvements in efficiency. At CHF 3,008 million, the segment result before depreciation and amortisation was CHF 91 million or 3.1% higher, largely thanks to an increase in net revenue.

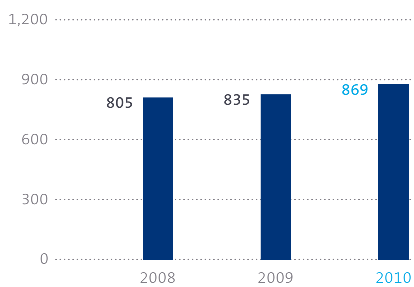
Small and Medium-Sized Enterprises

In CHF million, except where indicated	2010	2009	Change
Revenue from external customers	1,123	1,090	3.0%
Intersegment revenue	52	55	–5.5%
Net revenue	**1,175**	**1,145**	**2.6%**
Segment expenses	(306)	(310)	–1.3%
Segment result before depreciation and amortisation	**869**	**835**	**4.1%**
Margin as % of net revenue	*74.0*	*72.9*	
Capital expenditure in property, plant and equipment and other intangible assets	9	9	–
Full-time equivalent employees at end of year	733	765	–4.2%
Telephone access lines PSTN/ISDN in thousand	512	510	0.4%
Broadband access lines in thousand	158	144	9.7%
Mobile subscribers (SIM cards) in thousand	492	452	8.8%

Development of third-revenue in CHF million



Development of EBITDA in CHF million



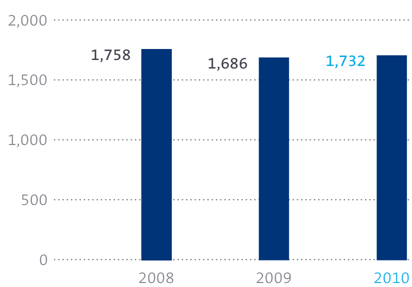
- Revenue (+2.6%) as well as the segment result before depreciation and amortisation (+4.1%) increased.
- Revenue from mobile data services rose by 32.1%.
- Broadband access lines and mobile subscribers increased by 9.7% and 8.8%, respectively.

Revenue from external customers grew year-on-year by CHF 33 million or 3.0% to CHF 1,123 million, chiefly driven by mobile subscriber growth and higher revenue from mobile data services. Despite lower traffic volumes and a reduction in tariffs, fixed-network revenue remained at the prior-year level thanks to growth in broadband access lines and bundled products. The number of mobile subscribers grew by 40,000 or 8.8% to 492,000. Average monthly revenue per mobile user (ARPU) declined by 3.2% to CHF 93 as a result of lower prices and new tariff models. The number of broadband access lines increased in 2010 by 9.7% or 14,000 lines to 158,000. Compared with the previous year, the segment expense fell slightly by 1.3% or CHF 4 million to CHF 306 million. The segment result before depreciation and amortisation increased year-on-year by CHF 34 million or 4.1% to CHF 869 million. Headcount declined in 2010 by 32 full-time equivalent employees or 4.2% to 733 full-time equivalent employees.

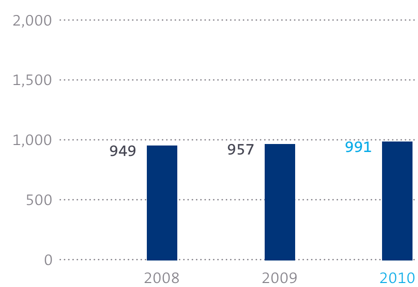
Corporate Business

In CHF million, except where indicated	2010	2009	Change
Revenue from external customers	1,732	1,686	2.7%
Intersegment revenue	126	146	–13.7%
Net revenue	**1,858**	**1,832**	**1.4%**
Segment expenses	(867)	(875)	–0.9%
Segment result before depreciation and amortisation	**991**	**957**	**3.6%**
Margin as % of net revenue	*53.3*	*52.2*	
Capital expenditure in property, plant and equipment and other intangible assets	80	79	1.3%
Full-time equivalent employees at end of year	2,312	2,224	4.0%
Telephone access lines PSTN/ISDN in thousand	230	242	–5.0%
Broadband access lines in thousand	30	28	7.1%
Mobile subscribers (SIM cards) in thousand	817	728	12.2%

Development of third-revenue in CHF million



Development of EBITDA in CHF million



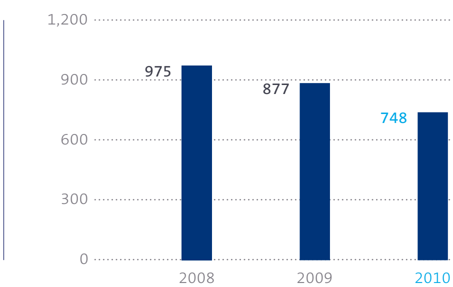
- Revenue increased by 1.4%, while the segment result before depreciation and amortisation improved by 3.6%.
- Outsourcing and project business recovered from the economic slowdown in 2009.

Revenue from external customers grew year-on-year by CHF 46 million or 2.7% to CHF 1,732 million. The increase was mainly attributable to growth in outsourcing and project business following the economic recovery, coupled with growing demand for mobile data services. This more than compensated for declining prices and volumes in the fixed network sector and lower traffic and subscription prices in the mobile sector. Average monthly revenue per mobile user (ARPU) fell by 7.0% to CHF 67. The 6.6% fall in the average number of minutes per mobile user per month (AMPU) to 166 minutes was largely attributable to the shift in usage to mobile data services. Segment expense was CHF 8 million or 0.9% lower at CHF 867 million. Higher expenses incurred in connection with the increase in revenue from outsourcing and project business were offset by lower traffic-related costs. As a result of an acquisition in December 2010, headcount increased by 88 full-time equivalent employees or 4.0% to 2,312 full-time equivalent employees. The segment result before depreciation and amortisation improved by CHF 34 million or 3.6% to CHF 991 million, thanks to higher net revenue and lower expense.

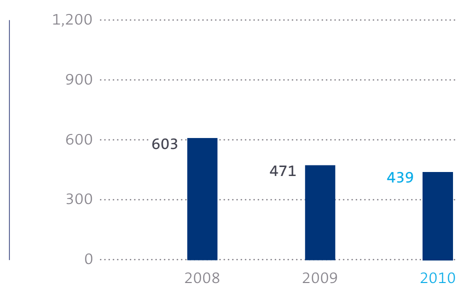
Wholesale

In CHF million, except where indicated	2010	2009	Change
Revenue from external customers	748	877	–14.7%
Intersegment revenue	505	568	–11.1%
Net revenue	**1,253**	**1,445**	**–13.3%**
Segment expenses	(814)	(974)	–16.4%
Segment result before depreciation and amortisation	**439**	**471**	**–6.8%**
Margin as % of net revenue	*35.0*	*32.6*	
Full-time equivalent employees at end of year	100	92	8.7%
Broadband access lines in thousand	226	331	–31.7%
Unbundled fixed access lines in thousand	255	153	66.7%

Development of third-revenue in CHF million



Development of EBITDA in CHF million



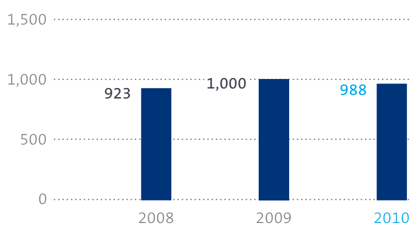
- At the end of 2010, unbundled access lines in Switzerland totalled 255,000.
- Lower termination rates led to a fall in revenue.

Revenue from external customers fell year-on-year by CHF 129 million or 14.7% to CHF 748 million. Revenue from mobile telephony declined mainly as a result of lower termination rates. Lower volumes and prices led to lower revenue from interconnection services. Other declines in revenue were attributable to a reduction in data services and continuing unbundling of the local loop. The number of wholesale broadband access lines fell by around a third year-on-year to 226,000, while the number of unbundled access lines increased by 102,000 to 255,000 in the same period. Intersegment revenue was down CHF 63 million or 11.1% to CHF 505 million, mainly as a result of lower termination rates. Segment expense fell by CHF 160 million or 16.4% to CHF 814 million. The reduction in costs was due to lower termination fees and lower volumes from interconnection services. The segment result fell by CHF 32 million or 6.8% to CHF 439 million, mainly due to a decline in revenue from external customers. The fall in intersegment revenue had only a minimal impact on the segment's overall result.

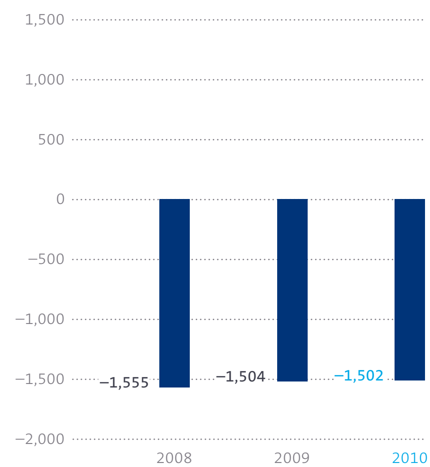
Networks & IT

In CHF million, except where indicated	2010	2009	Change
Operating expenses	(1,667)	(1,689)	–1.3%
Capitalised self-constructed assets and other income	165	185	–10.8%
Segment result before depreciation and amortisation	**(1,502)**	**(1,504)**	**–0.1%**
Depreciation, amortisation and impairment losses	(870)	(817)	6.5%
Segment result	**(2,372)**	**(2,321)**	**2.2%**
Capital expenditure in property, plant and equipment and other intangible assets	988	1,000	–1.2%
Full-time equivalent employees at end of year	3,964	4,114	–3.6%

Development of capital expenditure in CHF million



Development of EBITDA in CHF million



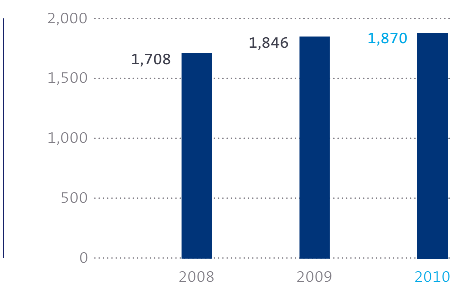
- Further efficiency improvements reduced headcount.
- Fibre-optic network expansion and construction of IP-based communication platforms necessitated an increase in capital expenditure.

The segment result before depreciation and amortisation was practically unchanged year-on-year at CHF –1,502 million. The lower operating expense resulted mainly from the fall in recurring costs due to efficiency improvements and the associated drop in headcount, which declined by 150 full-time equivalent employees or 3.6% to 3,964 full-time equivalent employees. Capitalised self-constructed assets and other income fell year-on-year as a result of fewer project activities. The segment result declined by CHF 51 million or 2.2% year-on-year to CHF –2,372 million. The main reason for this was the increase in depreciation and amortisation of CHF 53 million or 6.5% to CHF 870 million, chiefly as a result of investments in the previous year in a new customer relationship management system, which is amortised over its estimated useful life using the straight-line method from the beginning of 2010. Capital expenditure was largely unchanged year-on-year at CHF 988 million. Lower capital expenditure in projects was largely offset by higher capital expenditure in connection with fibre-optic network expansion and the rollout of new IP-based communications platforms.

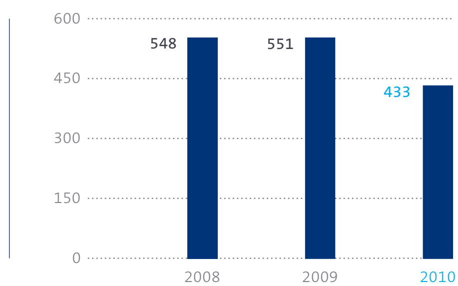
Fastweb

In EUR million, except where indicated	2010	2009	Change
Revenue from external customers	1,870	1,846	1.3%
Intersegment revenue	10	7	–
Net revenue	**1,880**	**1,853**	**1.5%**
Segment expenses	(1,447)	(1,302)	11.1%
Segment result before depreciation and amortisation	**433**	**551**	**–21.4%**
Margin as % of net revenue	*23.0*	*29.7*	
Capital expenditure in property, plant and equipment and other intangible assets	427	434	–1.6%
Full-time equivalent employees at end of year	3,123	3,125	–0.1%
Broadband subscribers in thousand	1,724	1,644	4.9%

Development of third-revenue in EUR million



Development of EBITDA in EUR million



- Adjusted net revenue increased by 3.7%.
- Adjusted EBITDA margin declined by 1.3 percentage points to 27.7%.
- Strength of the franc led to lower growth rates in Swiss francs.

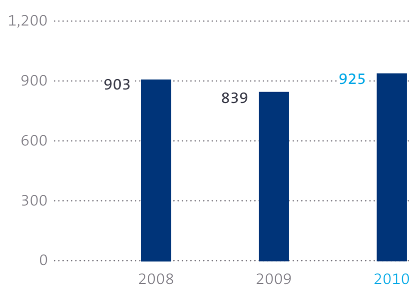
Fastweb increased net revenue by 1.5% to EUR 1,880 million. The figures for 2009 and 2010 contain non-recurring revenues of EUR 20 million and EUR 15 million, respectively. Also taking into account a change in revenue recognition, revenue grew by 3.7% on a like-for-like basis. The number of broadband subscribers increased year-on-year by 80,000 or 4.9% to more than 1.7 million. In the corporate business segment, around 60% of the bids submitted by Fastweb were successful, which further consolidated its market position in this segment. The residential customers and SME business felt the effects of intensifying competitive pressure. As a result of the ongoing investigation into VAT, a provision of EUR 70 million was recognised under other operating expense in the first quarter of 2010. The result was also impacted by the aforementioned revenue effects and the restructuring costs. Consequently, the segment result before depreciation and amortisation (EBITDA) declined by 21.4% year-on-year to EUR 433 million. The adjusted EBITDA margin declined to 27.7%, chiefly due to an increase in revenue generated from low-margin hardware products. As per 31 December 2010, headcount was largely unchanged year-on-year at 3,123 full-time equivalent employees. Capital expenditure fell by EUR 7 million or 1.6% to EUR 427 million as a result of lower spending on network infrastructure.

In the consolidated Group results, the continued weakening of the euro negatively impacted revenue as well as the segment result before depreciation and amortisation. The average CHF/EUR exchange rate fell by 9.1% year-on-year. In Swiss franc terms, Fastweb's revenue from external customers fell by 7.9%, versus an increase of 1.3% in local currency terms. The segment result before depreciation and amortisation was down 29.1% in the reporting currency, or 21.4% in local currency terms.

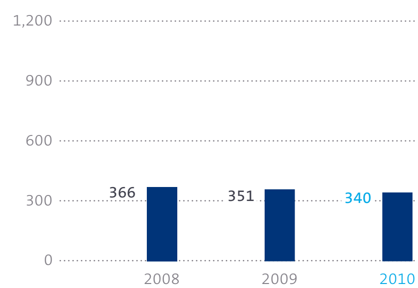
Other operating segments

In CHF million, except where indicated	2010	2009	Change
Revenue from external customers	925	839	10.3%
Intersegment revenue	811	888	–8.7%
Net revenue	**1,736**	**1,727**	**0.5%**
Segment expenses	(1,396)	(1,376)	1.5%
Segment result before depreciation and amortisation	**340**	**351**	**–3.1%**
Margin as % of net revenue	*19.6*	*20.3*	
Capital expenditure in property, plant and equipment and other intangible assets	130	121	7.4%
Full-time equivalent employees at end of year	4,368	4,151	5.2%

Development of third-revenue in CHF million



Development of EBITDA in CHF million



- Acquisitions contributed to an additional increase in third-party revenue.
- Intersegment revenue declined sharply.
- Segment result before depreciation and amortisation fell slightly.

Revenue from external customers rose year-on-year by CHF 86 million or 10.3% to CHF 925 million. Swisscom IT Services recorded an increase of CHF 92 million or 21.1% in revenue from external customers to CHF 527 million. Excluding the acquisition of subsidiaries, revenue from external customers grew by CHF 34 million or 8.3% year-on-year due to the conclusion of new project and outsourcing contracts. At CHF 320 million, Swisscom Participations' revenue from external customers was virtually on a par with the previous year. Lower revenue following the outsourcing of Swisscom Real Estate's facility management in 2009, coupled with lower revenue for transmission services at Swisscom Broadcast, was offset by higher revenue generated by Cablex for construction services performed. Intersegment revenue fell year-on-year by CHF 77 million or 8.7% to CHF 811 million, largely due to the outsourcing of Swisscom Real Estate's facility management as well as a lower volume of services procured by other segments from Swisscom IT Services. Segment expense rose slightly by 1.5% to CHF 1,396 million year-on-year due to acquisitions and an increase in construction services at Cablex. This increase was only partially offset by the outsourcing of Swisscom Real Estate's facility management. The segment result before depreciation and amortisation fell accordingly by CHF 11 million or 3.1% to CHF 340 million. At 4,368 full-time equivalent employees, headcount at 31 December 2010 was 217 full-time equivalent employees or 5.2% higher than a year earlier. The increase was mainly attributable to the acquisition of subsidiaries. Capital expenditure increased by CHF 9 million or 7.4% to CHF 130 million, mainly due to higher capital expenditure at Swisscom Real Estate.

Group Headquarters

Operating income before depreciation and amortisation improved by CHF 35 million year-on-year to CHF –125 million, driven primarily by cost savings and project-related costs charged in the previous year and not incurred in the current financial year. Headcount increased by 0.9% within the reporting period to 340 full-time equivalent employees.

Quarterly review 2009 and 2010

In CHF million, except where indicated	1. quarter	2. quarter	3. quarter	4. quarter	2009	1. quarter	2. quarter	3. quarter	4. quarter	2010
Net revenue	**2,916**	**3,001**	**3,008**	**3,076**	**12,001**	**2,953**	**2,993**	**3,030**	**3,012**	**11,988**
Goods and services purchased	(623)	(655)	(664)	(706)	(2,648)	(642)	(626)	(671)	(726)	(2,665)
Personnel expense	(654)	(650)	(606)	(667)	(2,577)	(651)	(645)	(583)	(641)	(2,520)
Other operating expense	(582)	(628)	(580)	(719)	(2,509)	(676)	(572)	(594)	(668)	(2,510)
Capitalised costs and other income	82	136	92	107	417	74	79	76	75	304
Operating income (EBITDA)	**1,139**	**1,204**	**1,250**	**1,091**	**4,684**	**1,058**	**1,229**	**1,258**	**1,052**	**4,597**
Depreciation and amortisation	(475)	(477)	(478)	(565)	(1,995)	(501)	(489)	(488)	(494)	(1,972)
Operating income (EBIT)	**664**	**727**	**772**	**526**	**2,689**	**557**	**740**	**770**	**558**	**2,625**
Net financial result	(65)	(69)	(141)	(74)	(349)	(64)	(100)	(113)	(88)	(365)
Share of results of associated companies	8	12	9	14	43	4	7	7	10	28
Income before income taxes	**607**	**670**	**640**	**466**	**2,383**	**497**	**647**	**664**	**480**	**2,288**
Income tax expense	(123)	(134)	(127)	(76)	(460)	(120)	(151)	(129)	(102)	(502)
Net income	**484**	**536**	**513**	**390**	**1,923**	**377**	**496**	**535**	**378**	**1,786**
Share attributable to equity holders of Swisscom Ltd	484	530	512	400	1,926	394	493	536	388	1,811
Share attributable to minority interets	–	6	1	(10)	(3)	(17)	3	(1)	(10)	(25)
Earnings per share (in CHF)	9.34	10.23	9.88	7.73	37.18	7.61	9.52	10.35	7.48	34.96
Net revenue										
Swisscom Switzerland	2,079	2,113	2,136	2,125	8,453	2,091	2,132	2,177	2,166	8,566
Fastweb	664	719	678	732	2,793	672	659	624	621	2,576
Other operating segments	407	411	431	478	1,727	408	420	451	457	1,736
Group Headquarters	1	2	2	1	6	1	2	1	2	6
Intersegment elimination	(235)	(244)	(239)	(260)	(978)	(219)	(220)	(223)	(234)	(896)
Total net revenue	**2,916**	**3,001**	**3,008**	**3,076**	**12,001**	**2,953**	**2,993**	**3,030**	**3,012**	**11,988**
Segment result before depreciation and amortisation										
Swisscom Switzerland	919	938	967	851	3,675	929	972	1,012	891	3,804
Fastweb	182	217	211	221	831	82	203	188	116	589
Other operating segments	66	95	107	83	351	81	86	98	75	340
Group Headquarters	(34)	(34)	(32)	(60)	(160)	(32)	(29)	(36)	(28)	(125)
Intersegment elimination	6	(12)	(3)	(4)	(13)	(2)	(3)	(4)	(2)	(11)
Total segment result (EBITDA)	**1,139**	**1,204**	**1,250**	**1,091**	**4,684**	**1,058**	**1,229**	**1,258**	**1,052**	**4,597**
Capital expenditure in property, plant and equipment and other intangible assets										
Swisscom Switzerland	207	272	291	449	1,219	222	259	303	420	1,204
Fastweb	124	202	146	185	657	144	149	128	164	585
Other operating segments	21	40	20	40	121	19	24	36	51	130
Group Headquarters	–	1	1	–	2	–	–	–	–	–
Intersegment elimination	(1)	(6)	(3)	(2)	(12)	(2)	(1)	(5)	(8)	(16)
Total capital expenditure	**351**	**509**	**455**	**672**	**1,987**	**383**	**431**	**462**	**627**	**1,903**
Full-time equivalent employees										
Swisscom Switzerland	12,157	12,104	11,998	11,866	11,866	11,811	11,710	11,665	11,716	11,716
Fastweb	3,092	3,096	3,105	3,125	3,125	3,119	3,133	3,125	3,123	3,123
Other operating segments	4,524	4,437	4,258	4,151	4,151	4,160	4,296	4,381	4,368	4,368
Group Headquarters	329	333	343	337	337	337	341	340	340	340
Total full-time equilvalent employees	**20,102**	**19,970**	**19,704**	**19,479**	**19,479**	**19,427**	**19,480**	**19,511**	**19,547**	**19,547**
Operating free cash flow	697	662	795	531	2,685	742	674	607	489	2,512
Net debt	9,477	10,212	9,587	9,141	9,141	8,537	9,227	8,807	8,848	8,848

Quarterly review 2009 and 2010

In CHF million, except where indicated	1. quarter	2. quarter	3. quarter	4. quarter	2009	1. quarter	2. quarter	3. quarter	4. quarter	2010
Swisscom Switzerland										
Revenue and results										
Residential Customers	481	505	525	500	2,011	481	512	542	506	2,041
Small & Medium-Sized Enterprises	105	112	116	113	446	110	120	125	120	475
Corporate Business	138	144	142	147	571	143	153	152	152	600
Wholesale	96	90	99	85	370	98	93	92	77	360
Revenue wireless	**820**	**851**	**882**	**845**	**3,398**	**832**	**878**	**911**	**855**	**3,476**
Residential Customers	543	535	534	543	2,155	538	532	531	537	2,138
Small & Medium-Sized Enterprises	151	150	150	150	601	151	152	152	150	605
Corporate Business	192	189	190	193	764	185	182	180	185	732
Wholesale	130	121	119	110	480	105	95	95	86	381
Revenue fixed-line	**1,016**	**995**	**993**	**996**	**4,000**	**979**	**961**	**958**	**958**	**3,856**
Residential Customers	4	5	6	7	22	21	23	27	28	99
Small & Medium-Sized Enterprises	–	–	–	1	1	1	1	2	1	5
Corporate Business	1	2	1	2	6	2	1	3	2	8
Revenue convergent products	**5**	**7**	**7**	**10**	**29**	**24**	**25**	**32**	**31**	**112**
Small & Medium-Sized Enterprises	–	1	1	1	3	–	1	1	–	2
Corporate Business	28	31	31	39	129	32	33	31	50	146
Revenue solutions business	**28**	**32**	**32**	**40**	**132**	**32**	**34**	**32**	**50**	**148**
Residential Customers	126	141	131	139	537	146	139	157	177	619
Small & Medium-Sized Enterprises	10	9	10	10	39	9	9	6	12	36
Corporate Business	53	52	53	58	216	52	65	65	64	246
Wholesale	2	6	9	10	27	1	4	–	2	7
Revenue other	**191**	**208**	**203**	**217**	**819**	**208**	**217**	**228**	**255**	**908**
Residential Customers	1,154	1,186	1,196	1,189	4,725	1,186	1,206	1,257	1,248	4,897
Small & Medium-Sized Enterprises	266	272	277	275	1,090	271	283	286	283	1,123
Corporate Business	412	418	417	439	1,686	414	434	431 –	453	1,732
Wholesale	228	217	227	205	877	204	192	187	165	748
Revenue from external customers	**2,060**	**2,093**	**2,117**	**2,108**	**8,378**	**2,075**	**2,115**	**2,161**	**2,149**	**8,500**
Segment result before depreciation and amortisation										
Residential Customers	727	753	756	681	2,917	747	778	789	694	3,008
Small & Medium-Sized Enterprises	211	203	213	208	835	210	220	224	215	869
Corporate Business	233	240	238	246	957	237	252	252	250	991
Wholesale	127	122	129	93	471	119	109	102	109	439
Networks & IT	(378)	(381)	(369)	(376)	(1,504)	(384)	(386)	(356)	(376)	(1,502)
Intersegment elimination	(1)	1	–	(1)	(1)	–	(1)	1	(1)	(1)
Total segment result (EBITDA)	**919**	**938**	**967**	**851**	**3,675**	**929**	**972**	**1,012**	**891**	**3,804**
Margin as % of net revenue	44.2	44.4	45.3	40.0	43.5	44.4	45.6	46.5	41.1	44.4

Quarterly review 2009 and 2010

In thousand, except where indicated	1. quarter	2. quarter	3. quarter	4. quarter	2009	1. quarter	2. quarter	3. quarter	4. quarter	2010
Swisscom Switzerland Operational data										
Residential Customers	2,761	2,725	2,682	2,639	2,639	2,581	2,537	2,503	2,471	2,471
Small & Medium-Sized Enterprises	511	510	510	510	510	514	513	513	512	512
Corporate Business	245	244	242	242	242	235	233	231	230	230
Access lines PSTN/ISDN	**3,517**	**3,479**	**3,434**	**3,391**	**3,391**	**3,330**	**3,283**	**3,247**	**3,213**	**3,213**
Unbundled fixed access lines	57	82	115	153	153	192	219	238	255	255
Total telephone access lines	**3,574**	**3,561**	**3,549**	**3,544**	**3,544**	**3,522**	**3,502**	**3,485**	**3,468**	**3,468**
Residential Customers	1,217	1,246	1,274	1,306	1,306	1,333	1,349	1,369	1,396	1,396
Small & Medium-Sized Enterprises	136	138	141	144	144	148	152	155	158	158
Corporate Business	26	26	26	28	28	28	29	29	30	30
Broadband access lines retail	**1,379**	**1,410**	**1,441**	**1,478**	**1,478**	**1,509**	**1,530**	**1,553**	**1,584**	**1,584**
Wholesale	410	390	363	331	331	293	260	240	226	226
Broadband access lines	**1,789**	**1,800**	**1,804**	**1,809**	**1,809**	**1,802**	**1,790**	**1,793**	**1,810**	**1,810**
Residential Customers	139	165	186	231	231	268	308	348	409	409
Small & Medium-Sized Enterprises	–	–	–	1	1	7	9	10	12	12
Swisscom TV subscribers	**139**	**165**	**186**	**232**	**232**	**275**	**317**	**358**	**421**	**421**
Residential Customers postpaid	2,144	2,152	2,174	2,194	2,194	2,201	2,207	2,221	2,231	2,231
Residential Customers prepaid	2,134	2,160	2,170	2,176	2,176	2,180	2,180	2,198	2,213	2,213
Small & Medium-Sized Enterprises	426	435	443	450	450	466	475	482	489	489
Corporate Business	672	684	704	728	728	744	764	789	817	817
Mobile single subscription	**5,376**	**5,431**	**5,491**	**5,548**	**5,548**	**5,591**	**5,626**	**5,690**	**5,750**	**5,750**
Residential Customers	34	40	45	52	52	57	63	68	75	75
Small & Medium-Sized Enterprises	1	1	2	2	2	2	2	3	3	3
Mobile convergent products	**35**	**41**	**47**	**54**	**54**	**59**	**65**	**71**	**78**	**78**
Mobile subscribers	**5,411**	**5,472**	**5,538**	**5,602**	**5,602**	**5,650**	**5,691**	**5,761**	**5,828**	**5,828**
Residential Customers	41	43	44	42	42	40	42	45	41	42
Small & Medium-Sized Enterprises	92	98	99	95	96	89	95	97	90	93
Corporate Business	73	73	71	72	72	67	70	68	64	67
ARPU mobile subscriber per month in CHF	**49**	**51**	**52**	**50**	**50**	**47**	**50**	**52**	**48**	**49**
Residential Customers	95	96	97	98	97	99	101	101	105	102
Small & Medium-Sized Enterprises	203	211	211	210	209	203	213	212	214	211
Corporate Business	181	180	173	175	177	168	168	162	164	166
AMPU mobile subscriber per month in minutes	**113**	**115**	**115**	**117**	**115**	**116**	**119**	**118**	**122**	**119**
Retail traffic in million of minutes	2,595	2,375	2,285	2,446	9,701	2,434	2,269	2,162	2,297	9,162
Wholesale traffic in million minutes	3,096	2,818	2,616	2,733	11,263	2,642	2,394	2,222	2,381	9,639

In EUR million, except where indicated										
Fastweb										
Residential Customers	174	173	172	178	697	179	177	179	166	702
Small & Medium-Sized Enterprises	101	105	100	100	406	104	104	93	95	392
Corporate Business	168	195	172	208	743	177	189	195	212	776
Revenue from external customers	**443**	**473**	**444**	**486**	**1,846**	**460**	**470**	**467**	**473**	**1,870**
Segment result (EBITDA)	122	143	139	147	551	57	143	141	92	433
Number of subscribers in thousand	1,542	1,575	1,605	1,644	1,644	1,678	1,694	1,712	1,724	1,724

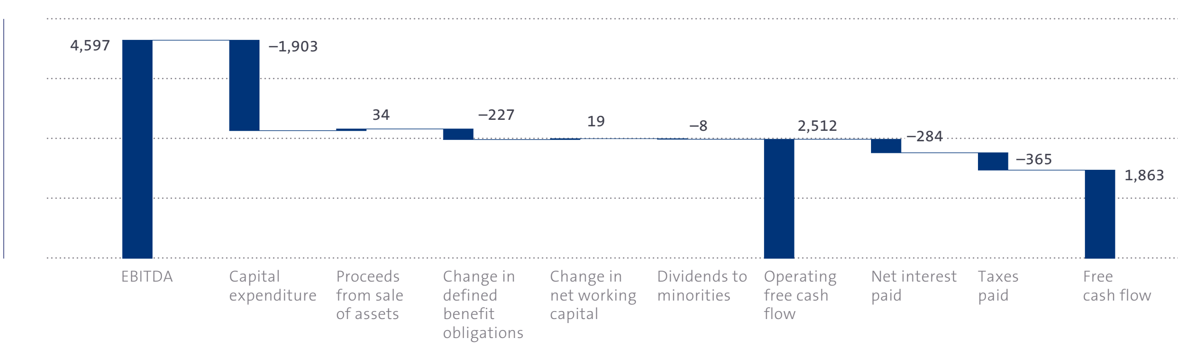
Group financial position

Financial position

Cash flows

In CHF million	2010	2009	Change
Operating income before depreciation and amortisation (EBITDA)	4,597	4,684	(87)
Capital expenditure in property, plant and equipment and other intangible assets	(1,903)	(1,987)	84
Proceeds from sale of property, plant and equipment and other intangible assets	34	31	3
Change in defined benefit obligation	(227)	(124)	(103)
Change in net working capital and other cash flow from operating activities	19	135	(116)
Dividends paid to minority interests	(8)	(54)	46
Operating free cash flow	**2,512**	**2,685**	**(173)**
Net interest paid	(284)	(236)	(48)
Income taxes paid	(365)	(300)	(65)
Free cash flow	**1,863**	**2,149**	**(286)**
Net cash flow from financial investments	(6)	859	(865)
Issuance and repayment of financial liabilities, net	(544)	(1,965)	1,421
Dividends paid to equity holders of Swisscom Ltd	(1,036)	(984)	(52)
Purchase of minority interests of Fastweb	(246)	–	(246)
Other cash flows from financing activities	(40)	(484)	444
Net decrease in cash and cash equivalents	**(9)**	**(425)**	**416**

Free cash flow in CHF million



Operating free cash flow decreased year-on-year by CHF 173 million or 6.4% to CHF 2,512 million, mainly due to the change in defined benefit obligations and to settlement of provisions for legal proceedings totalling CHF 179 million. Settlement of provisions for interconnection proceedings in Switzerland in 2010 amounted to CHF 116 million in 2010 (prior year: CHF 93 million). Operating income before depreciation and amortisation (EBITDA) and the change in net working capital for 2010 reflect the recognition of a provision for the VAT proceedings against Fastweb in the amount of EUR 70 million (CHF 102 million). Provisions of EUR 46 million (CHF 63 million) were made in 2010 in connection with the VAT proceedings at Fastweb. The decrease in capital expenditure by 4.2% to CHF 1,903 million is largely attributable to currency effects. Adjusted for currency effects, capital expenditure decreased by 1.2%.
Free cash flow declined by CHF 286 million year-on-year to CHF 1,863 million, as a result of lower operating free cash flow and higher net interest and income tax payments. Net interest payments increased by CHF 48 million, income tax payments by CHF 65 million.

Due to the early termination of cross-border lease agreements, financial assets of around CHF 800 million were sold and financial liabilities of around CHF 1.1 billion were repaid in 2009. Other cash flows from financing activities in 2009 also include payments totalling CHF 258 million in respect of provisions related to the early termination of cross-border lease agreements. The issuance and repayment of financial liabilities resulted in a net cash outflow in 2010 of CHF 544 million. Dividend payments to equity holders of Swisscom Ltd in 2010 amounted to CHF 1,036 million (prior year: CHF 984 million). In 2010, a takeover offer of EUR 18 per share was made to the minority shareholders of Fastweb. An additional stake in Fastweb of 12.9% was acquired in 2010 for a purchase price of EUR 185 million (CHF 246 million). Buyout proceedings for the remaining 5.1% Fastweb stake were initiated. Acquisition of the outstanding minority shares is expected to be completed in the first quarter of 2011.

Net asset position

Balance sheet

In CHF million	31.12.2010	31.12.2009	Change
Assets			
Cash and cash equivalents and current financial assets	605	710	–14.8%
Trade and other receivables	2,742	2,926	–6.3%
Property, plant and equipment	7,899	8,176	–3.4%
Goodwill	6,261	6,664	–6.0%
Other intangible assets	2,023	2,358	–14.2%
Associated companies and non-current financial assets	646	652	–0.9%
Income tax assets	101	105	–3.8%
Defined benefit assets	263	38	592.1%
Other current and non-current assets	790	553	42.9%
Total assets	**21,067**	**22,144**	**–4.9%**
Liabilities and equity			
Financial liabilities	9,772	10,219	–4.4%
Trade and other payables	2,215	2,314	–4.3%
Defined benefit obligations	341	351	–2.8%
Provisions	862	877	–1.7%
Income tax liabilities	588	742	–20.8%
Other current and non-current liabilities	1,005	1,031	–2.5%
Total liabilities	**14,783**	**15,534**	**–4.8%**
Share of equity attributable to equity holders of Swisscom Ltd	6,256	6,291	–0.6%
Share of equity attributable to minority interests	28	319	–91.2%
Total equity	**6,284**	**6,610**	**–4.9%**
Total liabilities and equity	**21,067**	**22,144**	**–4.9%**
Equity ratio at end of year	29.8%	29.9%	

The decrease in total assets of 4.9% to CHF 21,067 million is primarily attributable to the strength of the Swiss franc. Compared to the end of 2009, the CHF/EUR exchange rate fell by 15.8% from 1.484 to 1.25. As a result of fluctuations in the exchange rates, currency losses after taxes of CHF 752 million were recognised in other comprehensive income in 2010. At 31 December, cumulative unrealised currency translation losses from foreign Group companies recognised in equity

amounted to CHF 1,550 million (after tax). Acquisition of the remaining minority shares in Fastweb contributed to a reduction in equity of CHF 349 million. Equity fell accordingly by 326 million or 4.9% to CHF 6,284 million and the equity ratio fell by 0.1% to 29.8%.
Distributable reserves are calculated on the basis of equity reported in the separate financial statements of Swisscom Ltd in accordance with statutory accounting provisions, rather than on the basis of equity as disclosed in the consolidated balance sheet prepared in accordance with International Financial Reporting Standards (IFRS). At 31 December 2010, the equity of Swisscom Ltd amounted to CHF 5,149 million. The difference between this amount and the equity as disclosed in the consolidated balance sheet is mainly due to earnings retained by subsidiaries as well as different accounting and valuation methods. Under Swiss company-law provisions, share capital and that part of the general reserves representing 20% of the share capital may not be distributed. At 31 December 2010, Swisscom Ltd had distributable reserves of CHF 5,086 million.

In CHF million, except where indicated	31.12.2008	31.12.2009	31.12.2010	Change
Property, plant and equipment	8,214	8,176	7,899	277
Goodwill	6,633	6,664	6,261	403
Other intangible assets	2,282	2,358	2,023	335
Other net operating assets	(905)	(787)	(813)	26
Net operating assets	**16,224**	**16,411**	**15,370**	**1,041**
Net debt	(10,071)	(9,141)	(8,848)	(293)
Defined benefit obligations	(428)	(313)	(78)	(235)
Income tax expense	(465)	(637)	(487)	(150)
Investments in associated companies	231	228	231	(3)
Other	119	62	96	(34)
Equity	**5,610**	**6,610**	**6,284**	**326**

Post-employment benefits

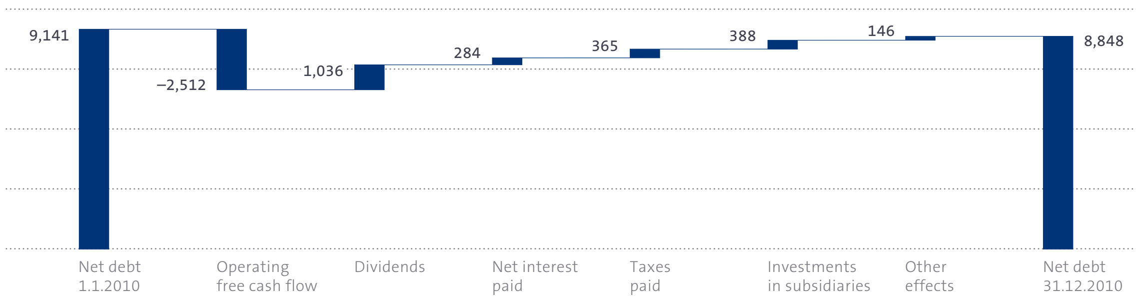
The defined benefit obligations and pension cost in the consolidated financial statements are measured in accordance with International Financial Reporting Standards (IFRS). At the end of 2010, the defined benefit obligations according to IFRS amounted to CHF 1,160 million, of which only CHF 78 million are recognised in the balance sheet. Assets amounting to CHF 263 million and liabilities of CHF 341 million are disclosed in the balance sheet. Unrecognised benefit obligations consist of unrecognised actuarial losses amounting to CHF 1,205 million as well as unrecognised prior service costs of CHF 123 million. There is a difference of around CHF 1.2 billion between measurement of the defined benefit obligation according to Swiss GAAP ARR and measurement according to IFRS. In contrast to measurement according to Swiss GAAP ARR, IFRS measurement also takes into account actuarial assumptions for future developments such as salary and contribution increases, pension increases and early retirements. The defined benefit obligation is also measured using a differing discount rate.

Net debt

Net debt consists of financial liabilities less cash and cash equivalents, current financial assets and non-current, fixed-interest-bearing deposits. Due to a change in accounting policies for leases, land leases are now classified as finance leases. This change in accounting policies has been applied retrospectively and increased net debt at 31 December 2009 by an additional CHF 209 million. Swisscom has set itself the goal of achieving a maximum net debt/EBITDA ratio of around 2.0. This value may be exceeded temporarily. Any figure below this represents financial room for manoeuvre.

In CHF million, except where indicated	31.12.2008	31.12.2009	31.12.2010	Change
Net debt	10,071	9,141	8,848	−3.2%
Debt to equity ratio	75.4%	70.1%	70.2%	
Ratio net debt/equity	1.8	1.4	1.4	–
Ratio net debt/EBITDA	2.1	2.0	1.9	(0.1)

Development of net debt in CHF million



The net debt/EBITDA ratio fell year-on-year from 2.0 to 1.9. Swisscom took advantage of the favourable bond market conditions and, in August 2010, issued two debenture bonds totalling CHF 750 million with maturities of 2 and 12 years. In addition, further bank loans and private placements were raised in 2010. The funds were used to repay existing bank loans. This refinancing served to further optimise the interest rate and maturity structure of the Group's financial obligations. The share of the Group's variable rate financial liabilities amounts to around 30%.

Maturity profile of financial liabilities

Swisscom aims for a broadly-diversified debt portfolio. This involves paying particular attention to balancing maturities and a diversification of financing instruments and markets. The following shows the maturity profile of interest-bearing financial liabilities at nominal value as at 31 December 2010:

In CHF million	Due within 1 year	Due within 1 to 2 years	Due within 3 to 5 years	Due within 6 to 10 years	Due after 10 years	Total
Money market borrowings	700	–	–	–	–	700
Bank loans	5	–	1,303	–	91	1,399
Debenture bonds	–	250	2,300	2,100	500	5,150
Private placements	–	150	344	950	–	1,444
Finance lease liabilities	14	24	19	32	586	675
Other financial liabilities	15	–	5	–	–	20
Total	**734**	**424**	**3,971**	**3,082**	**1,177**	**9,388**

Capital expenditure

Introduction

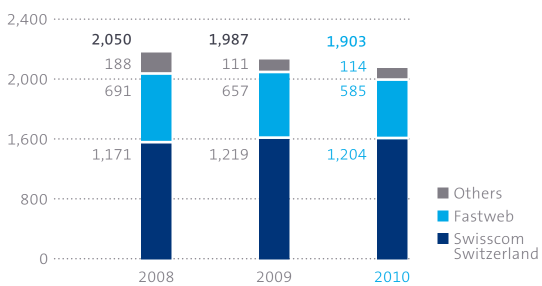
Swisscom strives to maintain the high quality of its network infrastructure through ongoing targeted investments, with particular emphasis on fibre-optic network expansion and migration to an All-IP-based infrastructure. The volume of data transmitted over the fixed and mobile networks has risen sharply, and this trend is set to continue in the years ahead. Modern communication and media services, video portals and streaming services as well as new business applications, such as Voice-over-IP (VoIP), unified communications and videoconferencing will continue to generate ever higher traffic volumes and drive up demand for ever bigger bandwidths. In the fixed network, Swisscom is addressing this trend by expanding the fibre-optic network based on a multi-fibre cooperation approach. As well as promoting infrastructure competition with other platforms (cable networks), such an approach fosters competition between fibre-optic network providers and, in so doing, enables maximum innovation in network architecture and services. Fibre-optic expansion is accompanied by extending the local distribution nodes and deploying leading-edge DSL technology to enable coverage and bandwidth to be increased over the short to medium term. To cater to the growing volume of data transmitted over the mobile network, Swisscom is rolling out the latest mobile standards such as HSPA/HSPA+. Swisscom is also pursuing introduction of the new LTE (Long Term Evolution) mobile technology which enables higher data speeds and supports higher data volumes. The introduction will also depend, among other things, on acquiring the necessary frequencies, which will be auctioned in 2011. All mobile licences will be newly auctioned with terms running until 2028. The GSM and UMTS licence currently held by Swisscom expire at the end of 2013 and 2016, respectively. Fastweb operates Italy's second largest network and is a leader in multimedia and broadband communication service development. The network consists of the company's own backbone network with high-speed connections and fibre-optic or copper-based broadband access infrastructures.

Capital expenditure in the 2010 financial year

In CHF million, except where indicated	31.12.2008	31.12.2009	31.12.2010	Change
Recurring capital expenditure [1]	515	487	507	4.1%
Next generation networks [2]	308	387	448	15.8%
Projects	352	345	249	–27.8%
Swisscom Switzerland	**1,171**	**1,219**	**1,204**	**–1.2%**
Fastweb	691	657	585	–11.0%
Other operating segments	191	121	130	7.4%
Group Headquarters and elimination	(3)	(10)	(16)	60.0%
Total capital expenditure	**2,050**	**1,987**	**1,903**	**–4.2%**
Total capital expenditure as % of net revenue	16.8	16.6	15.9	

[1] Capital expenditure in enlargement of capacity, universal service and unbundling.
[2] Capital expenditure in optical fibre, VDSL, All-IP and mobile broadband

Development of capital expenditure in CHF million



Swisscom's capital expenditure declined by 4.2% to CHF 1,903 million and amounted to 15.9% (prior year: 16.6%) of net revenue. The decrease in capital expenditure was mainly due to currency effects. Adjusted for currency effects, capital expenditure fell by 1.2%. Of which Swisscom Switzerland accounted for 63%, Fastweb 31% and other operating segments 6%.

Swisscom Switzerland

Capital expenditure at Swisscom Switzerland fell year-on-year by CHF 15 million, or 1.2% to CHF 1,204 million. As a share of revenue, capital expenditure at Swisscom Switzerland amounted to 14.1%. The year-on-year decrease in capital expenditure by CHF 96 million or 27.8% was due to high project investments in the prior year. Among other things, a new customer relationship management system was completed at the end of 2009. Investments in next-generation networks, on the other hand, increased year-on-year by CHF 61 million, or 15.8%. 2010 saw the signing of the first cooperation agreements for fibre-optic expansion in Switzerland. Capital expenditure in operational business, which accounted for 42% of total capital expenditure, increased by CHF 20 million or 4.1% to CHF 507 million. The auctioning of all mobile licences in 2011 is expected to increase capital expenditure for the following year.

Fastweb

Fastweb's capital expenditure fell year-on-year by CHF 72 million or 11.0% to CHF 585 million. In local currency terms, the fall amounts to EUR 7 million, or 1.6%, and is attributable to lower spending on network infrastructure. Customer-related capital expenditure in 2010 accounted for 41% (prior year: 42%) of total capital expenditure.

Other operating segments

At CHF 130 million, capital expenditure for the other operating segments was CHF 9 million, or 7.4% higher year-on-year. This was largely due to higher capital expenditure incurred by Swisscom Real Estate Ltd. Capital expenditure for Swisscom IT Services amounted to CHF 47 million in 2010 and was invested primarily in servers, storage systems, and workstation equipment.

Supplement and outlook

Events after the balance sheet date

The Board of Directors of Swisscom approved the release of this annual report on 16 February 2011. There were no significant events between the balance sheet date and this date.

Outlook

Financial outlook

In billion CHF, except for share amount	2010 actual	2011 outlook
Net revenue	12.0	at least 11.8
Operating income before depreciation and amortisation	4.6	in excess of 4.6
Capital expenditure in property, plant and equipment and other intangible assets	1.9	below 2.0
Dividend per share (in CHF)	21 [1]	at least 21

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

Swisscom expects to close 2011 with net revenue of at least CHF 11.8 billion, EBITDA in excess of CHF 4.6 billion and capital expenditure below CHF 2.0 billion. Swisscom expects marketing initiatives and efficiency enhancements at Fastweb to generate strong revenue and cash flow growth in the years following the transition year of 2011, which is expected to end with stable revenue but slightly higher EBITDA. The capital expenditure outlook does not include expenses in connection with the mobile frequency auction planned for 2011, since it is not possible at this point in time to reliably estimate the outcome and the prices that will ultimately be paid. For the same reason, Swisscom is also not making any projections concerning operating free cash flow. The outlook is also associated with uncertainty regarding currency movements. Fastweb's financial results are based on an assumed exchange rate for the euro of CHF 1.30 (prior year: CHF 1.37). If all targets are met, Swisscom will propose a minimum dividend of CHF 21 per share for the 2011 financial year.

Risks

Taking calculated risks – the aim of the management risk process is to evaluate risks in order to optimise business success.

General statement on the risk situation

Any changes in the risk categories "strategy, credit, market, business and operational risks" can have a sustained adverse impact on the company's ability to achieve its defined goals. Such changes need to be identified, assessed and managed by employing an appropriate risk strategy. Identified risks are reviewed on an ongoing basis and incorporated, wherever practical and feasible, in Swisscom's business plan. Nevertheless, most regulatory or structural risks (technological changes) can only be factored into the business plan to a limited extent, if at all.

The telecommunications sector is characterised by continuous changes in technology, regulations, competition and customer behaviour. At the same time, it is increasingly influenced by new trends, and the traditional role of telecommunications companies is evolving into that of a service provider competing in a highly dynamic TIME market (Telecommunications, Information, Media, Entertainment).

The forthcoming financial year will see decisions of a regulatory nature which may have a profound impact on the financial performance of the Swisscom Group.

Other risk factors include technical risks, such as disruption to operations, or changes in the competitive environment.

Ever since the financial crisis, business development has been marked by a climate of uncertainty, and a renewed economic (or financial) crisis would only serve to heighten various risks facing Swisscom.

Over the long term the trend in the ICT (Information and Communication Technology) business model towards becoming a selective service integrator could pose risks and necessitate fundamental changes in the approach to human capital, transformation and the business model.

At the same time, demographic changes will present ICT providers such as Swisscom with new opportunities and challenges in terms of product design, service delivery, communication and marketing.

Organisation of risk and opportunity management

Risk management at Swisscom is organised as follows:
- The Risk Management department reports directly to the CFO of Swisscom Ltd.
- The organisation of risk management within the Swisscom Group, including roles, responsibilities, processes and procedures, is defined in the Risk Management Manual.
- A detailed risk assessment, involving expert interviews and workshops, is conducted annually in all Group companies and at Group headquarters. The risk profile is updated on a quarterly basis. When risks change, depending on the issue at stake and the level of urgency, resources to manage the risks can be allocated at short notice.
- A quarterly report outlining and assessing critical risks and the main risks facing the Group companies is submitted to the Board of Directors and the Group Executive Board.
- The risks are evaluated in terms of their impact on Swisscom's key performance indicators: operating income before depreciation and amortisation (EBITDA), operating free cash flow and net debt/EBITDA ratio. The impact on the Group's three-pillar strategy is also analysed and outlined.
- Risk profiles serve as the main tools for qualifying and quantifying the risks. The key figures used are EBITDA and operating free cash flow. Quantitative tools (sensitivity analyses) are used in financial risk management.
- Correlations between risks are analysed, for example, for the purposes of business continuity and project risk management.
- To ensure uniformity, risks are documented and archived using a risk management tool.

Internal control and risk management system

Swisscom's risk management system is comprehensive, sustainable and takes both internal and external events into account. The risk assessment and risk strategy are clearly documented. Risk-relevant information is drawn from the internal control system, safety and environmental management, legal and regulatory functions and other related areas. Since 2009, reputation risks have also been included as a risk in their own right.
Swisscom's risk management therefore reflects the latest standards in risk management and is also in line with the Group's corporate governance policy. Swisscom complies with Swiss Code of Obligations requirements for an internal control system and the disclosure of risk assessment information.
Swisscom's risk management is based on the following objectives and principles:
- A comprehensive risk analysis is performed in order to identify the main risks facing Swisscom, and a risk strategy is drawn up to address these risks. Swisscom's risk management strategy supports the Group's operational, reporting, compliance and strategic goals.
- Conscientious risk management strengthens and enhances Swisscom's competitiveness and reputation.
- Conformance with internationally recognised standards provides legal certainty and ensures that Swisscom's risk management is in line with best practice.
- Swisscom's risk culture supports risk assessment and strategy as an integral part of the company's business processes. The Board of Directors, Audit Committee and Group Executive Board are informed on a regular basis of any risks that have been analysed and evaluated, as well as their potential impact and the measures taken to address them. Measures are drawn up for all critical risks. Group Risk and Compliance Management is responsible for risk identification, assessment and evaluation, risk strategy, risk communication, monitoring and reviews.

Risk measures are broken down into:
- Prevention strategies: the risk is prevented by foregoing or discontinuing an event or activity that presents a potential risk.
- Mitigation strategies: the probability of occurrence and/or effects of the risk are reduced.
- Transfer strategies: the risk is transferred to a third party through insurance, outsourcing, etc.
- Self-bearing strategies: the risk is covered by equity or provisions since no measures can be taken to mitigate the risk.

Measures are in place for most risks facing Swisscom. Strategic risks are entered into according to defined criteria.
Swisscom also deploys a Group-wide internal control system in the area of financial risks. The system aims to ensure reliable internal and external financial reporting and safeguard against misreporting (disclosure violations or errors) of business transactions. Internal policies and instruments such as the Accounting Manual or the whistle-blowing platform support this goal. The internal control system incorporates all responsible units at the appropriate level, including the Audit Committee and the Group Executive Board. Swisscom sees the internal control system as an ongoing task and an opportunity to continually improve processes in bookkeeping, accounting and financial reporting.
Measures are also taken to mitigate operational risks in the areas of security, business continuity management, crisis management and financial risk management.

Opportunity and risk management

2010 saw the launch of a six-monthly coordination process between the Strategy department and the Risk Management department, in which opportunities and risks relating to short- and long-term strategic projects are discussed and possible risk scenarios drawn up and entered in the risk profile. The Risk Management department also provides the risk input information for the business planning process.
This process serves to ensure that new strategic options match the risk profile of the Swisscom Group.

Risk factors

Political and regulatory risks

For Swisscom, telecommunications and antitrust legislation entail risks which could have a serious and sustained impact on the company's future financial position and results. In particular, public authorities can issue rulings on prices and impose penalties which could reduce Swisscom's profitability and lead to an outflow of funds. Regulatory decisions regarding access prices could also influence the range of products and services as well as investment decisions.
A decision by the Federal Court on proceedings relating to sanctions under competition law in the mobile termination area is expected in 2011. This decision could have an impact on ongoing and future proceedings and can have important financial implications. Besides financial damage, Swisscom's reputation could also come under pressure.
Most of the issues contested by Swisscom concerning the new Telecommunications Act have been resolved. However, new parliamentary initiatives to revise the Act are once more increasing uncertainty.
Swisscom also faces antitrust investigations, which primarily concern allegations of abuse of its market-dominant position. In cases where such practices are deemed by the competition authorities to be unlawful, the companies in question face the threat of sanctions.
The outcome of proceedings currently under judicial consideration could lead to a revised assessment in the coming year. A key priority is to avoid antitrust legal proceedings. Swisscom operates an internal compliance scheme to ensure that its business activities adhere to the provisions of antitrust legislation.

Sector-specific risks

Telecommunications market
A change in the structure of the telecommunications market in Switzerland could have a prolonged impact on the structure of competition and on market behaviour. Swisscom mitigates this risk by ensuring that it remains efficient and competitive.

Transformation in the telecommunications market in the direction of the TIME industry, coupled with growing competition from OTT providers (Over The Top: Apple, Google, etc.), is giving rise to a transformation risk. This type of risk can be mitigated using measures such as restructuring, the adoption of new business models or the launch of efficiency-enhancing initiatives. The latest trends are driving the integration of technologies and devices for the provisioning of multimedia services. Risks could arise in connection with integration of the infrastructure in question, as well as in the interaction with and at the interfaces to the existing infrastructure. The occurrence of such risks could delay implementation of the growth strategy or lead to a drop in customer satisfaction. Transformation in the telecommunications market is generating correlated risks in the areas of corporate culture, personnel management and new business models. Swisscom is implementing a transformation programme focused on culture, structure, processes and human capital.
Furthermore, OTT providers are driving change to such an extent that Swisscom – and the telecommunications sector in general – could be forced into the role of a bit-pipe operator (network infrastructure company). This situation is compounding the pressure to change and transform.

Business interruption

Swisscom's business is heavily dependent on technical infrastructure such as communications networks and IT platforms. Any major disruption to business operations poses a financial as well as a reputation risk. In these areas force majeure, human error, hardware or software crashes or criminal actions by third parties (e.g. computer viruses) could cause damage or interrupt operations. Disruption could also harm the company's high-quality image, customer loyalty or its ability to meet financial targets. To mitigate this risk, Swisscom developed a business continuity standard which was implemented in the Group companies. A business continuity management programme ensures that all key infrastructures, IT systems and processes are disclosed using a suitable value-at-risk approach, backed by contingency plans. Another risk concerns infrastructure obsolescence, accelerated by changes in technology. Swisscom's current IT landscape is highly complex as a result of ongoing further development of older systems and integration of new systems. Lack of a harmonised IT landscape could hinder Swisscom from enhancing its competitive capability and exploiting further potential for cost savings.

Fibre-optic expansion

The fibre-optic expansion project (Fibre To The Home/Fibre To The Office, FTTx) entails high levels of investment over a number of years, and correspondingly high project-related risks, investment uncertainty and risks regarding the implementation strategy. Added to this, the project carries high regulatory and political risks. Swisscom has adopted a proactive risk management approach in the area of FTTx by pursuing a multi-fibre strategy and offering cooperation models. Besides inherent project risks and the aforementioned risks, risks exist in the following categories: infrastructure competition, partnerships, technology development (substitution risk) and solution design.
The planned auctioning of mobile frequency licences in 2011 may harbour risks relating to licence costs and targeted network quality.

Reputation risk management

Swisscom's reputation, including its quality image, allows it to differentiate itself from the competition. Swisscom monitors risks which could have a negative bearing on its reputation, image and brand. Risks which could tarnish its reputation are analysed and addressed on an ongoing basis using suitable communication and risk-mitigating measures. Reputation risk management falls under the responsibility of the Communications department and complements quantitative risk management. To this end, potential issues in the Swisscom Group are raised, assessed, analysed and corresponding measures are defined. Key reputation risks are reviewed at least once quarterly and the results incorporated in the Group risk report.

IT and security risks

Swisscom's highly complex IT architecture means that replacing TDM technology with all-IP technology entails high risks during both the implementation and operating phases. These risks are also linked to other current risks such as human capital, transformation and cost savings.

Environmental and health risks

Electromagnetic radiation, for example from mobile antennas or mobile handsets, has repeatedly been claimed to be potentially harmful to the environment and to human health, and is the subject of heated debate both in the media and among the public at large. The public's wary approach to mobile antenna sites is already impeding Swisscom's network expansion. There is a future risk that regulations governing electromagnetic emissions may be tightened or new regulations put in place. For Swisscom this would entail extra costs for additional antennas or other measures to comply with such regulations. Even without stricter legislation, public debate on the effects of electromagnetic radiation on the environment and health could further hamper the construction of mobile antennas or other wireless networks in future, and drive up costs. Moreover, concerns about the possible effects of radiation from mobile devices pose an additional risk related to the intensity of use. Should scientific studies furnish proof that electromagnetic radiation can have a significant effect on human health, this could prove detrimental to the intensity with which wireless technologies are used and, by extension, have an impact on Swisscom's business performance.
Climate change poses risks for Swisscom in the form of higher levels of precipitation and rising temperatures. This could impact the operability of Swisscom's telecommunications infrastructure, in particular in view of the potential risk to base stations and exchanges.

Market consolidation in Italy and the intrinsic value of Fastweb's assets

Ongoing consolidation in the Italian market could affect the market position of Swisscom's Italian subsidiary Fastweb. In addition, Italy's economic development and competitive dynamics carry risks which could have an impact on Fastweb's growth plans.
Swisscom's takeover of Fastweb has significantly enhanced the company's growth potential. There is a risk that business performance in Italy could hamper fulfilment of the high expectations in fixed-line and mobile business. This will depend on Italy's economic development, the aforementioned market consolidation and the outcome of the VAT proceedings at Fastweb, which could seriously impair Fastweb's and Swisscom's reputation. Fastweb and Swisscom have initiated targeted measures in the areas mentioned.
The intrinsic value of Fastweb's assets is contingent above all on achieving the revenue and profit growth projected in the business plan. The impairment test conducted at the closing of the accounts resulted in no impairment requirement. If future growth is lower than projected, there is a risk that this will result in an impairment.

Personnel-related risks

New business models and technologies are creating a transformation risk at Swisscom, with a direct impact on human capital, cost savings and strategy. Swisscom has been responding to the human capital challenge with a wide range of measures such as leadership training courses, transformation workshops and occupational health management programmes.

Financial risks

The financial crisis in 2008 and 2009, the economic downturn and the global recession had a minimal impact on Swisscom's financial performance, thanks in part to the proactive launch of cost-saving initiatives. While the economy has recovered slightly, uncertainty concerning the future business trend remains high. Swisscom is employing an "economic indicator cockpit" to monitor the situation. Rising unemployment and a renewed fall in output could pose significant risks.
The Swisscom Pension Fund experienced a phase of underfunding during the economic slowdown. The coverage ratio is again stable, but structural risks and the risks of interest rate changes remain. The Board of Trustees is examining various measures aimed at ensuring the Fund's long-term financial stability.

Corporate Responsibility

Swisscom is committed to creating sustainable success. This includes developing sustainable products and services, providing universal access to telecommunications, and managing resources efficiently. Swisscom is on track with the implementation of its sustainability strategy and the related objectives.

Corporate responsibility strategy

The sustainability context for Swisscom

Sustainable management and long-term responsibility are firmly enshrined in Swisscom's corporate culture. One of the guiding principles is "Swisscom takes responsibility for the environment and the community – now and in the future." Exercising such a responsibility is a time-honoured task at Swisscom, and the company has had an environmental management system in place since as far back as 1998. Economic, ecological and social considerations as well as a long-term business view are firmly rooted in the corporate strategy.

Factors of sustainable responsibility →

- The awareness of corporate-related customer needs and the needs of the peer group
- Corporate integrity and holistic thinking

Positioning as pioneer →

- Long-term economic success of the company
- Social responsibly labour and thematic leadership in promoting media competence and in protecting minors in the media
- Ecologically leading role and customer support through corresponding products and services with environmentally friendly manner
- Attractive and social responsibly employer

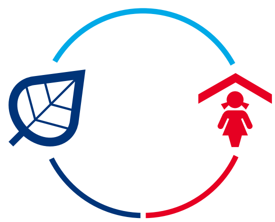
Key fields of action →

- Environmentally friendly products and services
- Energy-efficient infrastructure
- Renewable energy
- Low-radiation communication
- Media competence and protection of minors in the media
- Access for all
- People in need
- Responsibility in the supply chain
- Employer's positioning
- Legal compliance

Key implementation aspects 2010/2011

- Interlocking the corporate responsibility strategy with the corporate strategy and connecting with the core business
- Implementation of a clear structure of governance

Summary of Swisscom’s strategy approach



Environment

Swisscom’s environmental strategy remains largely unchanged, and pursues the following medium-term objectives:

- **Environmentally-friendly products and services:** Products with low energy consumption, and services which generate significantly lower CO_2 emissions.
- **Operational ecology:** Enhancing energy efficiency by reducing energy consumption and replacing environmentally harmful energy sources.

Society

The social element of the strategy comprises action areas which Swisscom has been championing for many years:

- **Access for all:** Telecommunications which do not become a social divider that distinguishes one group from another. With this in mind, Swisscom promotes measures that encourage all members of the community to take advantage of the new media and technological advances.
- **People in need:** As a telecoms provider with Swiss roots, Swisscom has close ties with the local population. Supporting people in need is one of the ways in which Swisscom expresses this close relationship.
- **Media competence and protection of minors in the media:** With more than 98% of the Swiss population now enjoying guaranteed network access, the children and youth of today are familiar with the new media. Swisscom has a duty to teach children and young people how to use these media correctly and responsibly.

Economy

See report **page 27**

The strategy in terms of ecology is closely linked to the corporate strategy. This includes long-term investment planning as well as a socially responsible personnel policy.

Targets, performance, ambitions

See report **page 98**

A table summarising targets, performance and ambitions is provided at the end of the Corporate Responsibility section.

Sustainability management

General management approach

Long-term responsibility, implementation and powers and responsibilities of the Board of Directors

The Board of Directors is firmly committed to pursuing a sustainable strategy. It delegates day-to-day business management to the CEO of Swisscom Ltd. The Board of Directors addresses economic, ecological and social issues within the various committees or as part of sustainability management. Corporate Responsibility (CR) is assigned to the Group Communications division and is responsible for implementation of the CR strategy. Segment-specific objectives are defined and the related measures implemented in conjunction with the affected units. The senior management organ (Group Executive Board) uses the following control instruments, introduced in 2010, to monitor performance: annual review on the implementation status of the strategy, integration of the most important measures in weekly divisional reports by Group Communications division, and quarterly reports to risk management on environmental risks.

See **www.swisscom.ch/basicprinciples**

CR-Governance

Objectives/Strategy

Board of Directors

- Approval of the CR strategy

Group Executive Board

- Review of the strategy implementation
- The head of group communications is the official CR officer on the Group Executive Board

approves ↓↑ reports/proposes

Steering

Central CR team as of Group Communications

- Drawing up the CR strategy (objectives/priorities) in conjunction with line management and support units
- Coordinating the implementation, strategy and initiation of mesures
- Formulation requirements for implementation of the CR strategy
- Safeguarding stakeholder dialogue
- Managing strategic partners (NGO)
- Reporting to internal and external stakeholders
- Cooperating with the Group Finance & Controlling in the fields of Sustainability Report and Annual Report

Decision makers per field of action in the CR strategy

- Top management representatives from the respective line sectors
- Responsibility for the respective objective of the CR strategy
- Assistance of the central CR team

CR fields of action:

decides ↓↑ reports/proposes

Implementation

Working bodies per field of action in the CR strategy

- Responsible lines and/or project teams
- Implementation of measures to achieve the objectives
- Assistance of the central CR team

Basic information: www.swisscom.com/GRI/en

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Legal compliance

Legal compliance

Swisscom's wide range of business activities, coupled with the complexity of the applicable regulations, call for an effective compliance management system (CMS). Swisscom's CMS is based on the following five elements:

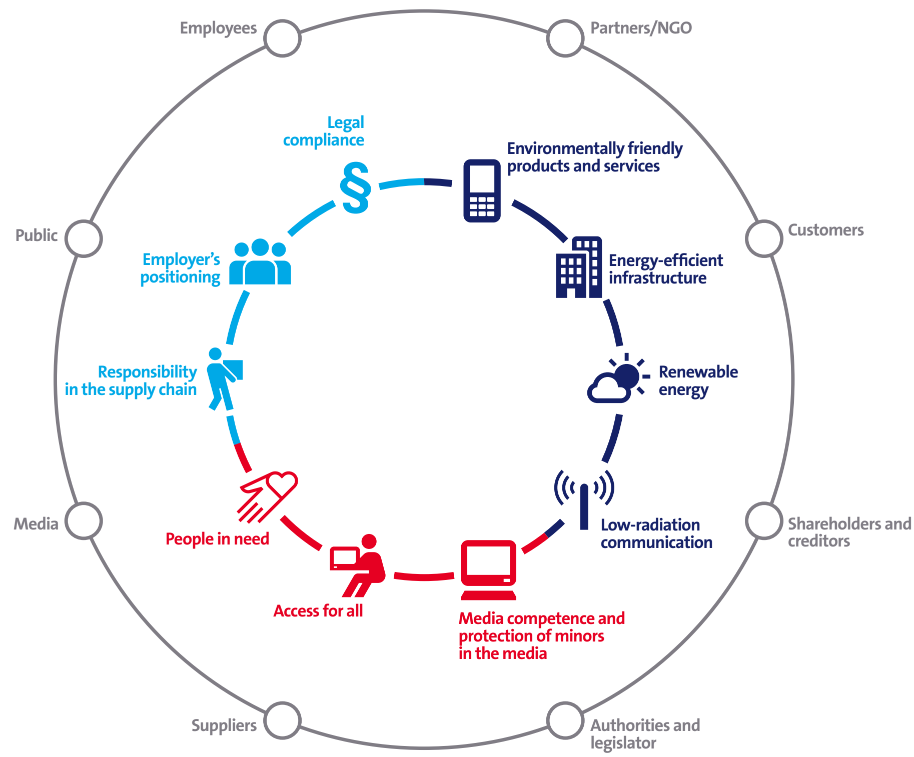
- **Culture:** An effective CMS is founded on a culture of compliance. The code of conduct sets down the minimum expectations of Swisscom's Board of Directors and CEO, which are communicated throughout the Group through leadership and collaboration.
- **Risk analysis:** The risks related to Swisscom's activities are analysed and assessed. Using the risk analysis as a basis, the relevant areas and applicable rules are defined and measures are introduced to safeguard against infringements.
- **Organisation:** The Group Executive Board and the respective Management Boards of Swisscom subsidiaries define tasks and responsibilities, and provide the resources required for an effective CMS.
- **Communication:** Employees are informed about their tasks and responsibilities. Regular reports on risk analysis, compliance activities and compliance events are submitted to the Board of Directors and Group Executive Board of Swisscom Ltd, the Management Boards and Boards of Directors of subsidiaries, and to other internal offices.
- **Monitoring and improvements:** The adequacy and effectiveness of the CMS is monitored. If non-compliance is identified, the responsible parties are informed. An internal review of the CMS has found that improvements must be made in the area of systematisation and documentation.

In the year under review, in a bid to set a minimum standard for compliance management, Swisscom supported the efforts of the economiesuisse association of Swiss businesses to draw up guidelines for effective compliance management.
Swisscom is a member of Transparency International (Switzerland) and opposes all forms of corruption. In the year under review, a new anti-corruption directive and a new e-learning tool raised awareness of this issue among 62% of the 2,000 or so members of executive staff and management. Special training is also provided for employees in particularly high-risk areas. An audit of subsidiaries to determine infringements revealed no cases of corruption. Nor were any suspicions reported to the whistle blowing office. Feedback from the training courses and other sources is used to improve the system, processes and documentation.

Precautionary principle

New employees are made aware of ecological, social and other relevant issues at the Welcome Days and instructed on the guiding principles and applicable guidelines. Employees who come into contact with customers receive regular training which broadens their knowledge of key aspects of corporate responsibility. Preventive measures are taken as part of the company's risk and safety management system. New services are systematically checked during the development process to determine their environmental relevance. In 2010, all employees with parenting obligations were invited to attend information events on the use of media by children and young people.

Dialogue with stakeholder groups, action areas



Swisscom fosters dialogue with all relevant stakeholder groups. This can take place via electronic media, over the phone, through surveys, at information events or working sessions, road shows, conferences, in customers' homes or directly in Swisscom Shops. In 2010, as in previous years, Swisscom directly incorporated the concerns of stakeholder groups in a number of specific projects. Swisscom's main stakeholder groups are as follows:

- **Customers:** Residential customers are systematically polled to determine their needs. Customer relationship managers are present at customer touch points in order to gauge customer needs at first hand. A quarterly survey on sustainability is conducted among corporate customers. Since the Green ICT campaign was launched, Swisscom's rating as a sustainable telecommunications provider has improved by 7% in customer surveys. Swisscom maintains regular contact with consumer organisations in all linguistic regions of Switzerland, runs electronic forums and writes blogs, including an environmental blog launched in 2006 and a corporate responsibility blog launched a year ago.

See www.swisscomnature.ch/CRblog

- **Employees:** Once a year, Swisscom conducts an employee satisfaction survey and organises a round-table discussion with employee representatives. All employees who come across dubious accounting practices are called on to report these via the company's established whistle blowing process. The Board of Directors' Audit Committee acts as an internal reporting office.
- **Suppliers:** Once a year, the Key Supplier Day offers procurement organisations the opportunity to meet their most important suppliers. At the end of March 2010 Swisscom presented its first Supplier Awards to supply partners for innovation, cooperation and sustainability. As part of the supplier relationship management system, the procurement organisations engage in discussions with their supply partners on subjects such as the results of evaluations, target agreements and performance fulfilment.
- **Shareholders and external investors:** In addition to the Annual General Meeting, analyst presentations, road shows and regular teleconferences allow shareholders to discuss issues with Swisscom. For a number of years, Swisscom has also been fostering contact with numerous external investors and rating agencies in the area of sustainability.

- **Partners and NGOs:** In the context of projects Swisscom believes it is important to maintain dialogue with partners such as the WWF Climate Group, Kinderschutz Schweiz and organisations that address the special needs of disadvantaged groups. Swisscom partners with pro audito Switzerland (for people with impaired hearing), procom (communication aids for the deaf) and Pro Senectute (for senior citizens). Swisscom works with and financially supports the Swiss Research Foundation on Mobile Communication (FSM) based at the Federal Institute of Technology in Zurich, a not-for-profit foundation that promotes scientific research into the opportunities and risks of mobile communications and publishes the resulting unbiased research findings in scientific journals as well as in lay media for the general public.

See
www.kinderschutz.ch

- **Authorities:** For several years Swisscom has been holding a two-day event for all persons responsible for ICT at cantonal education authorities. Mobile data applications are becoming more and more popular with customers. It is common knowledge that, while mobile communications are held in high regard and are in widespread use, the related infrastructure is not widely accepted. In terms of network construction, therefore, Swisscom must walk a fine line between diverging interests, and for many years has engaged in dialogue with local residents and municipal authorities. The DIALOG model has helped step up efforts to reconcile the interests of those involved. Based on an initiative launched by Swisscom and its competitors in the Swiss mobile communications market, the DIALOG agreement guarantees heads of local authorities regular information on network planning in their area and, in the case of building projects, gives them the opportunity to suggest viable alternative locations. In 2008 and 2009 the cantons of Lucerne and Aargau signed the agreement, and in the year under review were joined by the municipalities of Reinach (canton Baselland) and Arbon (canton Thurgau).
- **Legislators:** Swisscom has to tackle political and regulatory issues, advocating its interests vis-à-vis political parties, public authorities and associations.
- **Media:** Swisscom's relationship with the media is informed by professional journalistic principles and is treated as a partnership.

Swisscom's responsibility towards the public

As a leading ICT provider in Switzerland, Swisscom is a much sought-after business partner in the environmental, social and political arenas as well as for public and private institutions when it comes to ecological, social, political and regulatory issues. As a responsibly-minded corporate citizen Swisscom tabled discussions on the following issues in the year under review:

- Sustainable conduct in the ICT sector
- ICT in the education system
- Improvements in customer service
- Nationwide provision of the mobile and broadband infrastructure in Switzerland

Swisscom supports a constructive, solution-oriented approach in the interest of the common good as well as in the interests of the company. The company's positions are based on clear facts and convey Swisscom's standpoint. Swisscom takes particular care to foster transparent, trusting relationships with politicians, official authorities and the community. By taking part in public hearings and events and issuing written statements of position, Swisscom plays its part in the political landscape. Swisscom strictly prohibits illegal or ethically questionable practices aimed at exerting influence on key opinion-holders. Moreover, Swisscom is a non-denominational, politically neutral organisation which does not financially support any parties.

Associations for common interests

Besides directly advocating its interests vis-à-vis politicians, authorities, Swiss shareholdings and social organisations, Swisscom is involved in various industry associations such as economiesuisse, simsa, the Worlddidac Association, the Swiss Trade Association and asut.

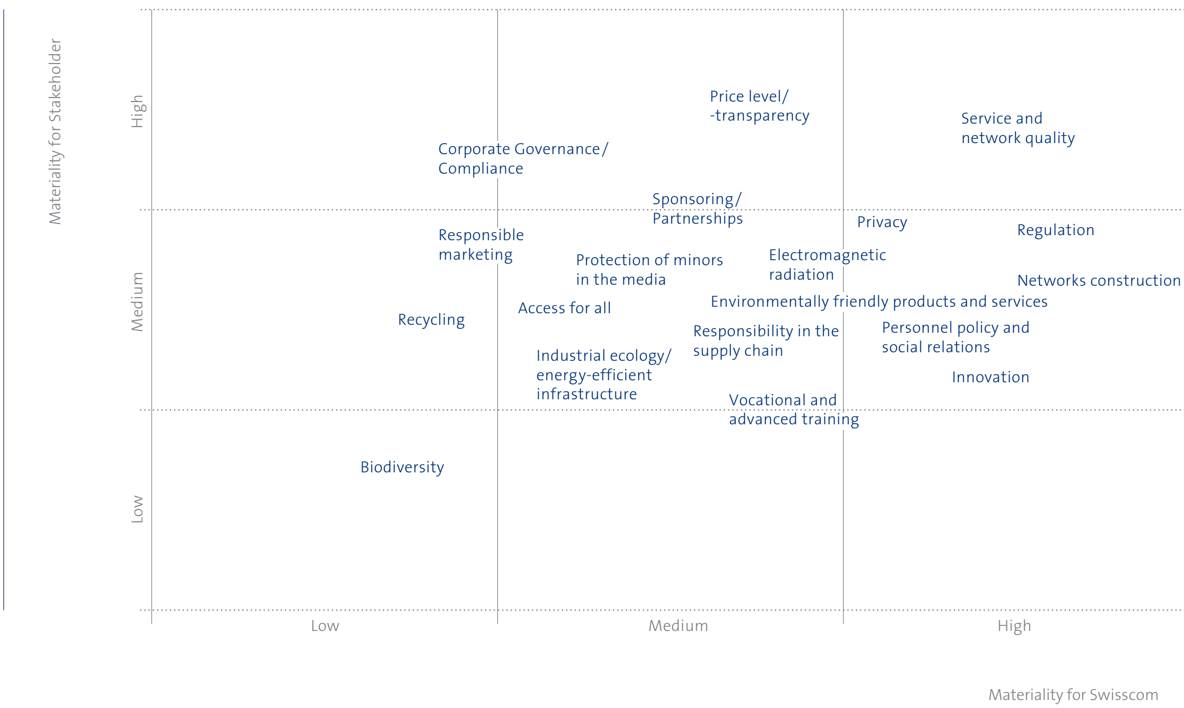
Materiality

With regard to materiality, Swisscom defined and applied the following criteria for the report in the year under review:

- Significance and relevance of sustainability issues for stakeholder groups
- Effects on the company's financial position, results of operations and reputation

The main issues relevant for Swisscom and its stakeholders are summarised in the following matrix:

Materiality matrix Swisscom 2010



Swisscom has set qualitative and quantitative targets for the issues outlined, and defined its corporate responsibility strategy accordingly.

Added value calculation

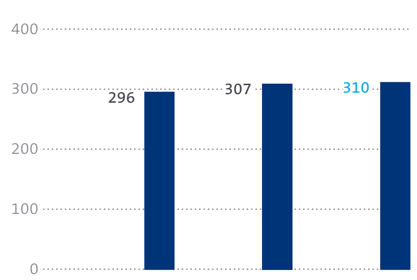
Added value is equivalent to revenue less goods and services purchased, other operating expense, and depreciation and amortisation. Personnel expense is presented as use of added value rather than goods and services purchased. The bulk of added value is generated in Switzerland, with activities abroad accounting for only around 3% of the Group's added value from operations in the year under review (2009: around 7%).

			2010			2009
In CHF million	Switzerland	Abroad	Total	Switzerland	Abroad	Total
Added value						
Net revenue	**9,340**	**2,648**	**11,988**	**9,119**	**2,882**	**12,001**
Capitalised self-constructed assets and other income	(203)	(101)	(304)	(250)	(167)	(417)
Goods and services purchased	1,670	995	2,665	1,629	1,019	2,648
Other operating expenses	1,691	819	2,510	1,671	838	2,509
Depreciation, amortisation and impairment losses	1,205	767	1,972	1,163	832	1,995
Indermediate inputs	**4,363**	**2,480**	**6,843**	**4,213**	**2,522**	**6,735**
Operating added value	**4,977**	**168**	**5,145**	**4,906**	**360**	**5,266**
Equity in net income of affiliated companies			28			43
Other financial result			(104)			(68)
Total added value			**5,069**			**5,241**
Allocation of added value						
Employees (personnel cost)	2,184	336	2,520	2,209	368	2,577
Authorities (income taxes)			502			460
Shareholders (dividends)			1,044			1,039
External investors (net interest expense)			261			281
Company (retained earnings)			742			884
Total added value			**5,069**			**5,241**

In 2010, added value from operations amounted to around CHF 5.1 billion, 2.3% less than in 2009. Added value in Switzerland increased by 1.4% to CHF 4,977 million. The lower added value from activities abroad is primarily attributable to provisions made by Fastweb. Added value from operations in Switzerland amounts to around 53% of net revenue.

A significant number of activities along the value chain in Switzerland are performed by Swisscom's 16,000 employees. In 2010 added value from operations amounted to CHF 310,000 per full-time position (2009: CHF 307,000). Personnel expense in relation to added value in Switzerland decreased slightly by 1.1% to 43.9%.

Development of value added per employee in Switzerland in CHF thousand



Information on reporting according to GRI guidelines

In this report Swisscom discloses its commitments and provides information on the activities carried out in 2010.

Guidelines and application level

The applicable guidelines of the Global Reporting Initiative (GRI 3) determine the scope and content of the sustainability report. GRI is the world's leading standard for corporate sustainability reporting. Swisscom is of the opinion that the 2010 annual report complies with application level A+ of GRI guideline 3. SGS AG has examined and confirmed this view.

See report **page 100**

Index

The GRI Index provides a standardised overview of reporting which is broken down by subject. Each subject in the index contains a reference to the relevant pages of the Annual Report or other sources of information.

See **www.swisscom.com/GRI/en**

Reporting boundary

Sustainability reporting according to GRI is limited to the following: All Group companies domiciled in Switzerland which are fully consolidated in accordance with International Financial Reporting Standards (IFRS). Acquisitions are included from the date of acquisition, and disposals up to the date of disposal.

Group companies domiciled abroad and investments in associates and joint ventures are not included in the reporting boundary. The main foreign shareholdings are Fastweb and the Swisscom Hospitality Group. The closely related foundations comPlan (pension fund) as well as sovis are also not included. The section on the corporate structure and organisations illustrates the scope of the GRI including the legal structure.

See report **page 25**

Environmental indicators: The data compilation system covers all buildings in Switzerland managed by Swisscom Real Estate Management. In terms of the workforce in Switzerland, the report covers 94% of FTEs.

Employee indicators (in particular the personnel structure, fluctuation and absences due to accident and illness) cover more than 95% of FTEs.

Group directives governing the various GRI sustainability topics are issued to Swisscom's subsidiaries. Various Group targets do not apply to all subsidiaries within the defined reporting boundary and are accordingly not introduced. The subsidiaries not covered by the scope of the Group targets are of minimal relevance for the respective sustainability topic. The scope will be reviewed in 2011 and adjusted if necessary.

A list of Group companies, comprising subsidiaries, associates and joint ventures, is provided in the Notes to the Consolidated Financial Statements.

See report **page 209**

Sustainable products and services

Management approach and objectives

Sustainable products and services are of major relevance for Swisscom and its stakeholder groups. This relevance extends to issues relating to electromagnetic radiation as well as energy consumption for network operation and terminal devices. Swisscom takes these issues into account in operational planning, procurement and the development of products and services, and has introduced the "European Code of Conduct on Energy, Consumption of Broadband Equipment" and the "Code of Conduct of Digital TV Services Equipment" (set-top boxes) as a standard for testing and selecting devices. FAQs on terminal devices as well as information on electromagnetic radiation are available on Swisscom's website. Swisscom has set itself the goal of increasing the proportion of climate-friendly products and services in its portfolio by 10% versus 2010.

See
www.swisscom.ch/devices
www.swisscom.ch/radiation

Additional principles of relevance are: Ordinance relating to Protection against Non-Ionising Radiation (ONIR); Telecommunication Services Ordinance; Swisscom Directive on Communication; Swisscom Environmental Policy, and Swisscom Sustainable Design Principle.

See
www.swisscom.ch/basicprinciples

Environmentally-friendly products

Environmentally friendly products and services

In the year under review, Swisscom Switzerland launched the Green Customer Experience for residential customers, a programme that in particular takes into account ecological aspects such as radiation and the energy efficiency.

The life cycle assessment of networks and terminal devices carried out in recent years have consistently identified the following environmental impact factors: energy consumed by customers' terminal devices, energy consumed to produce terminal devices and energy consumed by the network elements. In 2010 the Green Customer Experience programme produced the following quantifiable results:

- **Centro router:** Launch of the Centro router range with optimised functionality in terms of radiation, energy efficiency and packaging. 25% reduction in electricity in standby mode, and on/off button for wireless function.
- **Solidarcomm:** Relaunch of Solidarcomm in Swisscom Shops with the aim of increasing the percentage of used mobile phones returned for recycling by 30% by 2015.
- **Online billing:** Pilot trial to encourage customers to switch to paperless billing. Online billing is now offered to customers as the default, with the paper version offered as an option.
- **Ecomode plus:** Cordless phones that are equipped with Ecomode plus only emit minimal radiation. Ecomode plus models account for 60% of all cordless phones sold.
- **Mobile devices with solar cells:** In November 2009 Swisscom was the first telecoms provider in Switzerland to launch a mobile device equipped with a solar panel. The device can be recharged independently of the mains, using solar energy.
- **Customer network devices:** In collaboration with Motorola and the Federal Office for Energy, Swisscom has successfully developed a prototype for an IPTV set-top box which uses less than three watts of power in standby mode, and this figure is to be reduced to one watt by the end of 2011. Together with ten other telecoms providers, Swisscom launched a competition for DSL chip manufacturers to build the most efficient DSL router in 2009. Special software developed by the chip manufacturer selected by Swisscom enables the electricity consumption of routers to be further reduced, and is to be rolled out in 2011. All Swisscom TV customers are offered a power strip or remote control socket so that they can completely switch off their set-top boxes and modems.
- "myclimate" labelling: Online billing was the first product to be given the "myclimate" label towards the end of 2010.

Training courses

Additional behavioural training measures within Swisscom: CR road shows and CR video messages were posted on the intranet to raise awareness of ways of reducing radiation when using wireless technologies. Shop staff received instruction on giving interested customers useful tips on how to reduce radiation when using wireless communication technologies.

Sustainable services

Environmentally friendly products and services

Services which entail a significant ecological benefit are designated accordingly. These include conferencing, unified communications, telepresence and teleworking. A special CO_2, time and cost calculator developed by Swisscom shows business customers the savings they can achieve by using these services.

See www.swisscom.com/green-ict

- **Eco-friendly services:** Services that help to reduce travel (video conferencing, teleworking solutions and optimised logistics) as well as services that help save on energy (outsourcing and virtualisation of servers in efficient data centres). A special sales tool, Green ICT events and the Green ICT calculator are used to demonstrate to customers the potential for savings.
  In the year under review, Swisscom conducted training sessions on eco-friendly services for interested target groups, and launched the realistic videoconferencing solution, Telepresence, at eight locations. At a media event organised in conjunction with the WWF, Swisscom presented a study showing the high level of willingness among Swiss businesses to make increasing use of modern conferencing systems and to reduce travel.
- **Recycling:** Swisscom grants a two-year guarantee on all telecoms equipment and offers repair services. Moreover, any electronic devices from the Swisscom range can be returned to Swisscom for recycling. This service is performed by SWICO Recycling, the recycling commission of the Swiss Association for Information, Communication and Organisational Technology. The system is financed through an up-front recycling charge. Statistics on recycling are available from SWICO.

See www.swico.ch

- **Solidarcomm:** In 2010, 37,000 mobiles were handed in and many of them were sold via a third-party company in countries with a demand for low-cost second-hand mobile equipment. All proceeds from the sales go to Swisscom's social partners, Terre des Hommes Switzerland and Réalise.
- **Services for employees:** In the year under review, Swisscom expanded its CO_2 savings platform for employees to include new functions such as the interactive selection of personal climate protection targets. The number of participating employees has now grown to more than 2,000.

See www.co2-monitor.ch

- **Solar vignette:** Swisscom has launched the solar vignette for customers who do not have a mobile with solar cells. By purchasing the vignette for CHF 8, customers are guaranteed that enough solar energy to offset the power consumption of their mobile device will be fed into the electricity grid.
- **Online billing:** Online billing is increasingly being seen as an attractive and environmentally friendly alternative to a paper bill, and 10% of Swisscom customers have now opted to use this method.

Customer satisfaction

Swisscom Switzerland

Swisscom conducts a range of segment-specific studies in order to measure customer satisfaction.

The Residential Customers segment conducts a monthly survey among representative customers to determine customer satisfaction and the extent to which customers are willing to recommend Swisscom to others. Callers to the Swisscom hotline as well as visitors to Swisscom Shops are regularly asked to rate waiting times and staff friendliness. In the area of product studies, Swisscom regularly polls buyers and users to gauge satisfaction, service and product quality.

The Small and Medium-Sized Enterprises (SME) segment continually conducts random interviews to gauge customers' satisfaction with Swisscom as well as dealers' satisfaction with products and support services.

The Corporate Business segment regularly surveys customers with whom projects have been implemented. Added to this, an annual survey of customers is conducted to determine their satisfaction with the customer experience chain, which covers all customer-related processes from advising to ordering, application and payment processing.

The Wholesale segment also conducts an annual survey to measure customer satisfaction along the entire customer experience chain.

The results of all these studies help to improve products and services and are relevant for determining employees' share of profit.

Swisscom IT Services

Feedback instruments are used at key customer touch points in order to identify ways of improving customer satisfaction. IT users can submit feedback to the service desk or enter their comments in the ordering system after every interaction. For projects, customers can evaluate the finished project, and monthly surveys are conducted on IT and business activities.
A comprehensive customer satisfaction survey is conducted once a year. In 2010 customer satisfaction was the highest since the surveys began. Customers' willingness to recommend Swisscom to others was also rated significantly higher than in 2009.

Customer support

Swisscom Help Point

The Swisscom Help Point has been teaching customers how to use mobile devices and the Internet since 2005. Training sessions are offered every week at the training centres in Berne, Basel, Lausanne, Lucerne, Geneva and Zurich. Four training buses also visit around 80 towns and villages across Switzerland every year. In 2010, 36,000 people attended training courses on how to use modern communications media. Since its launch, over 166,000 customers have received instruction.

Swisscom@home

Since 2006, 30 experts have been offering support on Swisscom's full range of products and services throughout Switzerland. Customers can receive advice free of charge and with no obligation in the comfort of their own homes. Swisscom@home continues to grow and reached the 25,000 customer mark in 2010.

HomeServiceTeam

The on-site service (home service) for computers, Internet and multimedia, launched in 2008, is represented by 80 experts across the whole of Switzerland. The HomeServiceTeam offers customers support with setting up and installing computers, networks and software.

Product responsibility

Socially acceptable, ecological product innovation

Low-radiation communication

When designing products, processes and services, Swisscom applies five experience design principles. The "Design with sustainability in mind" principle expresses the commitment to social responsibility and the ecological attributes of products, processes and services.
Products and services that entail particulars risk for children and young people are examined for their acceptability ahead of any product launch.
Swisscom's advertising and sales promotion activities are informed by its guiding principles. In other words, slogans, texts and subjects are non-discriminatory and respectful in tone.

Privacy

Children and young people who use social networking platforms are usually unaware of the consequences of disclosing private or even intimate information. Privacy plays a prominent role in the documentation and information provided on media protection for minors.

Customer protection

Swisscom has various ways of exerting influence. The more important Swisscom is as a partner for manufacturers, the greater the opportunity to exert influence. For example, the Ecomode plus range of cordless telephones was developed in close collaboration with the manufacturers. Swisscom is also playing an active role in improving the energy efficiency of the Centro router and is continually optimising the user-friendliness of its online billing function and the online customer centre.
Swisscom is interested in dialogue with parties on wireless technologies, environmental issues and health, and provides information on precautionary measures to reduce emissions when using wireless telecommunication technologies.

Advice and information on wireless technologies

Stakeholder groups who are affected by the construction and operation of mobile networks or who simply require general information on wireless technologies, the environment and health, receive advice from specially trained Swisscom employees. In the year under review, Swisscom held more than 500 discussions with members of key stakeholder groups in the debate over mobile communications and the environment.

Research and development in the area of electromagnetic fields

Swisscom works with and financially supports the Swiss Research Foundation on Mobile Communication (FSM), based at the Federal Institute of Technology in Zurich, and employs four qualified employees to monitor and interpret the latest research findings on electromagnetic fields, their effect on organisms and the measurement of emissions.
Mindful of the major responsibility that operating wireless networks entails, Swisscom follows and analyses scientific research by internal and external experts into the impact of non-ionising radiation on organisms and supports scientific work in this field.
Based on current knowledge, scientists consider the applicable limit for electromagnetic fields as safe (see WHO Fact Sheets Nos. 193 and 304). Swisscom carries in its range of cordless (DECT) telephones a number of devices which emit ultra-low radiation when in "Ecomode plus" mode. Customers can go online to find out the SAR limits of all mobile devices. Those who are interested can visit the Swisscom website to find a list of low-radiation mobile devices in the Swisscom range and tips on making low-emission phone calls.

See
www.icnirp.org

Certification of the quality assurance system for compliance with ONIR limits

Swissscom is required to operate a quality assurance system (QAA) for mobile base stations to ensure that mobile antennae, when in operation, comply at all times with the statutory limits. In 2005 Swisscom decided to have this quality assurance system certified to ISO 15504 standard. The system was recertified in November 2010, when it scored a capability level of 4 out of a possible 5. Capability level 4 means that the processes relevant for the QAA are "predictable", i.e. targeted and measurable.
The legal obligation to limit emissions from mobile communication installations results from the Ordinance relating to Protection against Non-Ionising Radiation (ONIR), the aim of which is to protect people against harmful or undesirable non-ionising radiation. The ONIR applies to the operation of fixed installations that emit electrical and magnetic fields with frequencies between O Hz and 300 GHz.

See
www.swisscom.ch/radiation

Duty to inform and publicity on radiation and health

Swisscom provides information on the radiation levels of terminal devices. The Telecommunication Services Ordinance requires telecommunication services providers to disclose information on the functionality of a barring set at least once a year. A barring set allows access to chargeable value-added services to be blocked. Every year Swisscom informs customers about this free service in an enclosure to their bill. This barring set is automatically activated for young subscribers under the age of 18.

See
www.swisscom.com/lowradiation

Packaging

In 2009 Swisscom decided to largely do away with the additional packaging that comes with mobile phones, and to massively reduce the amount of enclosed documentation such as user guides. In 2010 it discontinued repackaging for all postpaid mobile phones, which make up 85% of all devices sold by Swisscom, and in so doing saved on 14 tonnes of cardboard. The packaging concept has also been adjusted for the new Centro range of routers, with a higher proportion of recyclable fibres and re-usable packing materials.

Responsibility in the supply chain

Management approach and objectives

Responsibility in the supply chain

Swisscom's annual procurement volume of CHF 3.2 billion is based on transactions with more than 6,000 suppliers. Swisscom expects its suppliers along the entire supply chain to exercise responsibility in their turn. The purchasing policy defines the rules of engagement and provides the binding basis for negotiations with suppliers.
Details of the purchasing policy are set forth in contract annexes. These annexes contain requirements taken from Swisscom's environmental management system or other action areas such as the protection of minors in the media.
Swisscom's Environmental Committee draws up concrete proposals to extend the corporate responsibility contract annex, following which the Swisscom Purchasing Board decides on whether or not to integrate these suggestions.

See www.swisscom.ch/GRI/en

Purchasing policy

Corporate responsibility contract annex

Swisscom is aiming to have the corporate responsibility contract annex (CRV) signed by 97% of its supply partners by the end of 2013. The CRV will be integrated in all new contracts and included as an annex to existing contracts when they are renewed. To speed up the process, since mid-2010 Swisscom has been advising supply partners who order online that, effective immediately, the annex is an integral component of their contract.
Starting in January 2011, a standardised contract management system will be introduced to enable accurate recording and registration of the number of contracts concluded.

See www.swisscom.ch/suppliers

Supplier evaluation

Key supply partners are evaluated twice a year. During this process the parties jointly identify development fields and sign agreements on targets, compliance with which is continually monitored by Swisscom's buyers. A review of 37 supply partners (2009: 31, 2008: 15) was conducted in 2010.

Key Supplier Day 2010

In March 2010 a public ceremony was held in Berne to present winners and finalists with the first Swisscom Supplier Awards for innovation, cooperation and sustainability.

Awareness-raising and training for employees

The compact course on procurement is designed for all employees to raise their awareness of corporate responsibility issues in the supply chain. In 2010 ten compact courses were attended by 170 participants.
All buyers – i.e. some 100 employees – are given training in the purchasing policy and corporate responsibility. This was also the subject of a presentation at the Swisscom Buyers' Day in 2010. And an information and training event on the procurement of promotional articles – an activity which is accorded a higher risk rating – was attended by nine decision-makers.

Supplier risk management

The risk management system is still under development. A pilot trial on self-declaration was conducted in 2010 with ten selected supply partners. In 2011 strategic supply partners will be evaluated according to risk levels, based on the product category structure, and the necessary steps will be taken to minimise risks.

Social and cultural commitments

Management approach and objectives

Full compliance with the applicable laws is essential. Swisscom attaches particular importance to the requirements of telecommunications and anti-trust legislation, employment law and regulations on product and service descriptions, privacy and data protection, the protection of telecommunications secrecy, fighting corruption and protecting the health and safety of customers and third parties. Each and every employee has an obligation to abide by the law.

Principles

The following principles are binding and/or of relevance: universal service provision mandate, industry agreement of the Swiss Association of Telecommunications (asut) as well as partnership agreements with NGOs.

Access for all

Access for all

The requirements of the law on equal rights for the disabled are fully complied with or even exceeded:
- More than 90% of Swisscom Shops offer unrestricted wheelchair access.
- In cooperation with the "Access for all" association, Swisscom is continually optimising the accessibility of its online platforms for people with impaired vision. Accessibility for browsers for the blind such as JAWS was improved in 2010 when implementing a new content management platform.
- As part of its universal service provision mandate, Swisscom offers a transcription service for the deaf.
- Communication with Swisscom's support services is possible at all times via a range of different media: telephone, letter, e-mail or face-to-face in retail outlets.
- Swisscom endeavours to provide a portfolio of terminal devices that includes a choice of suitable equipment for customers with impaired hearing or vision. One of the best examples in this context is the Emporia mobile phone, which is specially designed for elderly people with impaired hearing or vision or restricted mobility.

Swisscom liaises closely with the "Access for all" (Access4all), PROCOM and Procap foundations, and offers a free hearing test over the telephone in conjunction with pro audito Switzerland.
Swisscom offers special products and services to help people with limited financial resources. For the under-26 age group Swisscom has created a reduced-tariff plan. Up to age 18, subscribers to this tariff plan are also assigned a credit limit. Older people are still using new technologies much less than the younger generation, and with this in mind Swisscom offers special subscriptions with low basic fees and services charged on a pay-as-you-use basis.

See
www.swisscom.ch

Universal service provision

Swisscom is responsible for the universal provision of telecommunications services in Switzerland, and will continue to do so under the current mandate until 2017. The aim of the mandate is the provision of analogue or digital network access throughout Switzerland. This covers voice-based services, including fax, Internet access, supplementary services, the provision of public payphones, calls to the emergency services, directory services and operator services for people with visual and hearing disabilities. For broadband Internet access, a minimum transmission speed of 600/100 Kbps applies.

	Unit	2008	2009	2010
Number of traffic minutes (national fixed-line traffic)	mio. min.	7,421	7,100	6,741
Number of public payphones [1]	number	8,389	8,115	7,663
Emergency calls	in thousand	2,600	2,700	3,092
Calls to the service for visually impaired/hard of hearing [2]	in thousand	514	496	556

[1] Of which 4,437 (2010), 4,803 (2009) and 4,862 (2008) within the scope of basic service provision.
[2] From 2008 (new basic service agreement) joint operator service (for the visually impaired and hard of hearing as well as persons with restricted mobility).

People in need

People in need

A wide range of partnerships attest to Swisscom's close bonds with Switzerland.

- **Swiss Solidarity (Glückskette):** Swisscom has been a partner of Swiss Solidarity since 1946, and under this partnership supports the work of the charity's 30 partner relief agencies.
- **The Samaritans (Die Dargebotene Hand):** Swisscom is the official communications partner of the "Samaritans telephone number 143", the first point of contact at any hour of the day or night for people in difficult situations.
- **Partnership with Pro Senectute and the terzStiftung:** Swisscom has been working with Pro Senectute for a year with the aim of helping senior citizens enjoy the practical benefits of the digital world. The terzStiftung is committed to independence and security in old age. Swisscom has been a partner of the terzStiftung since 2007.
- **Compisternli – a project to unite the generations:** Compisternli trains children so that they can teach older people about mobile communications. Swisscom supports Compisternli by providing infrastructure and communications services.

Promoting media competence and the protection of minors in the media

Media competence and protection of minors

Swisscom is committed to informing children and young people as well as older people about the risks inherent in the new media, and helps them to use such media responsibly and discerningly.

Protection of minors in the media

Both the Internet and mobile communications harbour a number of dangers for our children. Swisscom is determined not to leave parents and teachers to shoulder this responsibility alone.
In the year under review, Swisscom complied fully with the legal obligations governing the protection of minors in the media. Under the terms of the Swiss Federal Penal Code, it is forbidden for providers to offer content of a pornographic nature to persons under the age of 16. The Ordinance on Telecommunications Services outlines measures relating to the blocking of value-added services. Swisscom observes these regulations extremely rigorously.
Since 2008, the Industry Initiative of the Swiss Association of Telecommunications (asut) for Improved Youth Media Protection and the Promotion of Media Skills in Society has published a list of measures, in addition to the legal requirements, which Swisscom has pledged to comply with. This includes the provision of Internet filters, the obligation to actively inform customers, willingness to engage in dialogue with committed organisations, and the designation of a youth media protection officer. In 2011 an independent agency will review the industry initiative and its implementation.

See **www.asut.ch**

For years Swisscom's commitment has been going beyond the legal requirements:

- Age limit for access to certain services voluntarily increased to 18
- No adult content included in the Video on Demand offering from Swisscom TV
- Additional channel blocking via PIN on Swisscom TV
- FSK age rating recommendation for all video-on-demand films
- Exceptionally stringent requirements for third-party providers of value-added services

Promoting media competence

In 2010 Swisscom took the following steps to draw the attention of parents and teachers to the potential dangers and risks associated with new media.

- 200,000 copies of the "enter" brochure (formerly "SchoolNetGuide") on youth media protection have been printed in German, French and Italian for distribution free of charge.
- A youth protection course was designed as part of the Help Point training scheme: The content was further optimised in 2010, and some 2,500 courses were held on parents' evenings or during further training sessions for teachers.
- The JAMES study conducted by Swisscom and the Zurich University of Applied Sciences fills a research gap in Switzerland. The study shows that the Internet and mobile phones are increasingly being used by young people not only as an information and communication tool but also as a learning aid. It also examines issues related to inappropriate media usage, revealing at times startling differences between the different linguistic regions. The findings will influence the strategies of the various actors and in so doing play a key role in promoting media skills.

Internet for Schools and Schools Service

Swisscom has been providing free Internet access to all primary and secondary schools in Switzerland since 2001. At the end of 2010, more than 97% of all schools had been connected to the cantonal educational network. Swisscom continued the "Internet for Schools" initiative after the public-private partnership with the federal government officially expired in 2007, Swisscom will continue delivering services that meet the needs of day-to-day school life and has further expanded these offerings in the year under review.
The service has been extended to include preschools, to meet the needs of cantonal education departments. This means that the number of connections provided under the scheme is set to increase almost three-fold over the coming years.
Schools that require high-performance bandwidths (large educational centres or schools which use the Internet particularly intensively) can now take advantage of free connections with a bandwidth of up to 50 Mbps.

Culture and sport

The priority for Swisscom's long-term sponsorships is on winter sports and a wide range of cultural events. These commitments are spread over all Switzerland's regions and address a broad variety of target groups. Swisscom partners are obliged to report on their activities and results.

Festivals, museum, foundation

Swisscom sponsors renowned and popular open air music festivals and the AVO Session in Basel. It also supports the medium of film in its capacity as the principal sponsor of the International Film Festival of Locarno, and as communications partner of selected film distribution companies is involved in the premieres of new films.
Swisscom is a member of the Board of Trustees of the Museum of Communication in Berne, which organises exhibitions on human communications past, present and future. Visitor surveys show that the museum is well received as a family-oriented and interactive museum. For the temporary exhibition opened in 2010 and entitled "Wo bisch? Handy macht Mobil" ("Where are you? Mobility thanks to mobiles"), Swisscom developed a world first that enables 200 visitors simultaneously to follow a guide to the exhibition on their mobile phones.
Swisscom sponsors the Sasso San Gottardo Foundation which is devoted to the essential resources that stem from the Alps: energy, water, living space, mobility, warmth and cold, protection and security.

Sport

As a leading partner of Swiss Olympic and partner to the Swiss Paralympics Committee, Swisscom supports competitive sport, with the emphasis on winter sports. As the main sponsor of Swiss-Ski, Swisscom supports Swiss winter sports athletes and helps them to achieve peak performance in downhill and Nordic skiing, snowboarding, freestyle and telemark skiing. As part of its partnership with Swiss-Ski, 20% of Swisscom's annual sponsorship fees go towards fostering the development of junior talents. Swisscom has also developed a downhill training programme for promising young athletes, the key focus of which is the Swisscom Junior Ski Team with members from regions across Switzerland. At the end of 2008 Swisscom set up the first Swiss online platform for all fans of winter sports at www.snowfriends.ch.

See **www.snowfriends.ch**

As official telecoms partner of all Swiss FIS World Cup events, Swisscom is boosting Switzerland's status as both a venue for sporting events and a haven for winter sports. In this capacity Swisscom maintains a long-established partnership with the Swiss Tourist Board.

Memberships/partnerships

Memberships and partnerships are examined on the basis of transparent criteria, chief among which are their importance for the community or Swisscom, their status and national relevance, their willingness to forge an amicable, long-lasting partnership, and the reputation of the organisation.

Responsibility for the environment and climate

Management approach and objectives

The Environment Committee deals with environmental aspects across the Swisscom Group and delegates this task to the Steering Committee.
Swisscom pursues the targets set by the Swiss Confederation in an agreement signed with the Energy Agency for Industry (EnAW). Swisscom subsidiaries of significant environmental relevance have been certified to the ISO 14001 standard. The companies concerned are: Swisscom (Switzerland) Ltd, Swisscom Broadcast Ltd, Swisscom IT Services Ltd and Cablex Ltd, all of which are also ISO 9001 certified.
Swisscom has set itself other additional goals to be reached by the end of 2015: Compared to 1 January 2010, efficiency is to be boosted by a further 20% and direct CO_2 emissions are to be reduced by a further 10%, corresponding to a total reduction of 60% in Swisscom's direct CO_2 emissions since the reference year 1990. In 2010 Swisscom also trained its pool of project managers on the environmental parameters for new projects.

Energy

Consumption of electricity, renewable electricity and green electricity

Renewable energy

In 2010 Swisscom's electricity consumption was 404 GWh compared to 402 GWh in 2009. The slight increase in consumption is a result of the company's growing activities and the expanded network infrastructure. Electricity consumption is expected to stabilise in the medium term.
In 2010 Swisscom switched to using 100% renewable electricity. For the electricity mix used for the network infrastructure and for consumption in buildings managed by Swisscom, compensation is paid for the share of nuclear power, energy of unknown origins and electricity from fossil fuels. The energy consumption in office which are rented in other locations is not recorded. Swisscom is still one of the most important consumers of alternative energies in Switzerland, with a total of 1.6 million GWh of green electricity comprising 0.4 GWh of "naturemade star" energy from solar power and 1.2 GWh of wind power. Swisscom has its "100% renewable energies" label externally confirmed by the WWF.

Heating fuel consumption

Swisscom measures the consumption of natural gas and district heating. The consumption of heating oil is determined on an annual basis for eight representative buildings, and the resultant consumption statistics are projected to provide a figure for the reporting year for the total surface area. The actual consumption volumes will be obtained at the end of May 2011. Swisscom consumed 208.2 terajoules (57.8 GWh) to heat its buildings in 2010. This represents a 2% reduction compared to 2009. The heating mix consists of 72% heating oil, 15% natural gas and 13% district heating. In 2010 Swisscom carried out further structural renovations and launched four initiatives to save on energy and reduce CO_2 emissions from buildings: energy management for the 40 largest buildings, measures to optimise operations, introduction of a standardised procedure for upgrading heating systems, and a move to reduce the heating temperature in exchanges by 5°C and enable savings of 40% on heating oil.
Swisscom has conducted a pilot trial on energy monitoring in its largest building in Zurich-Herden, the results of which are being used to optimise operations and improve building automation as well as facility monitoring.

Mobility policy and vehicle fuel consumption

Impeccable customer service calls for a mobile workforce. A total of 66.1 million kilometres was driven in 2010 in the service of customers, corresponding to energy consumption of 172.3 terajoules (47.8 GWh). This represents a 3% reduction in vehicle fuel consumption compared to 2009. Swisscom is aiming to reduce average CO_2 emissions per vehicle to 150 gpkm by 2012 and 130 gpkm by 2015. The average emissions for the fleet of cars at the end of 2010 amounted to 150 gpkm according to the new European drive cycle (NEDC). Seventy three per cent of the fleet is classified in energy efficiency categories A and B. Swisscom also operates a fleet of 69 hybrid vehicles (+68%) and 25 natural gas-powered vehicles (+108%), which are mainly deployed as pool vehicles at various locations. At the end of 2010 Swisscom launched its first electric mobility project, sta-

tioning three electric vehicles in Lausanne, Berne and Zurich – locations where Swisscom generates an equivalent volume of solar power thanks to its own solar energy installations.
In 2010, 101,600 (–7.6%) rail tickets for business trips and 13,000 (+4%) half-fare as well as 2,600 (+3.5%) general transport passes were issued to employees.
A separate CO_2 levy of 1.5 cents per air mile has been charged on international flights since 2007, and the money goes towards funding internal environmental projects in the field of mobility.
In 2009 the internal cost allocation model was changed to the user-pays principle. As a result, internal car users must now pay the actual costs incurred and have an incentive to keep these to a minimum.

Energy efficiency target agreement

In 2010 Swisscom aimed to improve energy efficiency by 17% (compared to the reference year 2002) and limit direct CO_2 emissions to a maximum of 28,109 tonnes. Details of Swisscom's CO_2 emissions are provided below and summarised in the table at the end of this section. By the end of 2010 Swisscom had increased energy efficiency by 17.5% versus 2002. This is in line with the targets agreed with the EnAW. The target is an average over the years between 2008 and 2012. In 2010 Swisscom outperformed the new efficiency target (an increase of 20% by end-2015) by 2.7%, mainly thanks to one-off measures.

Mistral project

Energy-efficient infrastructure

In 2010 Swisscom continued to pursue and implement the "Mistral" energy saving project. Mistral is a cooling technology that uses only fresh air all year round, thereby eliminating the need for conventional energy-intensive cooling systems with compressors and significantly enhancing energy efficiency. Moreover, Mistral requires no harmful refrigerants.
Mistral was deployed in over 432 telephone exchanges by the end of 2010, an increase of 35% compared to the previous year. Fifteen more mobile base stations and five Swisscom Broadcast transmission stations were also converted to the new system in the course of the year. Fresh-air cooling also offers a genuine alternative for cooling data centres. At the end of 2010, accumulated savings in energy consumption versus former cooling methods amounted to 15.3 GWh. Once all installations in the public switched telephone network have been converted, Swisscom expects to save up to 45 million kilowatt hours of electricity per year versus conventional cooling methods.

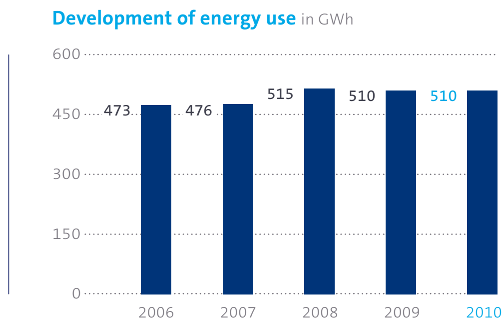
Inergie member

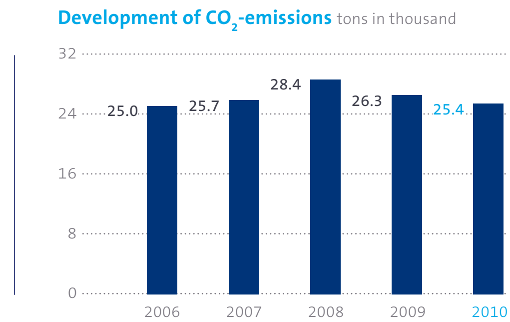
Swisscom has been a member of the Inergie Association since July 2010. The aim of this association, whose members comprise Bernische Kraftwerke (BKW), IBM, Swiss Post, the municipality of Ittigen and Swisscom, is to develop new solutions to promote energy efficiency at the municipal level. To date, Inergie has launched a project for e-mobility as well as a smart metering/grid project in which Swisscom is involved.

Climate

Carbon footprint

In terms of the direct consumption of fossil fuels, Swisscom's carbon footprint has reduced slightly to 25,422 tonnes of CO_2, of which vehicle fuel accounts for 49.7% and heating fuel 50.3%. Swisscom is therefore still on track with the targets agreed with the Energy Agency for Industry (EnAW). The electricity mix purchased in Switzerland as well as the district heating consumed by Swisscom are not generated from fossil fuels and are therefore free from CO_2 emissions. In its reporting, Swisscom applies the EnAW conversion factor for electricity production. While Swisscom does not conduct an estimation of other indirect CO_2 emissions at present (Scope 3 of the Greenhouse Gas Protocol Initiative), it continues to pursue ways of evaluating CO_2 emissions in suppliers' logistical processes.





Operations and environmental protection

The analysis conducted in the year under review revealed that Swisscom's impact on the ecosystem is minimal and is progressing in the right direction.

Paper and other materials

Paper is the main short-life material of relevance in terms of its environmental impact. Swisscom uses 100% recycled paper in its offices and only paper with the FSC (Forest Stewardship Council) quality seal for other purposes such as advertising and printed materials. In addition, Swisscom has introduced two-monthly billing for customers with small bills as well as the option of paperless electronic billing. In 2010, 4,890 tonnes of PEFC 34 g/m^2 paper were used for telephone directories. Network expansion necessitates the deployment of long-life materials such as cables and optical fibres. In 2010 Swisscom laid 704,451 kilometres of optical fibre, 113,156 kilometres of copper pairs and 791 kilometres of eco-friendly polyethylene piping in its fixed network, and installed 5,058 wooden telephone poles.

Water

Water consumption levels are projected by multiplying the average measured in 1995 by the number of FTEs. Consumption of water for sanitation facilities has increased slightly in proportion to the number of employees. As water is not used for business processes, however, it does not constitute an important environmental aspect for Swisscom.

Recycling

Swisscom minimises the volume of waste it produces by carefully selecting materials and extending the useful life of products where possible. Waste is disposed of by a qualified specialist company. A contract has been concluded with the Swiss Waste Exchange for the disposal and recycling of waste. Special waste is disposed of by authorised specialist companies in accordance with legal requirements. The 946 tonnes of waste is sorted into 17 categories and earmarked for recycling (73%), disposal in waste incineration plants (26%) or special waste disposal (1%).
Of the recycled materials, paper is managed by the individual locations while rainwater and district heating from the nearby purification plant are deployed for head office.

Soil and biodiversity

Some of the base and transmission stations which are necessary for ensuring full telecoms, radio and TV coverage throughout Switzerland are located outside populated areas. The sealed surface area per station amounts to only a few square metres. When decommissioned base stations are demolished, Swisscom ensures the land is ecologically restored. The stations in Kiental, Gadmen and Guttannen were demolished in 2010 and the land was rehabilitated according to internal criteria set by Swisscom Broadcast Ltd. Swisscom continues to support the WWF SMARAGD project both financially and through voluntary assistance from Swisscom employees on Nature Days.

See report
page 147 and page 188

Environment and health

Swisscom believes it has a duty to make customers and other interested parties aware of the scientific evidence in the controversial debate surrounding wireless technologies, the environment and health. This evidence shows that if emission limits are complied with, no detrimental effects on human health can be detected. The emission limits are still considered a reliable method of protecting the health of the population. This was the conclusion of the International Commission on Non-Ionising Radiation Protection (ICNIRP), which analysed studies conducted in this field over the past ten years, and this view is shared by the Federal Office of Public Health. Nevertheless, both institutions admit that knowledge gaps exist which need to be researched further, and to this end Swisscom supports further research efforts.

Certificates and citations

On 4 May 2010 Swisscom was awarded the Berne Energy Prize in the "private-law enterprises" category for its energy-efficient management and commitment to renewable energies. This was the fourth time this prize was awarded by Energie Wasser Bern, the Office for Environmental Protection and the City of Berne Department of Food Inspection.
Swisscom apprentices helped construct the largest building-integrated solar installation in Switzerland. Located in Melchnau in the Emmental, it generates 250,000 kilowatt hours of solar power per year. The Melchnau solar installation was awarded the 2010 Swiss Solar Prize.

Memberships/partnerships

Swisscom works with associations and organisations with whom it shares its goals.

- **European Telecommunications Network Operators (ETNO), Sustainability Working Group:** Swisscom was one of the first telecommunications providers in Europe to sign the ETNO Environmental Charter in 1996 and the Sustainability Charter in 2002. On 28 September 2010, 16 more telecommunications providers and four suppliers signed the Code of Conduct and agreed on jointly defined energy-saving targets.
- **ETNO Energy Task Team:** This group was formed by several European telecommunications providers who are particularly interested in the aspects of energy efficiency and CO_2 emissions. Since 2007 Swisscom, in conjunction with Telecom Italia, has led this team. Members of the ETNO group exchange information freely on leading-edge projects in the field of energy efficiency, and convey their shared interests to manufacturers.
- **ETSI:** For the past five years Swisscom has also been a member of the EE (Environmental Engineering) working group of the European Telecommunications Standards Institute (ETSI). Within this working group Swisscom has been driving forward the broadening of the application of the ETSI Standard EN 300019-1-3 (class 3.1) governing the operation of IT facilities. This standard will facilitate deployment of the new fresh air cooling technology in data centre environments. At present the group is drawing up new norms to standardise the method for verifying electricity consumption and the method for life cycle assessment of network equipment and terminal devices.
- **Swiss Association for Environmentally Conscious Management (ÖBU):** Swisscom has been a member since 1999.
- **Transparency International (Switzerland):** This association aims to combat all forms of corruption. Swisscom has been a member since 2005.
- **Energy Agency for Industry (EnAW):** Swisscom joined the EnAW in 2003 and in 2004 signed a target agreement for CO_2 reduction and increased energy efficiency.
- **WWF Switzerland:** Swisscom is a member of the WWF Climate Group and, as the principal sponsor of the WWF's SMARAGD project, supports a European network for the protection of endangered flora, fauna and biotopes. Swisscom is also patron of the Swiss National Park and the GLOBE programme, which raises awareness of environmental issues among schoolchildren and provides a global forum for teachers, pupils and scientists.
- **Association for Environmentally Sound Electricity (VUE):** Swisscom has had a seat on the VUE Board since 2006.
- **Energo:** An association which promotes energy efficiency in buildings. Swisscom has had a seat on the Energo Board since 2008.

See
www.cdproject.net/en-US

Swisscom has signed four external agreements: the ETNO Sustainability Charter, the Code of Conduct for Broadband Equipment and the Code of Conduct of Digital TV Services Equipment (set-top boxes) in Europe, and the target agreement with EnAW for CO_2 reduction and increased energy efficiency in Switzerland. Swisscom is also involved in the Carbon Disclosure Project.

Environmental performance indicators in Switzerland

	Unit	2008	2009	2010
Land/buildings				
Net floor space	millions of m^2	1.01	0.88	0.95
Paper for photocopying and printing				
Format A4 100% recycled (other formats converted)	millions of sheets	61.0	49.6	41.0
Water/sewage				
Water consumption [1]	m^3	453,811	453,698	452,486
Energy, electricity				
Electrical energy consumption [2, 3]	terajoule	1,434	1,448	1,454
	GWh	427	402	404
Energy, heating				
Heating oil [4]	terajoule	176.0	161.2	149.4
Natural gas	terajoule	37.0	24.9	31.5
District heating	terajoule	25.0	25.8	27.3
Heating, total	terajoule	238.0	211.9	208.2
Energy, fuel				
Petrol	terajoule	98.0	93.3	77.8
Diesel fuel	terajoule	82.6	83.1	93.0
Natural gas	terajoule	0.6	0.4	1.5
Total fuel	terajoule	181.2	176.8	172.3
Vehicles	number	3,392	3,240	3,102
Kilometers driven	millions of km	70.0	71.0	66.1
Energy, total				
Energy consumption	terajoule	1,853	1,837	1,835
	GWh	515	510	510
Air emissions				
Carbon dioxide CO_2	tons	28,367	26,296	25,422
Nitrous gases NO_x	tons	23.5	23.0	22.5
Sulphur dioxide SO_2	tons	5.9	5.4	5.0
Waste				
Waste tonnage [5]	tons	970	855	946

[1] Water consumption based on a forecast.
[2] Energy conversion: 1 terajoule (TJ) = 0.278 gigawatt hours (GWh).
[3] Value of the year 2010 based on a forecast.
[4] Heating oil consumption based on a forecast.
[5] Based on data provided by the Swiss Waste Exchange and the Group companies; domestic waste not included.

Innovation and development

Swisscom's innovation and development efforts are aimed at creating added value for customers and shareholders, and at the same time are the key to sustainability. In line with this, new growth areas are pursued, unnecessary costs reduced and sustainable, eco-friendly products created. The portfolio consists of 10 to 15 projects with a foreseeable market launch horizon of 12 to 18 months, as well as longer-term programmes to explore new business ideas. Successful handover of innovations to the divisions is of paramount importance. To ensure this, experts lead the projects from kick-off to market rollout or until the innovation has been introduced in the relevant sphere of activity.
In 2010 the following innovations were successfully rolled out:

- **FTTH robot:** This innovative tool reduces the effort involved in laying fibre-optic cables. The FTTH robot was jointly developed by Swisscom and a local partner, Plumettaz AG, which sells it to Swisscom subcontractors.
- **Community support:** An online forum allows customers to answer other customers' questions. The answers are rated, and the best community users are assigned a special status on the forum. The forum was developed in partnership with an innovative US company.
- **Wireless home network:** A new wireless connection kit has been available since October. Designed for Swisscom TV customers who want to connect several televisions and set-top boxes with a home router, the new product is based on an innovative wireless semiconductor chip. Swisscom developed the chip in conjunction with Quantenna, a young US company in which Swisscom holds a stake.

Potential new projects are selected according to the following criteria: unfulfilled customer need; risk factors; impact; market potential; economic benefit; and sustainability. Longer-term exploratory efforts are targeting the following areas:

- **TV and entertainment:** Evaluation of the risks and opportunities relating to Internet-connected television sets that allow users to watch Internet video content directly on their TV screen without the need for a set-top box; studies into ways of recommending and personalising the user experience.
- **Communication:** Development of a prototype for telepresence in the home (high-definition video communication on the television screen, seamlessly integrated with the Swisscom TV experience); analysis of ways in which advanced communications can help to bring healthcare from the hospital into everyday living.
- **Customer co-determination:** Examining inspiring new experiences to improve and personalise the customer experience in Swisscom Shops.
- **Advanced services for third parties:** Use of mobile phones for for a wide range of services for third parties (e.g. VPN access for companies, online banking); investigation into the possibilities of data mining the information gathered from telecommunications service usage.
- **Future broadband networks:** Reduction in the cost of FTTH equipment through innovative network architecture and new vertical cabling concepts; studies into low-cost, remote-controlled broadband home networks.
- **Green network and IT infrastructure:** Deployment of fresh air cooling systems not only for public switching exchanges as well as for data centres; intelligent measurement of proprietary switching exchanges and IT centres to optimise electricity consumption.

GRI targets

GRI topics/KPI	Objective	Status/Measures
Management/Governance		
Compliance/Governance Standardisation of the structure for documents on implementing directives in the domain of corporate responsibility **KPI** Implementation level of the defined measures	**2011** Implementation of measures 1 to 2	Measures: 1.) Improve communication and accessibility of Group directives and implementation provisions 2.) Standardise terminology and «sample directives»
Ecological objectives (GRI-EN)		
Environmental management system (EMS) Applicability of the individual EMS requirements extended to include Group companies in Switzerland **KPI** Number of established and trained contacts at Group companies in Switzerland which still do not operate their own EMS	**2011** 17	Measures: > Define relevant targets > Define responsibility for implementation in each company > Compliance verification by existing groupwide Environmental Committee
EN 6 Energy efficiency Continual increase in energy efficiency **KPI** Continual Increase in energy efficiency EF $EF = \frac{TEC + \sum ESP}{TEC}$ **2009 basis** > TEC = Total energy consumption > ESP = accumulated energy savings Source: adapted from the guideline of FOEN	**2015** +20% versus yearend 2009	**Realisation on plan** Measures: > Further rollout of Mistral fresh air cooling system (to replace AC system) > Server virtualisation > Measures to further optimise building and network operations
EN 18 Reduction in CO_2 emissions: Buildings and vehicles **KPI** Tonnes of CO_2 calculated based on EN 3	**2015** –12% versus yearend 2009	**Realisation on plan** Measures: > Energy analyses in larger buildings > Implement measures to optimise operations > Renovations/space optimisation > Optimisation fleet and reduction of total fleet kilometers
EN 26 Eco-friendly products & services (B2B) **KPI** Increased revenue based on selected portfolio	**2011** +10% versus prior year	**2010 target reached (9.7%)** Measures: > Promote eco-friendly offerings > Communication/Marketing > Issuing Green ICT certificates/devising CO_2 measuring method > Project partnerships > Further pursue and implement the Green ICT project

GRI topics/KPI	Objective	Status/Measures
Targets related to labour practices (GRI-LA)		
LA 7 Operational health management Reduction in staff absences **KPI** Absences in days/target days (weighted by FTE) x 100; target days are based on the standard working hours.	**2015** 2.09%	**2010 starting point: 3.00%** Measures: > Further professionalise case management > More professional application of the propresence method > Instil personal prevention culture – line managers and employees > When recruiting staff for hazardous positions, check physical suitability for job profile
Targets related to society (GRI-SO)		
SO 2 Anti-corruption **KPI** Proportion of management staff trained in anti-corruption guidelines	**2010** 50% **2011** 100%	**2010 target achieved (62%)** Measures: > Evaluate divisions at risk and draw up training documentation > Continue anti-corruption training
SO 8 Compliance Management **KPI** Coverage of the Groupwide compliance management systems according to GRI reporting boundaries	**2011** 100%	Measures: > Design a compliance evidence system with standardised reporting of defined requirements > Establish a Groupwide compliance management system
Targets for supplier evaluation and human rights (GRI-HR)		
HR 2 Supplier risk analysis Evaluation of supply partners and their products according to ecological and social criteria (incl. drawing up procurement guidelines) **KPI** Number of supply partners assigned a risk profile (as % of total number of supply partners)	**2011** 80%	Measures: > Analyse product groups by risk level > Evaluate supply partners and their products > Using an evaluation form, analyse supply partners for a high-risk product group and prioritise if necessary > Define, implement and institutionalise appropriate risk reduction measures
Targets for product responsibility (GRI-PR)		
PR 6 Protection of minors **KPI** Number of external participants attending youth protection courses (www.swisscom.com/youthprotection)	**2011** 4,000	Measures: > Step up communication for target group > Expand offerings for the target group of children and young people

SGS

CERTIFICATION

SGS CERTIFICATION of the Swisscom Ltd 2010 GRI Sustainability Report

SCOPE

SGS was commissioned by Swisscom to conduct an independent assurance of the GRI-based disclosure on sustainability in 2010. Our assurance scope included the GRI disclosure obligations and figures in accordance with the GRI Index published at www.swisscom.com/GRI/en. The scope of the assurance, based on the SGS Sustainability Report Assurance methodology, included all texts and 2010 data in accompanying tables contained in the printed Annual Report 2010 and referenced information on the webpage of Swisscom as quoted in the GRI index. The assurance process did not consider any data from previous years.

CONTENT

The Board of Directors or the Managing Director and the Management of the organisation are responsible for the details provided in the annual report and on the website and in the presentation. SGS was not involved in the preparation of any of the material included in the GRI Index and acted as an independent assuror of the data and text using the Global Reporting Initiative Sustainability Reporting Guidelines 2006 as a standard. The content of this Assuror's Statement and the opinion(s) it gives is the responsibility of SGS.

CERTIFIER INDEPENDENCE AND COMPETENCIES

The SGS Group is active as a globally leading company in the areas of assurance, testing, verifying and certifying in more than 140 countries and provides services, including the certification of management systems and services. SGS confirms that it is independent from Swisscom. It is unbiased and no conflicts of interest exist with the organisation, its subsidiaries and beneficiaries. The assurance team was assembled based on knowledge, experience and qualifications for this assignment.

METHODOLOGY

The SGS Group has developed a set of protocols for the assurance of Sustainability Reports based on current best practice guidance provided in the Global Reporting Initiative Sustainability Reporting Guidelines (2006). SGS also certified the environmental management systems of Swisscom (Switzerland) Ltd., Swisscom IT Services Ltd., Swisscom Broadcast Ltd. and Cablex Ltd. in accordance with ISO 14001:2004. The assurance comprised the evaluation of external sources, meetings with relevant employees, a verification of the documentation and recordings as well as the validation of these with external institutions and/or beneficiaries, where required. Financial data drawn directly from independently audited financial accounts was not checked back to its source as part of this assurance process.

OPINION

The statements in the report refer to the system threshold disclosed (Group companies based in Switzerland). On the basis of the above methodology, we did not detect any instances from which we would have to conclude that the information and data disclosed by Swisscom Ltd. in accordance with the GRI Index 2010 may be incorrect. The information and data disclosed represent, to our mind, a fair and balanced picture of the sustainability efforts made by Swisscom in 2010. The estimates stated in the report are justifiable; the implementation of the GRI-relevant instructions was carried out at those parties involved, where Swisscom regarded them to be significant or feasible. Optimisation potentials were mainly detected in the target setting process and in the consistent and comprehensive controlling of the instructions' implementation. They were added to the catalogue of measures.

We believe that the existing gaps are not significant and the sustainability report meets the requirements of level A+ of the GRI (2006) in accordance with the GRI Index.

SIGNED FOR AND ON BEHALF OF SGS

Dr Christine Jasch, Lead Auditor   Elvira Bieri, Lead Auditor

Zurich, 2 February 2011

www.SGS.COM

Corporate Governance and Remuneration Report

Swisscom is committed to progressive corporate governance in every respect.

Legal structure of the Group

- Swisscom Group
- Fastweb
- Swisscom IT Services
- Swisscom Participations
- Other operating segments
- Group Head-quarters

- Subsidiaries

- Associated companies

Corporate Governance

Remuneration report

Corporate Governance

Corporate governance is a fundamental component of Swisscom's corporate policy based on transparency and clearly-defined responsibilities. Swisscom fully complies with the guidelines and standards of the SIX Swiss Exchange, the Swiss Code of Obligations and the Swiss Code of Best Practice for Corporate Governance.

Principles

Transparency and clearly-defined responsibilities are the cornerstones of Swisscom's corporate governance policy: transparency in financial reporting, as well as clearly assigned responsibilities governing interactions with shareholders, the Board of Directors, the Group Executive Board (Management Board in accordance with Section 4 of the Articles of Association) and Group companies. As a company listed on the SIX Swiss Exchange, Swisscom complies with the provisions of the Directive on Information relating to Corporate Governance issued by the SIX Swiss Exchange as well as Art. 663b^{bis} and 663c para. 3 of the Swiss Code of Obligations, and the prevailing standards laid down in the Swiss Code of Best Practice for Corporate Governance, including Annex 1 (Recommendations for compensation for members of the Board of Directors and the Executive Board). Swisscom's principles and rules on corporate governance are set out in the Articles of Incorporation, the Organisational Rules and the regulations of the committees of the Board of Directors, which are regularly reviewed and revised as required. They can be viewed online at www.swisscom.ch/basicprinciples. Of particular importance is the Code of Conduct approved by the Board of Directors which entered into force on 1 January 2010. It replaced the Code of Ethics introduced by the Audit Committee in 2003 and revised in March 2008, and the Code of Conduct approved by the Group Executive Board in 2005. In the Code of Conduct, Swisscom expressly commits to complete integrity, in particular to complying with the law and all other external and internal provisions. Swisscom expects its employees to take responsibility for their actions and be considerate of people, society and the environment, comply with rules, demonstrate integrity and report any violations of the Code of Conduct. The 2010 Code of Conduct can be downloaded at www.swisscom/codeofconduct-2010.

See
www.swisscom.ch/basicprinciples
www.swisscom.com/codeofconduct-2010

1 Group structure and shareholders

1.1 Group structure

In 2001, Swisscom was reorganised to create a corporate group with independently operating subsidiaries divided into Categories I (strategic), II (important) and III (other). The aim of the new structure was to increase transparency for management and shareholders while allocating clear responsibilities to the subsidiaries for their respective submarkets. Rapid advances in technology, combined with the convergence of hitherto stand-alone communications technologies and applications as well as changes in customer requirements, prompted Swisscom to create a more customer-focused Group structure with effect from 1 January 2008. As a result, the business activities of Fixnet, Mobile and Solutions were merged to form Swisscom (Switzerland) Ltd. The Swisscom Participations management unit, created at the same time, has been part of the Group Finance & Controlling division since September 2009.

Swisscom Ltd is the holding company responsible for overall management of the Swisscom Group, with its four divisions, Group Finance & Controlling, Group Strategy & Business Development, Group Communications and Group Human Resources. Strategic and financial management of the operationally autonomous Group companies is assured through the assignment of powers and responsibilities laid down by the Board of Directors of Swisscom Ltd. In addition, represented on the Boards of the "strategic" companies Fastweb S.p.A. and Swisscom IT Services are the CEO and CFO of Swisscom Ltd, respectively, as Chairman, together with the CSO (Chief Strategy Officer) of Swisscom Ltd and other Swisscom representatives. In the case of the "strategic" Swisscom (Switzerland) Ltd, the Board of Directors is identical to that of Swisscom Ltd. In the case of the "important" subsidiaries, the responsibilities of the Chairman of the Board of Directors are fulfilled by the CEO of a "strategic" Group company, the head of a Group division or another person appointed by the CEO. Other representatives of Swisscom are also members of the Board of Directors.

See report
Page 24

The Group structure is represented in the Management Commentary in the section Group structure and organisation.

A list of Group companies, including in particular company name, registered office, share capital, shareholding and segment affiliation, is given in Note 41 to the consolidated financial statements. For the purposes of segment reporting in the consolidated financial statements, Residential Customers, Small and Medium-Sized Enterprises, Corporate Business, Wholesale, Networks & IT, Fastweb and Other, including Swisscom IT Services Ltd, Swisscom Participations and Hospitality Services Plus SA, are presented as segments. Group Headquarters together with Worklink Ltd, Swisscom Re Ltd and others continues to be presented separately.

1.2 Listed companies

Swisscom Ltd, a company governed by Swiss law and headquartered in Ittigen (canton of Berne, Switzerland), is listed in the main standard (formerly the Main Market Segment) of the SIX Swiss Exchange (Securities No: 874251; ISIN Code: CH0008742519; Ticker Symbol: SCMN). Swisscom Ltd delisted from the New York Stock Exchange in 2007. The delisting took effect at the end of 2007, thus ending Swisscom's reporting obligations under the US Securities Exchange Act. Swisscom nevertheless remains committed to effective corporate governance mechanisms and to high reporting standards. The previous ADR programme was upgraded to a Level 1 programme with OTC trading (symbol: SCMWY; Pink Sheets ID: 68769; ISIN number: CH00874251.9; CUSIP for ADR: 871013108). At 31 December 2010, Swisscom Ltd had a stock market capitalisation of CHF 21,296 million.

The shares of Fastweb S.p.A., headquartered in Milan, Italy, are listed on the Borsa Italiana (ISIN Code: IT0001423562; Ticker Symbol: FWB). At 31 December 2010 the stock market capitalisation of this holding was EUR 1,424 million (CHF 1,780 million). Swisscom launched an official takeover bid via its subsidiary Swisscom Italia S.r.L. in autumn of the reporting period. At 31 December 2010, Swisscom holds 94.99% of the shares of Fastweb. This delisting is expected to be completed in the first quarter of 2011.

1.3 Significant shareholders

Information regarding significant shareholders must be made available if any disclosure notifications pursuant to Art. 20 of the Federal Act on Stock Exchanges and Securities Trading are made during the financial year. There is a duty to disclose shareholdings where a person or group subject to the disclosure obligation attains, falls below or exceeds 3, 5, 10, 15, 20, 25, 33 , 50 or 66 per cent of the voting rights of Swisscom Ltd.

There were no disclosure notifications in the year under review.

1.4 Cross-shareholdings

No cross-holdings exist between Swisscom Ltd and other public limited companies.

2 Capital structure

2.1 Capital

At 31 December 2010, the share capital of Swisscom Ltd amounted to CHF 51,801,943, divided into registered shares with a nominal value of CHF 1 per share. The shares are fully paid-up.

2.2 Authorised and conditional capital

There is no authorised or conditional share capital.

2.3 Changes in capital

Changes in shareholders' equity of Swisscom Ltd in the individual financial statements under commercial law in the years 2008 to 2010:

In CHF million	Share capital	General reserves	Reserve for treasury shares	Retained earnings	Total equity
Balance at 31 December 2008	**53**	**255**	**738**	**3,699**	**4,745**
Net income	–	–	–	779	779
Dividends paid	–	–	–	(984)	(984)
Share capital reduction	(1)	–	(737)	182	(556)
Balance at 31 December 2009	**52**	**255**	**1**	**3,676**	**3,984**
Net income	–	–	–	2,201	2,201
Dividends paid	–	–	–	(1,036)	(1,036)
Balance at 31 December 2010	**52**	**255**	**1**	**4,841**	**5,149**

The Annual General Meeting held on 22 April 2008 approved the payment of an ordinary dividend of CHF 18 and a special dividend of CHF 2 per share. At the same time, it voted to reduce the share capital by CHF 3,277,561 from CHF 56,718,561 to CHF 53,441,000, by cancelling around two thirds of the treasury shares acquired under the 2006 share buy-back programme.
On 21 April 2009 the Annual General Meeting approved the payment of a dividend of CHF 19 per share for the 2008 business year. At the same time it voted to reduce the share capital by CHF 1,639,057 from CHF 53,441,000 to CHF 51,801,943, by cancelling the remainder of the shares acquired under the 2006 share buy-back programme.
The AGM of 27 April 2010 agreed an ordinary dividend payment of CHF 20 per share. No additional payouts were made to shareholders.

2.4 Shares, participation certificates

Each registered share of Swisscom Ltd has a par value of CHF 1. Each share entitles the holder to one vote. Voting rights can only be exercised if the shareholder has been entered with voting rights in the share register of Swisscom Ltd. All registered shares are eligible for a dividend, with the exception of treasury shares held by Swisscom Ltd. There are no preferential rights. For further details, please refer to the end of the section "Shareholders' participation rights".
Registered shares of Swisscom Ltd are not issued in certificate form, but instead are held as book-entry securities in the holdings of SIX SIS AG, up to a maximum limit determined by the federal government. Shareholders may at any time request confirmation of the registered shares they hold. However, shareholders have no right to request the printing and delivery of certificates for registered shares (registered shares with no right to printed certificates).
Swisscom Ltd has not issued any participation certificates.

2.5 Profit-sharing certificates

Swisscom Ltd has not issued any profit-sharing certificates.

2.6 Limitations on transferability and nominee registrations

Swisscom shares are freely transferable, and the voting rights of the shares registered in the share register in accordance with the Articles of Incorporation are not subject to any special restrictions. Swisscom has issued special regulations governing the registration of trustees and nominees in the share register. To facilitate tradability of the company's shares on the stock exchange, the Articles of Incorporation allow the Board of Directors, by means of regulations or agreements, to permit the fiduciary entry of registered shares with voting rights which exceed the percentage restriction of 5% by trustees, provided that the latter disclose their trustee capacity. In addition, trustees or nominees must be subject to supervision by a banking or financial market supervisory authority or otherwise provide the necessary assurances of proper business conduct, and must act for the account of one or more unrelated parties. They must also be able to provide evidence of the names, addresses and holdings of the beneficial owners of the shares. In accordance with this provision in the Articles of Incorporation, which can be revised with an absolute majority of the voting shares cast, the Board of Directors has issued regulations governing the entry of trustees and nominees in the Swisscom share register. The entry of trustees and nominees as shareholders with voting rights is subject to application and the conclusion of an agreement specifying the entry restrictions and disclosure obligations of the trustee or nominee. In particular, each trustee or nominee undertakes, within the percentage limit of 5%, not to request entry as a shareholder with voting rights for the account of an individual beneficial owner for more than 0.5% of the registered share capital of Swisscom Ltd entered in the commercial register.
No exceptions for the fiduciary entry of registered shares with voting rights above the aforementioned percentage limit were granted in fiscal 2010.

2.7 Debenture bonds, convertible bonds and options

During 2007, Swisscom successfully placed debenture bonds on the Swiss domestic market for the first time with a value of CHF 1,500 million. The first tranche, issued on 19 July 2007, included CHF 550 million with a coupon of 3.50% and a term of six years, and CHF 350 million with a coupon of 3.75% and a term of ten years. The second tranche, issued on 22 October 2007, comprised CHF 350 million with a coupon of 3.25% and a term of three years, and a CHF 250 million top-up of the ten-year bond issued in July 2007 with a coupon of 3.75%. On 17 September 2008, Swisscom issued a further debenture bond of CHF 500 million (basic tranche with top-up option) with a coupon of 4.00% and a term of seven years. During the course of 2009, Swisscom issued two further debenture bonds worth a total of CHF 2,750 million. The first, worth CHF 1,250 million, was issued on 8 April 2009 with a coupon of 3.50% and a term of five years. The second, worth CHF 1,500 million (basic tranche with top-up option), was issued on 14 September 2009 with a coupon of 3.25% and a term of nine years. On 31 August 2010, Swisscom issued debenture bonds totalling CHF 750 million. CHF 250 million were issued for two years with a coupon of 0.75% and CHF 500 million for 12 years with a coupon of 2.63%. The investors are entitled to sell the bonds back to Swisscom if a shareholder other than the Swiss Confederation holds more than 50% of Swisscom's shares and at the same time Swisscom's rating falls below the lowest investment-grade level given by a recognised rating agency (BBB-/Baa3 or a comparable level). A debenture bond of CHF 350 million was repaid on the due date in 2010.
The debenture bonds are listed in Note 5 of the Notes to the financial statements of Swisscom Ltd. The Swisscom Ltd share option scheme is described in Note 11 to the consolidated financial statements.

See report
page 216 and page 168

3 Board of Directors

3.1 Members of the Board of Directors

The Board of Directors of Swisscom Ltd comprises nine members, none of whom holds or has held an executive role within the Swisscom Group in any of the three business years prior to the period under review. The Board members have no significant commercial links with Swisscom Ltd or the Swisscom Group.
The Swisscom Board of Directors will propose Hansueli Loosli as its new Chairman at the forthcoming Annual General Meeting on 20 April 2011. Mr Loosli will assume his new role following the handover of his executive responsibilities at Coop on 1 September 2011. At the Annual General Meeting the current Chairman of the Swisscom Board of Directors, Dr Anton Scherrer, will stand for election as Chairman until 31 August 2011. Also at the Annual General Meeting, Theophil Schlatter will be proposed as a new member of the Board of Directors. Felix Rosenberg will be succeeded by Hans Werder as of 20 April 2011.
An overview of the composition of the Board of Directors at 31 December 2010, including the functions of each member within the Board, the year they were first elected and their remaining tenure, is given in the table below.

Name	Year of birth	Function	Initial year of office	Appointed until
Anton Scherrer [1, 2, 3, 4]	1942	Chairman	2005	2011
Hugo Gerber [2, 5]	1955	Member, representative of the employees	2006	2012
Michel Gobet [2]	1954	Member, representative of the employees	2003	2011
Torsten G. Kreindl [1, 3]	1963	Member	2003	2011
Hansueli Loosli [1]	1955	Member	2009	2011
Catherine Mühlemann [1]	1966	Member	2006	2012
Felix Rosenberg [2, 3]	1941	Member, representative of the Confederation	1998	2011
Richard Roy [3, 4]	1955	Deputy Chairman	2003	2011
Othmar Vock [3, 4]	1943	Member	2005	2011

[1] Member of the Finance Committee.
[2] Member of the Personnel and Organisation Committee.
[3] Member of the Compensation Committee.
[4] Member of the Audit Committee.
[5] Member of the Audit Committee since 2011.

3.2 Education and training, professional activities and affiliations

Details of career and qualifications as well as other activities and affiliations such as mandates in important companies, organisations and foundations, and permanent functions in important interest groups are also provided below for each Board member.

Anton Scherrer

Anton Scherrer

Swiss citizen

Education: Degree in Food Technology from the Swiss Federal Institute of Technology (ETH), Dr. sc. techn. ETH

Career history: Research, consulting and managerial posts in various industrial and brewing companies in Switzerland and abroad; 1984–1991 delegate to the Board of Directors, Hürlimann Holding AG; 1991–2001 various executive positions, Federation of Migros Cooperatives, with responsibility for 14 industrial companies and the entire logistics operations; 2001–2005 Chief Executive Officer and Chairman of the Executive Retail Committee, Federation of Migros Cooperatives; until end of June 2005 Chairman of the Board of Directors of Migrosbank, Globus Magazine and the international travel company Hotelplan.

Other mandates: Member of the Executive Board, economiesuisse; member of the Industry Advisory Board, Capvis Equity Partners AG, Zurich; member of the Board of Directors, Orior AG, Zurich; member of the Board of Trustees, Agrovision Foundation Muri; member of the Board of Trustees, ETH Zurich Foundation, Zurich; member of the Advisory Board, Digma Management Consulting AG, Zurich; President of the Marketing Promoter Programme, Institute of Marketing and Retailing, University of St. Gallen, until June 2010; President of the foundation promoting the Master of Law and Economics programme at the University of St. Gallen.



Hugo Gerber
Michel Gobet
Thorsten G. Kreindl
(f. l. t. r.)

Hugo Gerber

Swiss citizen

Education: Diploma in postal services; IMAKA management diploma; diploma in personnel & organisational development, Solothurn University of Applied Sciences, Northwestern Switzerland

Career history: 1986–1990 General Secretary ChPTT; 1991–1999 General Secretary VGCV; 2000–2003 General Secretary of the Transfair union; 2003–2008 President of the Transfair union; since 2009 independent consultant

Other mandates: Member of SUVA Board of Directors; member of the Publica federal pensions commission; Vice-President of the support fund for federal employees; President of the Forum Politique Suisse; RUAG Pension Fund Board of Trustees; member of the Managing Committee of Swiss Travel Fund Cooperative (REKA); member of the Board of Directors of Worklink AG; delegate of the Genossenschaft KPT/CPT Versicherungen

Michel Gobet

Swiss citizen

Education: Degree in history

Career history: General Secretary and Deputy General Secretary of the PTT Union; since 1999 General Secretary of the Communication union

Other mandates: Member of Union Network International; member of the UNI Europa ICTS Steering Group; since June 2010, member of the Board of Directors of the Swiss Post

Torsten G. Kreindl

Austrian citizen

Education: Doctorate in industrial engineering (Dr. techn.)

Career history: Chemie Holding AG; W. L. Gore & Associates Inc.; member of the Management Board, Booz Allen & Hamilton, Germany; 1996–1999 CEO of Broadband Cable Business, Deutsche Telekom, and Chief Executive Officer, MSG Media Services; 1999–2005 partner, Copan Inc.; since 2005 partner in Grazia Group Equity GmbH, Stuttgart, Germany

Other mandates: Consultant to Pictet Funds, Geneva; member of the Board of Directors of XConnect Networks, London, UK

Hansueli Loosli
Catherine Mühlemann
(f. l. t. r.)

Hansueli Loosli

Swiss citizen

Education: Commercial apprenticeship; Swiss Certified Accountant and Controller; Executive Management Programme, University of St. Gallen

Career history: 1982–1985 Controller, Deputy Director of Mövenpick Produktions AG, Adliswil; 1985–1992 latterly Managing Director of Waro AG, Volketswil; 1992–1996 Director of non-food product procurement, Coop Switzerland, Wangen; 1992–1997 Managing Director, Coop Zurich, Zurich; 1997–2000 Chairman of the Executive Board and der Coop Group Executive Board, Coop Switzerland, Basle; since 2001 Chairman of the Executive Board of Coop Genossenschaft, Basle

Other mandates: Chairman of the Board of Directors, transGourmet Holding SE, Cologne, Germany; Chairman of the Board of Directors of Coopernic SCRL, Brussels, Belgium; Chairman of the Board of Directors of Coop-ITS-Travel AG, Wollerau; Chairman of the Board of Directors of Bell Holding AG, Basle; member of the Board of Directors of Palink UAB, Vilnius, Lithuania; member of the Board of Directors of Palink SIA, Riga, Latvia; since March 2010, Chairman of the Board of Directors of Coop Mineraloel AG, Allschwil

Catherine Mühlemann

Swiss citizen

Education: Lic. phil I; Swiss Certified PR Consultant

Career history: 1994–1997 Head of Media Research, Swiss Television DRS; 1997–1999 programme researcher SF1 and SF2, 1999–2001 programme director TV3; 2001–2003 Managing Director, MTV Central; 2003–2005 Managing Director, MTV Central & Emerging Markets; 2005-2008 Managing Director, MTV Central & Emerging Markets and Viva Media AG (Viacom); since 2008 partner in Andmann Media Holding GmbH, Baar

Other mandates: Member of the Berlin Board; member of the Foundation for the Future of Berlin; member of the supervisory board of Messe Berlin; member of the Board of Directors of Rod Kommunikation AG, Zurich, until December 2010; since November 2010, member of the Board of Swiss Tourism; member of the supervisory boards of various Internet start-up companies.



Felix Rosenberg
Richard Roy
Othmar Vock
(f. l. t. r.)

Felix Rosenberg

Swiss citizen

Education: Degree in law (lic. iur.)

Career history: 1968–1969 clerk to the local court in Baden; 1969–1974 Departmental Secretary, Finance, Forestry and Military Department of the Cantonal Government of Thurgau; 1974–1989 member of the Cantonal Government of Thurgau; 1989–1997 member of the PTT General Directorate; 1989–1998 Chief Executive Officer of Telecom PTT and, until end-March 1998, of Swisscom

Other mandates: Chairman of the Board of Directors of DeMartin AG, Wängi

Richard Roy

German citizen

Education: Degree in engineering (university of applied sciences)

Career history: 1991–1995 member of the Executive Board of Hewlett Packard GmbH; 1995–1997 member of the group executive management and Executive Vice-President of Siemens Nixdorf Informationssysteme AG; 1997–2001 CEO of Microsoft GmbH, Germany; 2001–2002 Senior Vice-President of the Corporate Strategy division of Microsoft EMEA, Paris, France; since 2002 independent management consultant

Other mandates: Member of the supervisory board of Update Software AG, Vienna; member of the Board of Directors of Qnamic AG, Hägendorf

Othmar Vock

Swiss citizen

Education: Commercial diploma; PED (Program for Executive Development) IMD, Lausanne; federally certified export manager

Career history: 1975–1983 Commercial Financial Director, Ciba-Geigy Group; 1984–1990 Financial Director of Company Treasury/Controlling, Roche Group; 1990–1993 Director of Internal Auditing, Roche Group; 1993–2004 Chief Financial Officer, Givaudan SA (formerly Fragrance/Flavours Sub Group of the Roche Group)

Other mandates: Member of the Board of Directors of Ivoclar-Vivadent, Schaan, Liechtenstein; member of the Board of Directors of Cytos AG, Schlieren

3.4 Composition, election and term of office

With the exception of the representative of the Swiss Confederation, the Board of Directors of Swisscom Ltd is elected by shareholders at the Annual General Meeting. The Board comprises nine members, but according to the Articles of Incorporation may comprise between seven and nine. The members are elected individually for a term of two years. Members may retire or be dismissed prior to expiry of that term. The maximum term of office for members elected by the Annual General Meeting is twelve years. Members who reach the age of 70 retire from the Board as of the date of the next Annual General Meeting.
Under the Articles of Incorporation of Swisscom Ltd, the Swiss Confederation is entitled to appoint two representatives to the Board of Directors of Swisscom Ltd. Felix Rosenberg, as whose successor Hans Werder was appointed as of 20 April 2011, is currently the only representative of the federal government. The maximum term of office or age limit for the federal representative is determined by the Federal Council. Under the terms of the Telecommunications Enterprise Act (TEA), employees must be granted appropriate representation on the Board of Directors of Swisscom Ltd. The Articles of Incorporation also state that the Board of Directors must include two employee representatives. These are currently Hugo Gerber and Michel Gobet.

3.5 Internal organisation

The Board of Directors convenes as often as business requires. In the 2010 financial year, the Board of Directors met on average every one to two months for twelve meetings that lasted an average of seven hours. It also held eight teleconferences. At the beginning of 2010, a training workshop was held for members of the Board of Directors. A number of members also attended lectures and seminars in Switzerland and abroad during the course of the year. Wherever possible, the Board of Directors also attends the Swisscom Group's annual one-day management meeting.
The Board of Directors is convened by the Chairman. If he is not available, the meeting is convened by the Deputy Chairman. The CEO, CFO and CSO of Swisscom Ltd are regularly invited to meetings of the Board of Directors. The agenda is set by the Chairman. Any Board member may request the inclusion of further items on the agenda. Board members receive documents prior to the meeting to allow them to prepare their responses to items on the agenda. The Board of Directors may invite members of the Group Executive Board, senior employees of Swisscom Ltd, auditors or other experts to attend its meetings, in order to ensure appropriate reporting to members of the Board. Furthermore, the Chairman of the Board of Directors and the CEO report to each meeting of the Board of Directors on the general course of business and major business transactions, as well as on any corrective measures that have been implemented. On average 96% of members were present at the meetings of the Board of Directors.
The Board of Directors has four standing committees and one ad-hoc committee tasked with carrying out detailed examinations of matters of importance. The committees comprise two to four members. Each member of the Board of Directors also sits on one of the standing committees. The Chairman is a member of all three standing committees; these are chaired by other board members. All minutes of the meetings of the Finance, Audit and Personnel and Organisation Committees are distributed to all members of the Board of Directors in order to ensure transparency.
The duties and responsibilities of the Board of Directors are defined in the Organisational Rules, those of the standing committees in the relevant committee rules, and are available to view at www.swisscom.ch/basicprinciples, where the latest versions of the documents can be accessed, as well as the revised or superseded documents in the Download archive.

See **www.swisscom.ch/basicprinciples**

3.6 Committees of the Board of Directors

Finance Committee

This committee is chaired by Torsten G. Kreindl; the other members are Hansueli Loosli, Catherine Mühlemann and Anton Scherrer. The CEO, CFO and the CSO regularly attend meetings of the Finance Committee. Other members of the Group Executive Board or project managers are also regularly invited to the meetings, depending on the items on the agenda. The committee met four times in the 2010 financial year. The meetings lasted on average three hours and all members were present. The committee prepares, for the attention of the Board of Directors, the groundwork for business transactions such as the establishment or winding-up of major Group companies, the formation or sale of important shareholdings, the formation or termination of strategic alliances, medium-term budgeting, and major investments or disposals, as well as authorisation for all important purchases, contracts, sureties, guarantees, and letters of comfort. The Finance Committee has the final say in approving important loans, credits and financing.

Personnel and Organisation Committee

This committee is chaired by Felix Rosenberg; the other members are Hugo Gerber, Michel Gobet and Anton Scherrer. The CEO and CPO (Chief Personnel Officer) also regularly attend meetings of the Personnel and Organisation Committee along with other members of the Group Executive Board or project managers, depending on the topics to be discussed. The committee met three times in the 2010 financial year. 94% of members were present at the meetings, each of which lasted two hours. The committee prepares, for the attention of the Board of Directors, the groundwork for all organisational issues concerning the Group structure and matters relating to corporate policy, personnel and salary policy, general terms and conditions of employment for members of the Group Executive Board, the collective employment agreement and major restructuring projects. The Personnel and Organisation Committee has the final say, particularly with regard to the approval of statutes and organisational regulations issued by "strategic" and "important" Group companies, the approval of general terms and conditions of employment for senior executives of Swisscom Ltd (with the exception of members of the Group Executive Board), the approval of employee share option schemes offered by Swisscom Ltd and the Group companies, the approval of pension fund and social insurance policies, as well as the election of employer representatives to the pension fund.
The Personnel and Organisation Committee was abolished on 1 January 2011. All topics will now be dealt with by the Board of Directors.

Audit Committee

This committee is chaired by Othmar Vock; the other members are Richard Roy and Anton Scherrer. The CEO, CFO, Head of Group Accounting & Reporting, Head of Group Internal Audit and the external auditors also attend the meetings. Other members of management were invited to attend depending on the agenda. The committee met seven times in the 2010 financial year. All members were present at the meetings, which lasted on average six hours. Four teleconferences were also held, lasting on average one hour. All members are classified as independent and possess the specialist knowledge required. Othmar Vock is considered a financial expert. The committee handles all internal and external audit work as well as all matters to be dealt with by the Board of Directors that require specialist financial know-how, and thus constitutes the central controlling instrument of the Board of Directors. It prepares, for the attention of the Board of Directors, the groundwork for the following business: structure of the accounting system, financial controls and financial planning, appointment of the auditors, business performance reviews, including quarterly statements and projections, the annual report and applications for the registration of shares. It is responsible for checking and assessing the qualifications, independence and performance of the external auditors, managing the share register, monitoring the organisation and processes of the internal control system for financial reporting, and ensuring that an adequate risk management system is in place. In addition, the committee has approved a procedure for handling complaints submitted anonymously by employees on matters relating to external accounting, the internal control system for financial reporting and the auditing of the annual accounts (whistle-blowing), amongst others.

Remuneration Committee

See report
Page 128

For details of the Remuneration Committee, please refer to the section "Remuneration Report" onwards.

Nomination Committee

This committee meets on an ad-hoc basis in order to prepare the groundwork for the election of new members to the Board of Directors and the Group Executive Board. As a rule, it comprises the Chairman of the Board of Directors and the chairmen of the Finance, Audit and Personnel and Organisation Committees. Based on a specific requirements profile covering all aspects of corporate management, the committee presents suitable candidates to the Board of Directors. The Board of Directors selects the members of the Group Executive Board or submits a proposal on the election of members of the Group Executive Board to the Annual General Meeting. This committee met three times in the 2010 financial year. All members were present at the meetings, which lasted on average three hours.

3.7 Assignment of powers

The Telecommunications Enterprise Act (TEA) makes reference to the Swiss Code of Obligations in respect of the non-transferable and irrevocable duties of the Board of Directors of Swisscom Ltd. In accordance with Art. 716a of the Code of Obligations, the Board of Directors is responsible in particular for overall management and supervision of persons entrusted with management duties, and decides on the appointment and dismissal of members of the Swisscom Ltd Group Executive Board. It determines the strategic, organisational, budgetary and accounting guidelines, taking into account the four-year goals set by the Federal Council in accordance with the TEA and which it, as majority shareholder, aims to achieve (see www.swisscom.ch/targets_2010-2013). The Board of Directors has delegated day-to-day business management to the CEO in accordance with the TEA, the Articles of Incorporation and the Organisational Regulations. In addition to the transactions which legally remain the preserve of the Board of Directors, the Board of Directors decides on those transactions which are of major importance to the Group, such as the acquisition or disposal of companies from an exposure of more than CHF 20 million or investments or disinvestments from an exposure of more than CHF 50 million. The distribution of competencies between the Board of Directors and the CEO can be found in Annex 2 to the Organisational Regulations (see function table in the Rules of Procedure and Accountability), the current version of which can be downloaded fromwww.swisscom.ch/basicprinciples, where the revised or superseded versions of the documents can also be accessed under Download archive.

See
www.swisscom.ch/targets_2010-2013
www.swisscom.ch/basicprinciples

3.8 The rights of the Board of Directors to information from the Group Executive Board

The Chairman of the Board of Directors and the CEO meet once or twice a month to discuss fundamental issues concerning Swisscom Ltd and the Group companies. Furthermore, the CEO reports in detail to each ordinary meeting of the Board of Directors on the general course of business and major business transactions as well as on any measures that have been implemented. The Board of Directors also receives a monthly report of all key performance indicators relating to the Group and all segments containing important Group companies. In addition, every quarter the Board of Directors receives detailed information on the course of business and on the assets, financial, earnings and risk position of the Group and the segments. Most importantly, it receives projections for the income statement, cash flow statement and balance sheet for the current fiscal year. Internal financial reporting is carried out in accordance with the same accounting principles and standards as external reporting. The reporting also includes key non-financial information for controlling and steering purposes. Each member of the Board of Directors is entitled to request information on any matters concerning the Group at any time.
The Board of Directors examines risk management in detail once a year and commissions annual reports on the internal control system and legal compliance management. The Audit Committee examines risk management in detail four times a year, approves the integrated strategic audit plan and examines the reports of the Group Internal Audit four times a year.

3.9 Controlling instruments of the Board of Directors vis-à-vis the Group Executive Board

3.9.1 Risk management

Swisscom operates a company-wide, comprehensive and sustainable risk management system on behalf of the Board of Directors and the Group Executive Board. Strategic, credit, market, reputational and business risks as well as operational risks are identified by means of a proactive risk assessment system which takes into account internal and external events and are controlled using an appropriate risk strategy. The system, which is within the remit of the Finance division, monitors Swisscom's risk profile and is implemented and documented in accordance with internationally recognised standards and incorporates all relevant divisions.
It is made up of the following five elements:

- Risk identification: risks facing Swisscom Ltd and its Group companies are identified in a comprehensive risk analysis conducted once a year by way of workshops and interviews. Each risk is allocated a risk owner. The risk portfolio is reviewed and updated quarterly.
- Risk assessment: identified risks are assessed according to the probability of their occurrence and their qualitative and quantitative effects in the event of occurrence.
- Risk strategy: Swisscom pursues a risk strategy which supports its corporate goals. In principle, risks should only be borne where core competences exist; otherwise they should be avoided or transferred.
- Implementation of the risk strategy: identified risks are managed in accordance with the risk strategy. Implementation of the risk strategy is subject to a regular review.
- Reporting: the Board of Directors, Audit Committee and Group Executive Board are informed about risks and their possible effects on a quarterly basis.

See report
Page 69

The most significant risks are listed in the section Risks.

3.9.2 Internal control system

Swisscom operates an internal control system within the framework of the risk management system, in order to ensure reliable internal and external financial reporting and safeguard against false disclosure (violations or errors) concerning business matters. On the basis of the internationally recognised COSO framework, the internal control system guarantees the necessary workflows and instruments in order to ensure the timely identification and assessment of risks related to the quality of accounting, and to control such risks by means of appropriate measures. Internal rules and instruments such as the Code of Conduct, the Accounting Manual or the whistle-blowing platform support this goal. The internal control system involves all the key responsible units, particularly the Audit Committee and the Group Executive Board, in line with their organisational level. Swisscom sees the internal control system as an ongoing task and an opportunity to continually improve processes in bookkeeping, accounting and financial reporting.

3.9.3 Legal Compliance Management

Swisscom operates a Legal Compliance Management system in order to ensure that employees comply with the laws and all other external and internal regulations and that the management and the Board of Directors can fulfil their supervisory duties. The Group Executive Board and the management of the individual Group companies define the tasks and responsibilities as well as the structural and process organisation with the help of the General Counsel. The adequacy and effectiveness of the Legal Compliance Management system is continually monitored by the General Counsel and at random intervals by Group Internal Audit and is amended and developed where necessary. Any violations are reported to the responsible departments. The General Counsel provides the Board of Directors with an annual report on Legal Compliance Management.

3.9.4 Internal auditing

Alongside risk management and legal compliance management, internal auditing is an essential part of the Swisscom Group's corporate governance and is the responsibility of Group Internal Audit. Group Internal Audit supports the Swisscom Ltd Board of Directors and the Audit Committee in complying with statutory and regulatory supervisory and controlling obligations. Management is shown potential areas where business processes can be improved.

Group Internal Audit is responsible for planning and performing audits throughout the Group in compliance with the guidelines for the profession. In particular, Group Internal Audit performs independent and objective audits and assessments to verify the efficiency, compliance and effectiveness of the internal control system, legal compliance management and risk management. The audit findings are documented, and any measures implemented are monitored.

With a view to achieving maximum independence, Group Internal Audit is under the control of the Chairman of the Board of Directors and not management, and reports to the Audit Committee of Swisscom Ltd. The Audit Committee is briefed on the audit findings and the status of corrective measures at its meetings. In addition to ordinary reporting, Group Internal Audit informs the Audit Committee of any irregularities which come to its attention.

Group Internal Audit liaises closely and exchanges information with the external auditors. Audit planning, in particular, is closely coordinated with the external auditors. The integrated strategic audit, which includes the annual plan of both the internal and the external auditors, is prepared annually based on a risk analysis and presented to the Audit Committee for approval. Apart from this, special audits can be commissioned which can also be ordered based on information on the whistle-blowing platform operated by Group Internal Audit.

4 Group Executive Board

4.1 Members of the Group Executive Board

In accordance with the Articles of Incorporation, the Group Executive Board must comprise one or more members who may not simultaneously be members of the Board of Directors. Temporary membership of the Board of Directors is only permitted in exceptional cases. Accordingly, the Board of Directors has delegated responsibility for overall executive management of Swisscom Ltd to the CEO. The CEO is entitled to delegate his powers to a subordinate, in particular to other members of the Group Executive Board.
The members of the Group Executive Board are appointed by the Board of Directors. The Group Executive Board comprises the CEO of Swisscom Ltd, the heads of the Group divisions, the CEO of Swisscom IT Services Ltd and the heads of the divisions of Swisscom (Switzerland) Ltd.
Stefan Nünlist, former Chief Communications Officer, left at the end of May 2010 and Günter Pfeiffer, former Chief Personnel Officer, left the Group Executive Board in September 2010. Kathrin Amacker-Amann joined the company as Chief Communication Officer in October 2010. Guido Garrone, Head of Networks and IT at Swisscom (Switzerland) Ltd, left the company at the end of December 2010. He was replaced by Heinz Herren, former Head of Small and Medium-sized Enterprises at Swisscom (Switzerland) Ltd, on 1 January 2011. Heinz Herren's successor, Roger Wüthrich-Hasenböhler, took up his duties in January 2011.
The list below gives an overview of the composition of the Group Executive Board at 31 December 2010, including the year of appointment of each member and their function within the Group.

Name	Year of birth	Function	Appointed as of
Carsten Schloter [1]	1963	CEO of Swisscom Ltd	January 2006
Ueli Dietiker [1]	1953	CFO of Swisscom Ltd	August 2007
Kathrin Amacker-Amann	1962	CCO of Swisscom Ltd	October 2010
Eros Fregonas	1964	CEO of Swisscom IT Services Ltd	October 2007
Guido Garrone [2]	1961	Head of Networks & IT of Swisscom (Switzerland) Ltd	January 2008
Heinz Herren [3]	1962	Head of Small & Medium-Sized of Swisscom (Switzerland) Ltd	August 2007
Christian Petit	1963	Head of Residential Customers of Swisscom (Switzerland) Ltd	August 2007
Daniel Ritz	1966	CSO of Swisscom Ltd	September 2006
Urs Schaeppi [1]	1960	Head of Corporate Business of Swisscom (Switzerland) Ltd	August 2007

[1] Prior to actual function member of the Group Executive Board: Carsten Schloter since 2000; Ueli Dietiker since 2002 (CFO April – March 2006, CPO ad interim since September 2010); Urs Schaeppi since 2006).
[2] Resigned from Group Executive Board as of end of 2010.
[3] Since January 2001 Head of Networks & IT of Swisscom (Switzerland) Ltd; succeeder of Heinz Herren since January 2011 is Roger Wüthrich-Hasenböhler.

4.2 Education and training, professional activities and affiliations

Details of career and qualifications as well as other activities and affiliations such as mandates in important companies, organisations and foundations, and permanent functions in important interest groups are also provided below for each member of the Group Executive Board.

4.3 Management agreements

Neither the Swisscom Group nor any subsidiaries included in the scope of the consolidation have entered into management agreements with third parties.

Carsten Schloter
Ueli Dietiker
(f. l. t. r.)

Carsten Schloter

German citizen

Education: Degree in business administration

Career history: 1985–1992 various positions at Mercedes-Benz France SA; 1992–1994 member of the Management Board, debitel France SA; 1995–1999 various positions at debitel Germany; 1999 member of the Management Board, debitel AG; 2000–2001 Head of Public Com and Head of Mobil Com, Swisscom; 2001–January 2006 CEO of Swisscom Mobile Ltd; since January 2006 CEO of Swisscom Ltd and since January 2008 CEO of Swisscom (Switzerland) Ltd, from April 2010 until November 2010 CEO of Fastweb S.p.A. ad interim.

Since March 2000 member of the Swisscom Group Executive Board

Other mandates: Chairman of the Board of Directors, Fastweb S.p.A.; member of the Executive Board of the Association Suisse des Télécommunications (ASUT), Berne

Ueli Dietiker

Swiss citizen

Education: Certified public accountant

Career history: 1972–1988 ATAG Ernst & Young; 1988–1994 various positions at Motor Columbus AG, latterly as CFO; 1995–December 1998 CFO, Cablecom Holding AG; January 1999–June 2001 CEO, Cablecom Holding AG; September 2001–March 2002 Head of Strategic Growth and Related Businesses, Swisscom Ltd; July 2003–June 2004 Head of Group Human Resources, Swisscom Ltd; April 2002–March 2006 CFO, Swisscom Ltd; March 2006–December 2007 CEO, Swisscom Fixnet Ltd; since August 2007 CFO and since April 2002 Deputy CEO, Swisscom Ltd; since September 2010 Chief Personnel Officer (CPO) of Swisscom Ltd ad interim

Since April 2002 member of the Swisscom Group Executive Board

Other mandates: Member of the Board of Directors, Zuckermühle Rupperswil AG; Vice-Chairman of the Board of Directors, Fastweb S.p.A.; member of the Board of Directors and Chairman of the Audit Committee of Sanitas health insurance provider; member of the Board of Directors and Chairman of the Audit Committee of Wincare health insurance provider

Kathrin Amacker-Amann
Eros Fregonas
Guido Garrone
(f. l. t. r.)

Kathrin Amacker-Amann

Swiss citizen

Education: Swiss certified pharmacist, PhD II

Career history: 1990–1994 Project Manager, Pharmaceutical Production Ciba-Geigy; 1995–1999 Project Manager, Pharmaceutical Development Ciba-Geigy/Novartis; 2000–2003 Project Manager, Pharmaceutical Clinical Production Novartis; 2003–2010 Human Resources Management Novartis Switzerland; since October 2010 Chief Communication Officer (CCO) at Swisscom Ltd.

Since October 2010 member of the Swisscom Group Executive Board

Other mandates: Member of the Board of Trustees of the Merian Iselin Foundation, Basle; member of the Board of Trustees of the Basle-Karlsruhe Forum, in Basle; member of the Board of Trustees of the World Demographic and Ageing Forum, St. Gallen

Eros Fregonas

Swiss and Italian citizen

Education: Degree in electronic engineering from the Swiss Federal Institute of Technology (ETH), Zurich

Career history: 1987–1996 Andersen Consulting; 1996–2005 CEO of Boss Lab AG (now: B-Source); 2005–2007 independent financial and IT consultant; since May 2007 CEO, Swisscom IT Services Ltd

Since May 2007 member of the Swisscom Group Executive Board

Other mandates: Member of the Board of Trustees of Produktive Schweiz, Zurich

Guido Garrone

Italian citizen

Education: Degree in electronic engineering (Politecnico di Milano, Italy); postgraduate diploma in general management (ISTUD, Istituto Studi Direzionali, Stresa, Italy)

Career history: 1988–1999 various positions at Sirti S.p.A, Milan, latterly as Head of Engineering; 1999 co-founder of Fastweb S.p.A.; 1999–2007 various positions at Fastweb S.p.A., latterly as Chief Technology Officer from 2003–2007; since January 2008 Head of Networks & IT, Swisscom (Switzerland) Ltd

Since January 2008 member of the Swisscom Group Executive Board

Heinz Herren
Christian Petit
Daniel Ritz
(f. l. t. r.)

Heinz Herren

Swiss citizen
Education: Degree in electronic engineering (HTL)
Career history: 1986–1988 Hasler AG; 1998–1991 XMIT AG; 1991–1993 Ascom Telematik AG; 1993–1994 Bedag Informatik; 1994–2000 3Com Corporation; 2000–2000 Inalp Networks Inc.; 2001–2005 Head of Marketing Swisscom Fixnet Wholesale; 2005–2007 Head of Small and Medium-Sized Enterprises of Swisscom Fixnet; since August 2007 Head of Small and Medium-Sized Enterprises at Swisscom Switzerland
Since August 2007 member of the Swisscom Group Executive Board

Christian Petit

French citizen
Education: MBA ESSEC Cergy-Pontoise
Career history: 1993–1999 debitel France; 2000–2003 Head of Operations, Swisscom Mobile Ltd; 2003–2006 Head of Product Marketing, Swisscom Mobile Ltd; 2006–June 2007 CEO, Hospitality Services Plus SA; since August 2007 Head of Residential Customers, Swisscom (Switzerland) Ltd
Since August 2007 member of the Swisscom Group Executive Board

Daniel Ritz

Swiss citizen
Education: Doctorate in business administration (Dr. oec.), University of St. Gallen
Career history: 1988 internship, Ciba-Geigy (now Novartis); 1992–1993 project manager, University of St. Gallen, 1994–2001 consultant, Boston Consulting Group AG; 2001–2006 partner, Boston Consulting Group AG; since September 2006 Chief Strategy Officer (CSO), Swisscom Ltd
Since September 2006 member of the Swisscom Group Executive Board
Other mandates: President of the Swiss Institute for Business Cycle Research (SKG) and member of the Board of Directors, Fastweb S.p.A.

Urs Schaeppi

Urs Schaeppi

Swiss citizen

Education: Degree in engineering (Dipl. Ing. ETH) and business administration (lic. oec. HSG)

Career history: 1987–1991 Iveco Motorenforschungs AG; 1991–1994 Head of Marketing in the Electronic Production profit centre, Ascom AG; 1994–1998 plant manager at Biberist paper factory; 1998–2006 Head of Commercial Business and member of the Executive Board, Swisscom Mobile Ltd; 2006–2007 CEO, Swisscom Solutions Ltd; since August 2007 Head of Corporate Business, Swisscom (Switzerland) Ltd

Since March 2006 member of the Swisscom Group Executive Board

Other mandates: Member of the Board of Directors, Fastweb S.p.A.; member of the Board of Directors, BV Group, Berne

5 Remuneration, shareholdings and loans

See report
Page 127

All information on the remuneration of the Board of Directors and the Group Executive Board of Swisscom Ltd are listed in the separate remuneration report.

6 Shareholders' participation rights

6.1 Voting rights and representation restrictions

Each registered share entitles the holder to one vote. Voting rights can only be exercised if the shareholder has been entered with voting rights in the share register of Swisscom Ltd. The Board of Directors may refuse to recognise an acquirer of shares as a shareholder or beneficial owner with voting rights if the latter's total holding, when the new shares are added to any voting shares already registered in its name, would then exceed the limit of 5% of all registered shares entered in the commercial register. The acquirer is entered in the register as a shareholder or beneficial holder without voting rights for the remaining shares. This restriction on voting rights also applies to registered shares acquired through the exercise of subscription, option or conversion rights. A group clause applies to the calculation of the percentage restriction.
The 5% voting right restriction does not apply to the Swiss Confederation, which under the terms of the Telecommunications Enterprise Act (TEA) holds the capital and voting majority.
The Board of Directors may recognise an acquirer of shares with more than 5% of all registered shares as a shareholder or beneficial holder with voting rights, in particular in the following exceptional cases:

- Where shares are acquired as a result of a merger or business combination
- Where shares are acquired as a result of a non-cash contribution or an exchange of shares
- Where shares are acquired with a view to establishing a long-term partnership or strategic alliance
  or a strategic alliance.

In addition to the percentage restriction on voting rights, the Board of Directors may refuse to recognise and enter as a shareholder or beneficial holder with voting rights any acquirer of shares who fails to expressly declare upon request that it has acquired the shares in its own name and for its own account or as beneficial holder. Should an acquirer of shares refuse to make such a declaration, it will be entered as a shareholder without voting rights.
In addition, where an entry has been made on the basis of false statements by the acquirer, the Board of Directors may, after consulting the party concerned, delete their share register entry as a shareholder with voting rights and enter it as a shareholder without voting rights. The acquirer must be notified of the deletion immediately.
The statutory restrictions on voting rights may be lifted by resolution by the Annual General Meeting, for which an absolute majority of valid votes cast would be required.

6.2 Statutory quorum requirements

The Annual General Meeting of Shareholders of Swisscom Ltd adopts its resolutions and holds its elections by absolute majority of valid votes cast. In addition to the specific quorum requirements under the Swiss Code of Obligations, the Articles of Incorporation require a two-thirds majority in the following cases:

- Introduction of restrictions on voting rights
- Conversion of registered shares to bearer shares and vice versa
- Changes to the above statutory quorum requirements

6.3 Convocation of the Annual General Meeting

The Board of Directors must convene the Annual General Meeting at least 20 days prior to the date of the meeting by means of an announcement in the Swiss Commercial Gazette. The meeting can also be convened by registered or unregistered letter to all registered shareholders.

6.4 Agenda items

Shareholders representing shares with a par value of at least CHF 40,000 may request that an item be placed on the agenda. This request must be submitted in writing to the Board of Directors at least 45 days prior to the Annual General Meeting, stating the agenda item and the proposal.

6.5 Representation at the Annual General Meeting

Shareholders may be represented at the Annual General Meeting by another shareholder with voting rights who has a written power of attorney. Shareholders may also be represented by the corporate proxy, an independent voting proxy, or a custody proxy (bank). Partnerships and legal entities may be represented by authorised signatories, while minors and wards may be represented by their legal representative even if such persons are not shareholders. Shareholders who send a proxy may issue instructions for each agenda item and also for motions not included in the invitation, stating whether they wish to vote for or against a motion or abstain. The corporate proxy only represents shareholders who approve the motions of the Board of Directors. Powers of attorney with instructions to vote otherwise will be passed on to the independent voting proxy, who approves the motions of the Board of Directors unless express instructions to the contrary are given.

6.6 Registrations in the share register

Shareholders entered in the shareholder register with voting rights are entitled to vote at the Annual General Meeting. Up to and including fiscal 2006, the share register closed on each occasion no later than three days prior to the Annual General Meeting. Shareholders who registered their voting rights in the share register prior to closing were entitled to vote. As in previous years, the share register was not closed before the Annual General Meeting for fiscal 2009 held on 27 April 2010. Shareholders registered in the share register with voting rights by 4 p.m. on 23 April 2010 were entitled to vote.

7 Change of control and defensive measures

7.1 Duty to make an offer

The Telecommunications Enterprise Act (TEA) requires the Swiss Confederation to hold the capital and voting majority in Swisscom Ltd. A takeover bid within the meaning of the Federal Act on Stock Exchanges and Securities Trading (SESTA) would require an amendment to the TEA. As a result, there are no statutory rulings governing “opting out” or “opting up” (SESTA Art. 22).

7.2 Clause on change of control

See report
Page 133

For details of the clauses on change of control, please refer to the section “Remuneration report”.

8 Statutory auditors

8.1 Duration and term of office of the auditor in charge

The statutory auditors are appointed annually by the Annual General Meeting. KPMG AG, Gümligen-Berne has acted as the statutory and Group auditors of Swisscom Ltd and its Group companies since 1 January 2004. Hanspeter Stocker, the auditor in charge at KPMG who is responsible for the auditing mandate, has been in office since 2004. The auditor in charge is rotated every seven years in accordance with Swiss law. KPMG AG is a licensed, state-supervised auditing company.

8.2 Unapproved services

The Audit Committee of the Board of Directors considers the following services in particular to be incompatible with the independence of the auditors:
- Services giving rise to the risk that the auditors will audit their own work
- Bookkeeping and other services in connection with accounting or the financial statements
- Valuation and estimation services, fairness opinions or expert reports on the valuation of non-cash contributions
- Actuarial services
- Management tasks and personnel services
- Financial services
- Outsourcing of internal auditing
- Development and introduction of financial information systems

The Audit Committee reserves the right to exclude other services:
- Non-audit services may only be provided in parallel, notably the provision of legal advice, if they do not jeopardise the independence of the auditors. Tax consultancy services are only permitted if this does not lead to a self-audit. In particular, the auditors may not advise or assist with the preparation of complex international structures for the purposes of tax optimisation, which is to be assessed by the external auditors.

8.3 Audit fees

Fees for the auditing services provided by KPMG AG in 2010 amounted to CHF 4.32 million (previous year: CHF 4.83 million). Fees for additional audit-related services amounted to CHF 0.02 million (previous year: CHF 0.52 million).

8.4 Supplementary fees

The supplementary fees for non-audit services such as tax and other advisory services (other services) amounted to CHF 0.4 million (previous year: CHF 0.74 million).

8.5 Supervision and controlling instruments vis-à-vis the auditors

The Audit Committee verifies the qualifications, independence and performance of the statutory auditors on behalf of the Board of Directors, approves the integrated strategic audit plan of the auditors, which includes the annual audit plan of both the internal and external auditors, and proposes the appointment and discharge of auditors to be appointed or discharged by the Annual General Meeting. It defines the criteria for the annual approval of fees. The CFO reports quarterly and the auditors annually on current mandates being performed by the auditors, broken down into audit services, audit-related services and non-audit services. It is also responsible for observing the statutory rotation principle of the auditor in charge. The statutory auditors, represented by the auditor in charge and his representative, usually attend all meetings of the Audit Committee and report in detail on the performance and results of their activities. In particular they report half-yearly and yearly on the findings of their review. They submit a written report to the Board of Directors and the Audit Committee about the implementation and results of the half-yearly reviews and the final annual audit, as well as on their findings with regard to accounting and the internal control system. The Chairman of the Committee also liaises closely with the auditor in charge and regularly reports to the Board of Directors.

9 Information policy

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

9.1 The results for the 2011 financial year will be published on the following dates:

- First quarter: 4 May 2011
- Second quarter: 11 August 2011 (half-year results)
- Third quarter: 9 November 2010
- Fourth quarter: in February 2012 (annual results)

9.2 The Annual General Meeting will be held on:

- 20 April 2011

The interim reports, the semi-annual report and the annual report are available on the Swisscom website under Investor Relations, or may be ordered directly from Swisscom. All press releases, presentations and the latest financial calendar are also available on the Swisscom website under Investor Relations.
Push and pull links for the distribution of ad-hoc communications can be found under www.swisscom.ch/adhoc/en.

See
www.swisscom.ch/financialreports
www.swisscom.ch/adhoc/en

Remuneration report

Remuneration paid to the Board of Directors and the Group Executive Board is tied to the generation of sustainable returns for shareholders and therefore creates incentives aimed at achieving long-term corporate success.

Introduction

This remuneration report provides a summary of the remuneration system and compensation paid to members of the Board of Directors and Group Executive Board (Management Board in accordance with Section 4 of the Articles of Association) of Switzerland Ltd. This report will be subject to a consultative vote by the Annual General Meeting on 20 April 2011.
The report is based on Article 5 of the Corporate Governance Directive issued by the SIX Swiss Exchange. Swisscom also complies with the applicable standards of the Swiss Code of Best Practice for Corporate Governance including Annex 1 on the remuneration recommendations for members of the Board of Directors and the Group Executive Board. Information and comments on remuneration and shareholdings in accordance with Article 663b^{bis} and Article 663c para. 3 of the Swiss Code of Obligations can also be found in the financial statements of Swisscom Ltd.

See report
Page 218

General principles governing remuneration

The uniform remuneration principles applied within the Swisscom Group are systematic, transparent and geared to the long term. Salaries at Swisscom are based on four factors: position, individual performance, company performance and the labour market. This approach takes into consideration the interests of employees, investors and the company.
Swisscom offers competitive salaries in order to attract and retain highly skilled and motivated specialist staff and managers. The variable performance-related component is an additional management instrument aimed at achieving overriding goals. It serves to motivate employees and management to make a contribution to the company's long-term success. The "Management Incentive Plan", which is compulsory for all members of the Board of Directors and all members of the Group Executive Board (with one exception), also ensures direct financial participation in the medium-term performance of Swisscom's shares. The plan is described in Note 11 to the consolidated financial statements.

See report
Page 168

Decision-making powers

See
www.swisscom.ch/
basicprinciples

The decision-making powers are defined in the Organisational Regulations of the Board of Directors and the regulations for the Personnel and Organisation Committee and the Remuneration Committee. The latest versions of the documents can be accessed via the Swisscom website at www.swisscom.ch/basicprinciples. Revised or superseded documents can also be viewed under Download archive.

Personnel and salary policy, general terms and conditions of employment for members of the Group Executive Board and share option schemes

See report
Page 113

The Board of Directors approves the personnel and salary policy for the entire Group, as well as the general terms and conditions of employment for the members of the Group Executive Board. In both cases, proposals are put forward by the Personnel and Organisation Committee. The same committee also approved the employee share option schemes for Swisscom Ltd and the Group companies. This committee was dissolved as of 1 January 2011. As from 2011, the committee's duties and responsibilities are carried out by the Board of Directors. For further information on the Personnel and Organisation Committee, please refer to the report on Corporate Governance.

Remuneration paid to members of the Board of Directors and the Group Executive Board

The Board of Directors defines the remuneration for each member of the Board of Directors and the CEO, as well as the total remuneration for the Group Executive Board, based on the remuneration regulations for the members of the Board of Directors, the directives approved by the Remuneration Committee for the variable performance-related component for the members of the Group Executive Board and the preliminary guidance issued by the Remuneration Committee. The Remuneration Committee decides on the individual remuneration for the other members of the Group Executive Board at its own discretion within the framework of the total remuneration defined by the Board of Directors.

Remuneration Committee

The Remuneration Committee is chaired by the Deputy Chairman of the Board of Directors, Richard Roy. The other members are the chairmen of the Finance Committee (Torsten G. Kreindl), Personnel und Organisation Committee (Felix Rosenberg) and Audit Committee (Othmar Vock). As Chairman of the Board of Directors, Anton Scherrer attends committee meetings but has no voting rights.
The committee convened three times during the 2010 business year. All members were present at the meetings, each of which lasted approximately two hours. The CEO and CPO (Chief Personnel Officer) regularly attend the meetings. They act in an advisory capacity unless the agenda items concern the Board of Directors or themselves. The meetings are minuted. The chairman submits a regular report on the activities of the committee to the Board of Directors.

Remuneration paid to the Board of Directors

Principles

The remuneration reflects the level of responsibility and scope of activities performed by each member of the Board of Directors. The remuneration, which has remained unchanged since 2002, is reviewed every December for the following year to ensure it is still appropriate. The review was carried out on the basis of a comparative analysis conducted in November 2010 on Swisscom's behalf by Towers Watson, a worldwide consultancy specialising in top executive remuneration. Listed companies in the Swiss Market Index (with the exception of financial service companies) were used as benchmarks. The review showed that both the basic salary and total remuneration were below market rates. Hence, in December 2010 the Board of Directors decided to increase its remuneration, unchanged since 2002, with effect from fiscal 2011.

Remuneration

The remuneration plan provides for a basic emolument plus individual allowances and meeting attendance fees. No variable performance-related components are paid out. The Chairman is paid a basic emolument of CHF 385,000 net and the other members of the Board of Directors CHF 110,000 net each. Each member of the Finance, Personnel and Organisation Committees as well as the Audit Committee is therefore entitled to remuneration of CHF 10,000 net. The Deputy Chairman of the Board of Directors and the chairmen of the three aforementioned committees are entitled to an additional CHF 20,000 net and the representative of the Swiss Confederation to an additional CHF 40,000 net for the special duties related to his function. Meeting attendance fees are also paid of CHF 750 net for a whole day and of CHF 500 net for a half-day. Expenses are reimbursed as incurred. No significant fringe benefits are paid.

The members of the Board of Directors are obliged to draw 25% of their basic salary plus individual allowances in the form of shares. Swisscom then increases the amount to be invested in shares by 50%. Two thirds of the remuneration (excluding meeting attendance fees) thus take the form of cash and one third shares. The shares allocated are calculated on the basis of the tax value, rounded up to whole numbers of shares, and are subject to a three-year blocking period. The shares allocated in April of the reporting year for the reporting year are disclosed at their market value on the purchase date (usually three weeks before allocation) or at the market value on the cut-off date of allocation if treasury shares are issued. In April 2010, 1,712 shares were allocated to the members of the Board of Directors (previous year 2,119 shares) with a tax value of CHF 328 per share (previous year CHF 265). The market value was CHF 392 per share (previous year CHF 316).

The individual remuneration paid to the members of the Board of Directors for the financial years 2010 and 2009 is presented in the tables below, broken down into individual components. The disclosure of fringe benefits and expenses complies with fiscal law, such that neither fringe benefits nor expenses are included in reported remuneration. The increase in remuneration is attributable to the higher number of days spent attending meetings compared with the previous year.

2010, in CHF thousand	Base emoluments and functional allowances: Cash compensation	Base emoluments and functional allowances: Share-based payment	Meeting attendance fees	Total 2010
Anton Scherrer	334	185	76	595
Hugo Gerber [1]	98	54	19	171
Michel Gobet	98	54	18	170
Torsten G. Kreindl	114	63	22	199
Hansueli Loosli [2]	98	54	25	177
Catherine Mühlemann	98	54	21	173
Felix Rosenberg	144	81	25	250
Richard Roy	114	63	25	202
Othmar Vock	112	63	28	203
Total compensation to members of the Board of Directors	**1,210**	**671**	**259**	**2,140**

[1] In addition, a cash compensation of CHF 9,000 was paid as member of the Board of Directors of Worklink AG.
[2] Cash compensation is paid to Coop.

2009, in CHF thousand	Base emoluments and functional allowances: Cash compensation	Base emoluments and functional allowances: Share-based payment	Meeting attendance fees	Total 2009
Anton Scherrer	334	186	71	591
Fides P. Baldesberger [1]	30	13	5	48
Hugo Gerber [2]	98	54	18	170
Michel Gobet	98	54	16	168
Torsten G. Kreindl	114	63	20	197
Hansueli Loosli [3,4]	64	44	8	116
Catherine Mühlemann	98	54	17	169
Felix Rosenberg	145	81	22	248
Richard Roy	114	63	21	198
Othmar Vock	112	63	25	200
Total compensation to members of the Board of Directors	**1,207**	**675**	**223**	**2,105**

[1] Resigned as of 21 April 2009.
[2] In addition, a cash compensation of CHF 9,000 was paid as member of the Board of Directors of Worklink AG, in charge from 1 April 2009.
[3] Elected as of 21 April 2009.
[4] Cash compensation is paid to Coop.

Remuneration paid to the Group Executive Board

Principles

In line with Swisscom's general remuneration policy, remuneration for the Group Executive Board consists of a fixed basic salary component and a variable performance-related component as well as fringe and additional benefits (in particular company car) and retirement benefits. The Board of Directors may also at its own discretion reward exceptional individual performance by means of a bonus in cash or in shares.

The Remuneration Committee reviews the individual remuneration paid to members of the Group Executive Board every three years of service. Besides individual performance, the amount of the remuneration depends on the market rate for the position and the function, using the relevant benchmarks. The following three comparative studies carried out by the renowned consultancy firms Towers Watson and Hewitt were once again used as benchmarks: The "Top Executive Remuneration" study by Towers Watson covers 26 companies in Switzerland, primarily from the high-tech and financial sector, and with average revenues of CHF 16 billion and an average workforce of 29,000 (FTEs). The "Compensation Report", also by Towers Watson, covers 204 firms of varying sizes domiciled in Switzerland and representing all sectors. Swisscom only considers companies headquartered in Switzerland with average revenues of CHF 3 billion and an average workforce of 16,000 (FTEs). The "European Executive Survey" from Hewitt covers 28 European groups, mainly telecommunications companies, with average revenues of CHF 34 billion and an average workforce of 77,000 (FTEs). These studies, with their numerous reference companies, provide the basis for a representative comparison. When evaluating these studies, Swisscom took into account factors such as sector, revenue, number of employees and location. Overall, the analysis revealed that salaries for comparable management positions have risen by a cumulative average of just under 8% over the last three years (2008 to 2010). The basic salary of some members of the Group Executive Board was therefore adjusted during the course of the reporting year in order to bring them into line with standard market salary levels.

Targets for the variable performance-related component

The incentive targets underlying the variable performance-related component are reviewed annually in December for the coming year by the Board of Directors following a proposal submitted by the Remuneration Committee The relevant targets set for the reporting year are based on the Swisscom Group's budget figures for 2010.
The three target levels Group (excluding Fastweb), Fastweb and segments/Group companies were defined for the year under review. All members of the Group Executive Board are measured against the Group targets and, depending on their function, against additional Fastweb targets and/or additional target values of the segments or Group companies for which they are responsible. The Group targets consist of financial targets and customer targets measured on the basis of residential and business customers in Switzerland that are of central importance to the long-term development of company value. The additional targets adjusted to the relevant function of each Group Executive Board member consist of financial and in some cases, specific, financial also non financial targets.
The following table shows the target structure with the three target levels, targets and weighting per target for the members of the Group Executive Board valid for the year under review.

Target levels	Objectives	Weighting
	Net revenue	4.5–12%
	EBITDA margin	4.5–12%
	Operating free cash flow	6–16%
Group (without Fastweb)	Customer targets	15–30%
	Net revenue	0–15%
Fastweb	Operating free cash flow	0–15%
	Net revenue	0–20%
	EBITDA margin	0–10%
	EBITDA less capital expenditure	0–20%
	Operating free cash flow	0–10%
Segments/subsidiaries	Customer targets	0–40%

Swisscom's target structure focuses on striking a balance between financial performance and market performance, taking into account the specific responsibilities of the individual members of the Group Executive Board.
Depending on their function, members of the Group Executive Board receive a variable performance-related component of between 33% and 117% of their fixed basic salary if they meet their targets. The amount of the performance-related component paid out depends on the level of achievement of the targets set by the Remuneration Committee. Special factors can be taken into account such as an unscheduled acquisition or divestment. If targets are exceeded, additional remuneration up to a maximum of double the variable performance-related component figure may be paid.

Payment of the variable performance-related component

The variable performance-related component is determined in the following year once the consolidated financial statements become available, on the basis of the incentive targets fixed in the year under review, and is paid in April of that following year. A 100% cash payment is made in the case of a member of the Group Executive Board not bound by the share option scheme and a member who left at the end of May 2010. The other members of the Group Executive Board receive 75% of the variable performance-related component in cash and 25% in Swisscom shares, with the exception of one member who receives 64% in cash and 36% in shares. During the year under review, two members each were awarded a bonus in the form of shares or shares and cash. The shares are allocated on the basis of the tax value, rounded up to whole numbers of shares, and are subject to a three-year blocking period. The disclosed share-based remuneration in the year under review is increased by the factor 1.19 in order to reflect the difference between the market value and the tax value. The market value of the shares depends on the purchase date (usually three weeks prior to allocation) or the cut-off date if treasury shares are issued. Shares for the year under review will be allocated in April 2011. A total of 2,767 shares with a tax value of CHF 328 and a market value of CHF 392 per share were allocated to members of the Group Executive Board in April 2010 for 2009. In April 2009, 3,254 shares with a tax value of CHF 265 and a market value of CHF 316 per share were allocated for the 2008 business year.

Achievement of targets

In the year under review, the Group targets (without Fastweb) were exceeded and Fastweb's targets partially reached. The remaining targets of the segments and Group companies were largely exceeded.

Total remuneration

The disclosure of fringe benefits and expenses complies with fiscal law. The disclosed fringe benefits therefore only include a share in a company car. The disclosed retirement benefits (expenses based on entitlement to or increase in retirement benefits) comprise all savings and risk contributions paid by the employer to the pension fund, including pro rata contributions to build up a fluctuation reserve. The following table shows the total remuneration paid to the members of the Group Executive Board for fiscal years 2010 and 2009, broken down into individual components and including the highest amount paid to one member. Remuneration paid to those stepping down from the Group Executive Board includes the respective maximum remuneration up to the end of the notice period in the year under review or previous year. No additional remuneration is paid out and thus no termination benefits are reported. In the year under review the basic salary (total CHF 4.889 million) in relation to the variable performance related bonus (total CHF 4.656 million) amounted to 51 to 49%. The reduction in remuneration paid to the members of the Group Executive Board is mainly the result of members stepping down and the resulting vacancies. Total remuneration paid to the CEO increased slightly due to the achievement of the performance targets.

In CHF thousand	Total Group Executive Board 2010	Total Group Executive Board 2009	Thereof Carsten Schloter 2010	Thereof Carsten Schloter 2009
Fixed base salary paid in cash	4,889	5,474	770	770
Variable earnings-related compensation paid in cash	3,333	3,280	707	651
Non-cash compensation	76	80	17	15
Share-based payments variable	1,323	1,079	280	258
Benefits paid following retirement from Group Executive Board	664	640	–	–
Retirement benefits	1,054	1,165	125	125
Severance payments	–	–	–	–
Total compensation to members of the Group Executive Board	**11,339**	**11,718**	**1,899**	**1,819**

Clause on change of control

The employment contracts of the members of the Group Executive Board do not contain a clause relating to change of control. The contacts can be terminated subject to a twelve-month notice period. No termination benefits are payable in addition to the salary payable for a maximum of twelve months.

Additional remuneration

The members of the Group Executive Board are not entitled to separate remuneration if they hold any Board of Director memberships either within or outside the Swisscom Group. With the exception of Hugo Gerber, who received remuneration for his mandate as a member of the Board of Directors of the subsidiary Worklink AG, the members of the Board of Directors and Group Executive Board received no additional remuneration.

Remuneration for former members of the Board of Directors or Group Executive Board

With the exception of the benefits reported for those stepping down from the Group Executive Board, in the year under review no remuneration was paid to former members of the Board of Directors or the Group Executive Board. Nor was any remuneration paid to persons closely related to members of the Board of Directors or the Group Executive Board.

Loans

In fiscal 2010, Swisscom Ltd provided no guarantees, loans, advances or credit facilities of any kind either to former or current members of the Board of Directors or the Group Executive Board or persons closely related to them. Nor are there any receivables of any kind whatsoever outstanding.

Management transactions

Since 1 July 2005, Swisscom Ltd is to report any transactions in Swisscom shares and options undertaken by members of the Board of Directors and the Group Executive Board to the SIX Swiss Exchange, stating the name and position of the persons involved. Transactions exceeding a threshold value of CHF 100,000 in any calendar month for each person subject to the disclosure obligation are published anonymously by the SIX Swiss Exchange on its website. SIX Swiss Exchange does not publish any collective announcements of transactions below the threshold value of CHF 100,000 in any calendar month. As of 1 April 2011 the rules governing the disclosure of management transactions are to be revised with a view to making them simpler and creating greater transparency for the market players. The revisions will include cancelling the aforementioned minimum disclosure threshold of CHF 100,000.

The blocked and non-blocked shares held by the members of the Board of Directors and the Group Executive Board and by persons closely related to them as at 31 December 2010 and 2009 are listed in the table below:

Number	Shares 31.12.2010	Shares 31.12.2009
Anton Scherrer	2,169	1,695
Hugo Gerber	589	451
Michel Gobet	956	818
Torsten G. Kreindl	674	514
Hansueli Loosli[1]	271	133
Catherine Mühlemann	579	441
Felix Rosenberg	2,223	2,017
Richard Roy	674	514
Othmar Vock	852	692
Total shares of the members of the Board of Directors	**8,987**	**7,275**
Carsten Schloter (CEO)	4,172	3,511
Ueli Dietiker	2,720	2,323
Kathrin Amacker-Amann[2]	40	–
Eros Fregonas	1,259	817
Guido Garrone[3]	–	–
Heinz Herren	515	426
Stefan Nünlist[4]	–	443
Christian Petit	955	687
Günter Pfeiffer[5]	–	475
Daniel Ritz	778	560
Urs Schaeppi	1,005	1,034
Total shares of the members of the Group Executive Board	**11,444**	**10,276**

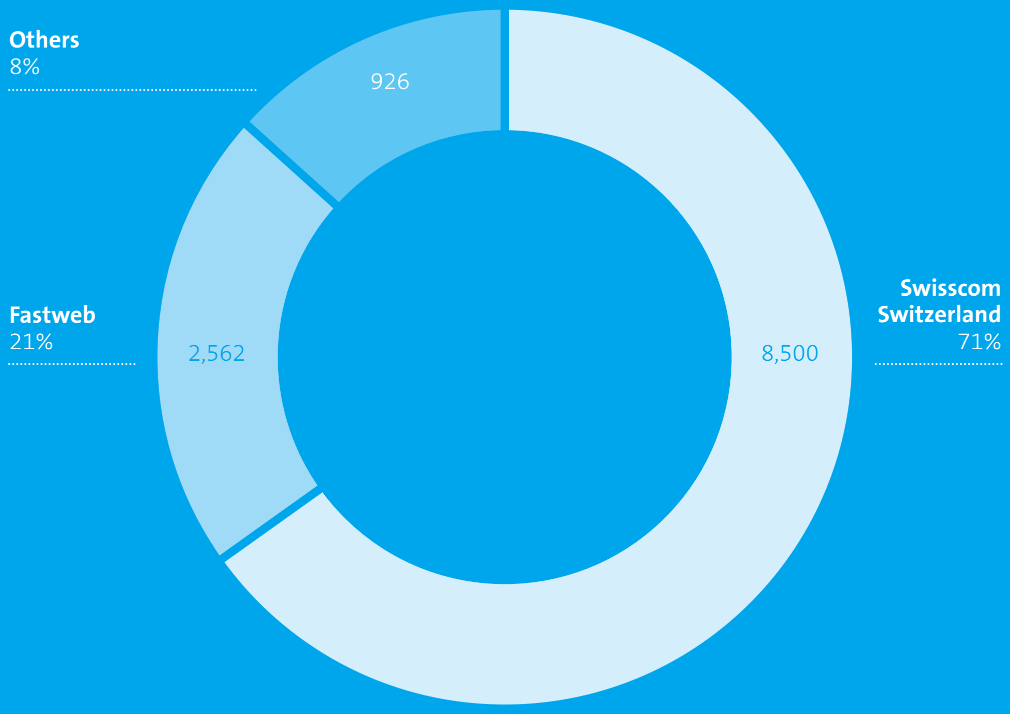
1 Elected as of 21 April 2009.
2 Joined as of 1 October 2010.
3 Resigned as of 31 December 2010.
4 Resigned as of 31 May 2010.
5 Resigned as of 31 October 2010.

The voting rights of any person subject to the disclosure obligation do not exceed 0.1% of the share capital.

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	2010	2009 restated[1]
Net revenue	6, 7	**11,988**	**12,001**
Goods and services purchased	8	(2,665)	(2,648)
Personnel expense	9, 10, 11	(2,520)	(2,577)
Other operating expense	12	(2,510)	(2,509)
Capitalised self-constructed assets and other income	13	304	417
Operating income before depreciation and amortisation (EBITDA)		**4,597**	**4,684**
Depreciation, amortisation and impairment losses	23, 24	(1,972)	(1,995)
Operating income (EBIT)		**2,625**	**2,689**
Financial income	14	93	144
Financial expense	14	(458)	(493)
Share of results of associated companies	25	28	43
Income before income taxes		**2,288**	**2,383**
Income tax expense	15	(502)	(460)
Net income		**1,786**	**1,923**
Share of net income attributable to equity holders of Swisscom Ltd		1,811	1,926
Share of net income attributable to minority interests		(25)	(3)
Basic and diluted earnings per share (in CHF)	16	**34.96**	**37.18**

[1] See Note 3.26 new and amended standards and interpretations

Consolidated statement of comprehensive income

In CHF million	Note	2010	2009 restated[1]
Net income		**1,786**	**1,923**
Foreign currency translation adjustments of foreign subsidiaries	31	(1,022)	(13)
Change in fair value of available-for-sale financial assets	31	2	4
Gains and losses from available-for-sale financial assets transferred to income statement	31	–	(4)
Change in fair value of cash flow hedges	19, 31	(9)	(6)
Gains and losses from cash flow hedges transferred to income statement	31	39	101
Income taxes	15	271	(6)
Total other comprehensive income		**(719)**	**76**
Comprehensive income		**1,067**	**1,999**
Share of comprehensive income attributable to equity holders of Swisscom Ltd		1,121	2,003
Share of comprehensive income attributable to minority interests		(54)	(4)

[1] See Note 3.26 new and amended standards and interpretations

Consolidated balance sheet

In CHF million	Note	31.12.2010	31.12.2009 [1]	1.1.2009 restated [1]
Assets				
Cash and cash equivalents	17	483	532	958
Trade and other receivables	18	2,742	2,926	2,798
Other financial assets	19	122	178	170
Inventories	20	150	135	188
Current income tax assets	15	30	48	38
Other non-financial assets	21	329	329	334
Non-current assets held for sale	22	4	6	16
Total current assets		**3,860**	**4,154**	**4,502**
Property, plant and equipment	23	7,899	8,176	8,214
Goodwill and other intangible assets	24	8,284	9,022	8,952
Investments in associated companies	25	231	228	285
Other financial assets	19	415	424	853
Deferred tax assets	15	71	57	67
Defined benefit assets	10	263	38	–
Other non-financial assets	21	44	45	55
Total non-current assets		**17,207**	**17,990**	**18,426**
Total assets		**21,067**	**22,144**	**22,928**
Liabilities and equity				
Financial liabilities	26	941	1,270	216
Trade and other payables	27	2,215	2,314	2,186
Current income tax liabilities	15	35	219	163
Provisions	28	146	137	482
Other non-financial liabilities	30	685	701	619
Total current liabilities		**4,022**	**4,641**	**3,666**
Financial liabilities	26	8,831	8,949	11,787
Defined benefit obligations	10	341	351	428
Provisions	28	716	740	715
Deferred tax liabilities	15	553	523	407
Other non-financial liabilities	30	320	330	278
Total non-current liabilities		**10,761**	**10,893**	**13,615**
Total liabilities		**14,783**	**15,534**	**17,281**
Share capital	31	52	52	53
Capital reserves		370	370	370
Retained earnings		7,421	6,700	6,495
Treasury shares	31	(1)	(1)	(738)
Other reserves	31	(1,586)	(830)	(907)
Share of equity attributable to equity holders of Swisscom Ltd		**6,256**	**6,291**	**5,273**
Share of equity attributable to minority interests	5	28	319	374
Total equity		**6,284**	**6,610**	**5,647**
Total liabilities and equity		**21,067**	**22,144**	**22,928**

[1] See Note 3.26 new and amended standards and interpretations

Consolidated statement of cash flows

In CHF million	Note	2010	2009 restated[1]
Net income		1,786	1,923
Share of results of associated companies	25	(28)	(43)
Income tax expense	15	502	460
Depreciation, amortisation and impairment losses	23, 24	1,972	1,995
Expense for share-based payments	11	2	2
Gain on sale of property, plant and equipment	13	(24)	(16)
Loss on disposal of property, plant and equipment	12	7	12
Financial income	14	(93)	(144)
Financial expense	14	458	493
Change in net operating assets and liabilities	34	(193)	13
Income taxes paid	15	(365)	(300)
Cash flow provided by operating activities		**4,024**	**4,395**
Capital expenditure for tangible and other intangible assets	23, 24, 34	(1,903)	(1,987)
Proceeds from sale of property, plant and equipment and other intangible assets		21	25
Proceeds from sale of non-current assets held for sale	22	13	6
Acquisition of subsidiaries, net of cash and cash equivalents acquired	5	(39)	(47)
Proceeds from sale of subsidiaries, net of cash and cash equivalents sold	5	9	4
Acquisition of shares in associated companies	25	–	(1)
Expenditures for other current financial assets		(42)	(22)
Proceeds from other current financial assets		30	71
Expenditures for other non-current financial assets		(27)	(50)
Proceeds from other non-current financial assets	19, 26	8	812
Interest received		15	35
Dividends received	25	55	93
Cash flow used in investing activities		**(1,860)**	**(1,061)**
Issuance of financial liabilities	26	2,589	3,262
Repayment of financial liabilities	26	(3,133)	(5,227)
Interest paid		(299)	(271)
Dividends paid to equity holders of Swisscom Ltd	32	(1,036)	(984)
Dividends paid to minority interests		(8)	(55)
Purchase of minority interests of Fastweb	5	(246)	–
Acquisition of treasury shares for share-based payments	11	(2)	(2)
Other cash flows from financing activities	34	(38)	(482)
Cash flow used in financing activities		**(2,173)**	**(3,759)**
Net decrease in cash and cash equivalents		**(9)**	**(425)**
Cash and cash equivalents at 1 January		532	958
Foreign currency translation adjustments in respect of cash and cash equivalents		(40)	(1)
Cash and cash equivalents at 31 December		**483**	**532**

[1] See Note 3.26 new and amended standards and interpretations

Consolidated statement of changes in equity

In CHF million	Share capital	Capital reserves	Retained earnings	Treasury shares	Other reserves	Equity attributable to equity holders of Swisscom	Minority interests	Total equity
Balance at 31 December 2008	**53**	**370**	**6,611**	**(738)**	**(907)**	**5,389**	**374**	**5,763**
Change in accounting policies [3,26]	–	–	(116)	–	–	(116)	–	(116)
Balance at 1 January 2009	**53**	**370**	**6,495**	**(738)**	**(907)**	**5,273**	**374**	**5,647**
Net income	–	–	1,926	–	–	1,926	(3)	1,923
Other comprehensive income	–	–	–	–	77	77	(1)	76
Comprehensive income	**–**	**–**	**1,926**	**–**	**77**	**2,003**	**(4)**	**1,999**
Dividends paid [32]	–	–	(984)	–	–	(984)	(55)	(1,039)
Share capital reduction [31]	(1)	–	(737)	738	–	–	–	–
Acquisition of treasury shares for share-based payments [31]	–	–	–	(3)	–	(3)	–	(3)
Allocation of treasury shares for share-based payments [11,31]	–	–	–	2	–	2	–	2
Change in scope of consolidation [5]	–	–	–	–	–	–	4	4
Balance at 31 December 2009	**52**	**370**	**6,700**	**(1)**	**(830)**	**6,291**	**319**	**6,610**
Net income	–	–	1,811	–	–	1,811	(25)	1,786
Other comprehensive income	–	–	–	–	(690)	(690)	(29)	(719)
Comprehensive income	**–**	**–**	**1,811**	**–**	**(690)**	**1,121**	**(54)**	**1,067**
Dividends paid [32]	–	–	(1,036)	–	–	(1,036)	(8)	(1,044)
Acquisition of treasury shares for share-based payments [31]	–	–	–	(2)	–	(2)	–	(2)
Allocation of treasury shares for share-based payments [11,31]	–	–	–	2	–	2	–	2
Purchase of minority interests [5]	–	–	(54)	–	(66)	(120)	(229)	(349)
Balance at 31 December 2010	**52**	**370**	**7,421**	**(1)**	**(1,586)**	**6,256**	**28**	**6,284**

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 3.17 and 6. The consolidated financial statements of Swisscom as of and for the year ended 31 December 2010 comprise Swisscom Ltd, the parent company, and its subsidiaries as well as Swisscom's investments in associated companies. 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 2010, the Swiss Confederation ("Confederation"), as majority shareholder, held 56.9% 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 16 February 2011. The consolidated financial statements must be approved at the Annual General Meeting of Shareholders of Swisscom Ltd to be held on 20 April 2011.

2 Basis of preparation

The consolidated financial statements of Swisscom have been drawn up in accordance with International Financial Reporting Standards (IFRS) and being 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. Trade receivables and payables as well as inventories are presented as current items. Deferred tax assets and liabilities are presented as non-current. The income statement is classified based on the nature of the income/expense. Assets have been valued based upon the historic acquisition or production cost, except where a standard or an interpretation requires a differing valuation method for individual balance sheet captions. Preparing the consolidated financial statements in accordance with the relevant provisions of IFRS requires management to make estimates. Furthermore, the application of uniform, Group-wide accounting policies requires assumptions to be made by management. Areas involving a higher degree of judgment or greater complexity, or areas where assumptions and estimates have a critical impact on the consolidated financial statements are disclosed in Note 4. Changes in the financial statement accounting policies are applied retroactively, unless the transitional provisions of any relevant standard or interpretation require prospective application or unless retroactive application is not practicable.

3 Summary of significant accounting policies

The following accounting policies were applied uniformly by Swisscom Ltd, as parent company, and its subsidiaries.

3.1 Consolidation

Subsidiaries

Subsidiaries are companies over which Swisscom Ltd has the effective ability of controlling their financial and operating 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. Minority interests in subsidiary companies are reported within equity separately from that attributable to the shareholders of Swisscom Ltd. The minority share in net income or loss is shown in the consolidated income statement as a component of the consolidated net income or loss. From 1 January 2010 onwards, movements in shareholdings in subsidiary companies are reported as equity transactions provided that control existed prior to this date and continues to exist. Acquisitions of minority interests in consolidated subsidiaries were previously accounted for using the purchase method. If the costs of acquisition were greater than the attributable share of the carrying amount, the difference was recognised as goodwill. Should shares be disposed of without surrendering control, the difference between the proceeds from disposal and the corresponding carrying amount, including goodwill, was recognised as a gain or loss in the income statement. Written put options to owners of minority interests are disclosed as financial liabilities. The balance sheet date for all consolidated subsidiaries is 31 December. There are no restrictions on the transfer of funds from the subsidiaries to the parent company.

Investments in associated companies

Shareholdings in associated companies 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 associated companies are initially recognised at their purchase cost at the date of acquisition. Purchase cost comprises the share of net assets acquired and any 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 received. Unrealised gains and losses from transactions with associated companies 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 associated companies 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.

The exchange rates of significance to the consolidated financial statements during the reporting years were:

	Closing rate		Average rate	
Currency	31.12.2010	31.12.2009	2010	2009
1 EUR	1.250	1.484	1.370	1.508
1 GBP	1.453	1.671	1.600	1.697
1 USD	0.936	1.030	1.038	1.083

At 1 January 2009, the exchanges rates CHF/EUR, CHF/USD and CHF/GBP amounted to 1.486, 1.067 and 1.56, respectively.

3.3 Cash and cash equivalents

Cash and cash equivalents include cash on hand, sight balances and time deposits with financial institutions with original maximum terms of three months or less. 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 there from have either expired 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 re-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.

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 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 valued at the lower of purchase or production cost and net realisable value. The purchase or production 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 purchase or production cost of inventories is determined by using the weighted average cost formula. 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 amortisation. 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 manufacturing 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. Depreciation and amortisation 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]	20 to 30
Ducts [1]	40
Transmission and switching equipment [1]	4 to 15
Other technical installations	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 or amortised separately. The estimated useful lives and residual values are reviewed at least annually as of the balance sheet date and, if necessary, adjusted. Leasehold improvements and installations in leased premises are amortised on a straight-line basis over the shorter of their estimated useful lives and the remaining minimum lease term. The carrying amount of an item of property, plant and equipment is written off on disposal or whenever no future economic benefits are expected from its use. Gains and losses arising on the disposal of property, plant and equipment are calculated as the difference between the disposal proceeds and the carrying amount of the item of property, plant and equipment. They are taken to income and recorded as other income or other operating expenses.

3.8 Business combinations and goodwill

Business combinations are accounted for using the purchase method. As of the date of acquisition, acquisition costs are recognised at fair value. The purchase consideration includes the amount of cash paid as well as the fair value of the assets ceded, liabilities incurred or assumed as well as own equity instruments ceded. Liabilities depending on future events based upon contractual agreements are recognised at fair value. Directly attributable transaction costs are reported as other operating expenses. At the time of acquisition, all identifiable assets and liabilities that satisfy the recognition criteria are recorded at their fair values. The difference between the cost of acquisition and the fair value of the identifiable assets and liabilities acquired is accounted for as goodwill after taking account of any minority interests. Any negative difference, after further review, is expensed directly. Goodwill acquired in connection with a business combination is recorded 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. Costs of further development are only capitalised if the original level of performance is increased. Development costs which do not satisfy the requirements for capitalisation are expensed as incurred. Capitalised development costs are amortised using the straight-line method over the estimated useful lives of the related assets.

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 and 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 12

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 and discontinued operations

A discontinued operation is a component of an entity that has been sold or is classified as being held for sale and represents a separate major line of business or geographical area of operations or a subsidiary acquired exclusively with the intention of resale. The classification as a discontinued operation is made upon disposal or at an earlier date if the operation satisfies the criteria for classification as being 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 impairment losses arising 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

Impairments of financial assets

As of each balance sheet date, the carrying amount 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. Impairment losses on trade and other receivables are recorded in the form of specific valuation allowances which cover the anticipated default risk. As regards 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.
In the event of impairment in the value of available-for-sale financial assets, the cumulative losses which had been previously recognised in equity are reclassified from equity and expensed. If, at a subsequent balance sheet date, the fair value objectively increases as a result of events occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed in an equivalent amount. The reversal of impairment losses for financial assets accounted for at amortised cost is recognised in the income statement. In the case of equity instruments classified as available-for-sale, the recovery in value is recognised directly in equity.

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 equivalent 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 for goodwill 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 possibly impaired, the recoverable amount of the asset is determined. If the recoverable amount of an 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 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 are recognised when Swisscom has a present legal or constructive obligation as a result of a past event, when it is probable that an outflow of funds will be required to settle the obligation and the amount of the obligation can be estimated reliably. The amount recognised as a provision is the best possible estimate of the amount required to settle the present obligation. Provisions are discounted if the effect is material.

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 and the amount thereof can be reliably estimated. A liability is recorded only when implementation of the programme has begun or the persons 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 implementing 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 these stations 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 re-measured, 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.

3.16 Treasury shares

Treasury shares held by Swisscom are recorded as a deduction from equity. Gains or losses on the disposal of treasury shares are recorded as a movement in equity within retained earnings.

3.17 Net revenue

General
Net revenue is measured at the fair value of the consideration received less value-added taxes, price reductions, quantity discounts 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. If the fair value of services still to be provided can be measured reliably but not the fair value of the services already rendered, the value of the services already rendered is calculated using the residual-value method.

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 "Residential Customers" 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.

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

Fastweb
"Fastweb" is the second-largest provider of broadband services in Italy. Their 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 (virtual network operator). It also provides comprehensive network services and customised solutions.

Other Operating Segments
The "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 encompasses the integration and operation of complex IT infrastructures. Swisscom Participations comprises mainly Swisscom Broadcast Ltd, Swisscom Real Estate Ltd, cablex Ltd, Billag Ltd, Alphapay Ltd and Curabill Ltd as well as the Sicap Group. Swisscom Broadcast Ltd is the leading provider

of radio services, multi-platform services for customers in the media world and emergency radio in Switzerland. 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, focusing on the field of telecommunication. Alphapay Ltd and Curabill Ltd are collection agencies specialised in claims management for third parties. The Sicap Group develops and operates mobile radio applications for GSM operators. 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, the use of Swisscom's fixed network by other telecommunication service providers, payphone services, operator services, and prepaid calling cards. The segment also includes activities for leased lines, the sale of terminal equipment and operates a directories database. 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 evenly over the duration of the contract. Revenue from the sale of equipment is recorded at the time of delivery.

Mobile

Mobile services encompass mainly 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. It also includes value-added services, data traffic as well as the sale of mobile handsets. 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 will be recognised on the date of connection. Revenue from mobile telephony is recorded on the basis of the actual minutes used. Roaming services are recorded as revenue on the basis of the minutes used or the agreed contractual rates at the time the services were used. Revenue is recorded gross. Value-added services such as text or multimedia news, as well as the sale of mobile handsets, are recorded at the time the service is provided.

Broadband

Internet services include the range of broadband and narrowband Internet access lines offered to residential and corporate customers as well as broadband Internet 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 will be recognised on the date of installation or connection.

IP-TV

In the TV sector, revenue is generated from the range of IP-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 and integration costs 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.

3.18 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 in the definition of an intangible asset.

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 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 2010 with a roll-forward of the plan assets to 31 December 2010. Current pension entitlements are charged to income in the period in which they arise. The effects of changes in actuarial assumptions are amortised evenly over the assumed average remaining period of service of the participating employees. The share of actuarial gains and losses to be recorded is defined as the excess of the cumulative unrecorded actuarial gains and losses as of the previous year's balance sheet date over the greater of 10% of the present value of the defined benefit obligations and 10% of the fair value of plan assets. 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.

3.21 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.

3.22 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 includes 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.

3.23 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 capital are recorded as other operating expenses. Deferred taxes are computed using the balance sheet liability method whereby deferred tax is recognised 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. 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.

3.24 Derivative financial instruments

Derivative financial instruments are initially recorded at fair value and subsequently remeasured at fair value. The method of recording the fluctuations in fair value is dependent on the underlying transaction and the intention with regards thereto upon purchase or issuance of this underlying transaction. On the date a derivative contract is entered into, management designates the purpose of the hedge: 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, along with any changes in fair value of the hedged assets or liabilities. 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 results later in the recording of a financial asset or financial liability, the amount included in equity shall be transferred to the income statement in the same period in which the financial asset or financial liability impacts the results. Otherwise, amounts recorded in equity are recognised in the income statement as revenue or expense in the same period by analogy with the cash flows of the intended or agreed future transaction. Changes in the fair value of derivative financial instruments that are not designated as hedging instruments are taken immediately to income. At the inception of each transaction, Swisscom documents the relationship between the derivative financial instruments and the underlying transactions, as well as the objective and strategy with regard to the hedges. This process includes linking all derivative hedging instruments to corresponding assets and liabilities or to intended future transactions. Swisscom also documents its assessment of whether the derivative financial instruments that are used to hedge transactions are highly effective in neutralising changes in values of the underlying transaction or of future cash flows.

3.25 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.

3.26 New and revised 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 2010 onwards, Swisscom applies the amendments to IFRS 3 (revised) "Business Combinations", IAS 27 "Consolidated and Separate Financial Statements" as well as various amendments of IFRS of 2009 with the impact as described below:

- IFRS 3 (revised) "Business Combinations" (in effect as of 1 July 2009) contains several significant changes to the previous reporting and measurement practices as well as disclosure of additional information relating to business combinations. Swisscom applies the amendments to IFRS 3 (revised) in its consolidated financial statements for business combinations occurring subsequent to 1 January 2010.
- IFRS 27 (revised) "Consolidated and Separate Financial Statements" (in effect as of 1 July 2009) requires changes to the previous reporting and measurement practices in relation to disposals of shares as well as the purchases of minority interests. Changes to shareholdings which do not lead to the acquisition or loss of control are now to be recorded exclusively as equity transactions without income effect. Previously, Swisscom accounted for the acquisition of minority interests using the purchase method. If the costs of acquisition were greater than the attributable share of the carrying amount, the difference was recognised as goodwill. If shares were disposed of without surrendering control, the difference between the proceeds on disposal and the corresponding carrying amount, including goodwill, was recognised as a gain or loss in the income statement.
- Amendments of IFRS of 2009: IAS 39 (revised) "Financial Instruments: Recognition and Measurement" (in effect as from 1 January 2010): The conditions to be fulfilled for the exemption from the scope of application of IAS 39 of derivatives entered into within the framework of a business combination were clarified. The new rules provide that now only certain forward contracts are to be excluded from the scope of application of IAS 39. The revised Standard is to be applied prospectively as from 1 January 2010 for all outstanding contracts. Options amounting to CHF 14 million were recognised in the first quarter of 2010 and recorded as financial income. Accordingly, net income increased by CHF 14 million and earnings and diluted earnings by share by CHF 0.27.
- Amendments to IFRS of 2009: IAS 17 (revised) "Leases" (in effect as from 1 January 2010): The Amendment concerns the classification of leases involving land. The specific rule whereby land typically represents an operating lease as a result of its unlimited economic life was removed. As of this date, identical conditions apply for the classification of leases involving land as for leases involving buildings. Thus, under certain circumstances, land is to be classified as a finance lease. As a result of the amendment, Swisscom must reclassify a part of the share of land which was sold and leased back in 2001 as a finance lease. The amendment was applied retroactively. The impact on the balance sheet, income statement and cash flow statement is as follows:

In CHF million	Reported	Adjustments	Restated
Balance sheet at 1 January 2009			
Property, plant and equipment	8,033	181	8,214
Deferred tax assets	58	9	67
Financial liabilities	(11,792)	(211)	(12,003)
Other non-financial liabilities	(802)	(95)	(897)
Equity	**5,763**	**(116)**	**5,647**
Share of equity attributable to equity holders of Swisscom Ltd	5,389	(116)	5,273
Share of equity attributable to minority interests	374	–	374

In CHF million, except for per share amounts	Reported	Adjustments	Restated
Income statement full year 2009			
Other operating expenses	(2,524)	15	(2,509)
Capitalised self-constructed assets and other income	414	3	417
Depreciation	(1,988)	(7)	(1,995)
Financial expense	(480)	(13)	(493)
Net income	**1,925**	**(2)**	**1,923**
Share of net income attributable to equity holders of Swisscom Ltd	1,928	(2)	1,926
Share of net income attributable to minority interests	(3)	–	(3)
Basic and diluted earnings per share (in CHF)	37.22	(0.04)	37.18

In CHF million	Reported	Adjustments	Restated
Cash flow statement full year 2009			
Cash flow provided by operating activities	4,380	15	4,395
Cash flow used in financing activities	(3,744)	(15)	(3,759)

Furthermore, Swisscom has adopted early the "Amendments to IFRS of 2010: IAS 1 Presentation of Financial Statements". In IAS 1, it is specified that no separate details for each individual component of other comprehensive income need be provided in the statement of changes in movements in equity. Instead, the details may be set out in the notes to the financial statements.
In addition, the following changes in existing International Financial Reporting Standards (IFRS) and Interpretations which have no impact on financial reporting have been implemented:

> Amendments to IFRS 2 "Share-Based Payment: Accounting for Group Cash-Settled Share-Based Payment Transactions";
> Amendments to IAS 39 "Financial Instruments: Recognition and Measurement: Exposures Qualifying for Hedging";
> IFRIC 17 "Distribution of Non-Cash Assets to Owners";
> Other "Amendments of IFRS of 2009";
> Other "Amendments of IFRS of 2008: Non-Current Assets Held for Sale and Discontinued Operations".

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

The following Standards and Interpretations published up to the end of 2010 are mandatory for accounting periods beginning on or after 1 January 2011 or later:

> "IFRS 7 "Financial Instruments: Disclosures – Transfer of Financial Assets" (valid as from 1 July 2011): The amendments to IFRS 7 concern expanded disclosure requirements in the case of the transfer of financial assets and provide the addressees of the financial statements with a better understanding of the impact of the residual risks in the enterprise. Swisscom will review its financial statements with a view to implementing this new Standard.
> IFRS 9 "Financial Instruments: Measurement and Classification" (valid as from 1 January 2013): IFRS 9 replaces the currently valid IAS 39 "Financial Instruments: Recognition and Measurement" and contains changes in the current presentation and valuation practice in relation to financial instruments. Swisscom will review its financial statements with a view to implementing this new Standard.
> Amendment to IAS 12 "Income Taxes: Deferred Income Taxes on the Recovery of Underlying Assets" (valid as from 1 January 2012). The Amendment offers a partial clarification of the treatment of timing differences in connection with the application of the fair-value model of IAS 40. In the case of real estate held for investment purposes, it is often difficult to assess whether existing differences will reverse through continued use or as a result of a sale. The amendment to IAS 12 provides that reversal in principle occurs as a result of a sale. As a consequence of the amendment, SIC 21 "Income Taxes – Recovery of Revalued Depreciable Assets" shall no longer be valid for real estate held for investment purposes and measured at fair value. Swisscom anticipates no impact on its financial statements in applying this amendment.
> IAS 24 (amended) "Related-Party Disclosures" (valid as from 1 January 2011) contains changes to the definition of a related entities and individuals as well as a simplification of the disclosure provisions of entities or individuals related to governments. Swisscom will review its financial statements with a view to implementing this Standard.
> Amendments to IAS 32 "Financial Instruments: Presentation: Classification of Rights Issues" (valid as from 1 February 2010): IAS 32 stipulates that certain rights issues, such as options and warrants in foreign currency with the issuer to whose equity instruments these rights relate, are no longer to be reported as liabilities but as equity. Swisscom anticipates no impact on its financial statements from the application of these amendments.
> Amendments to IFRIC 14 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction: Prepayments of a Minimum Funding Requirement" (valid as from 1 January 2011): the Amendment concerns cases where a company is subject to minimum funding requirements and makes advance contribution payments in order to settle these minimum funding commitments. The Amendment permits the recording of the benefit from such advance payments as an asset. Swisscom anticipates no impact on its financial statements from the implementation of this revised Interpretation.

- IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments” (valid as from 1 July 2010): The Interpretation clarifies the requirements to be met when a financial liability is extinguished through issuance of equity shares or other equity instruments. Swisscom anticipates no impact on its financial statements from the implementation of this Interpretation.
- “Improvements to IFRS of 2010” (valid as from 1 July 2010 and 1 January 2011, respectively): “The Amendments to IFRS” cover smaller changes to various IFRS Standards. Swisscom anticipates no impact on its financial statements in applying these amendments.

4 Significant accounting judgments and estimation uncertainties

The preparation of the consolidated financial statements is dependent upon estimates and assumptions 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, 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 2010, the carrying amount of goodwill from acquisitions totalled CHF 6,261 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

The defined benefit obligations are calculated on the basis of various financial and demographic assumptions. The key assumptions for valuing these obligations are the discount rate, future salary and pension increases as well as the expected return on plan assets. As of 31 December 2010, the underfunding amounted to CHF 1,160 million, whereby only CHF 78 million were recognised as a liability in the consolidated balance sheet (CHF 263 million as receivable and CHF 341 million as liability). A reduction in the discount rate of 0.5% would result in an increase in the obligation of CHF 631 million. An increase in average future salary increases of 0.5% would lead to an increase in post-employment benefits of CHF 78 million. A reduction in the expected rate of return of 0.5% would result in an increase in annual pension costs of CHF 36 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 2010, the carrying amount of these provisions totalled CHF 487 million. The level of the provisions is primarily based on 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 40 million. A postponement of the date of dismantling by ten years would lead to a decrease in the provisions of CHF 104 million. See Note 28.

Provisions for interconnection and other access services of Swisscom Switzerland pursuant to the revised Federal Telecommunications Act (FMG)

Various proceedings are in course in connection with the setting of prices for interconnection and other access services. Swisscom has raised provisions on the basis of its own estimate of the expected financial outcome thereof. As of 31 December 2010, the provisions for interconnection and other access services aggregated CHF 159 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 necessitating an increase or decrease of the recorded provisions. See Note 28.

Proceedings conducted by the Competition Commission

The Competition Commission (ComCo) is currently conducting various proceedings against Swisscom. The individual proceedings are described in Note 29. In the event that Swisscom is deemed to have violated Antitrust Law, ComCo is entitled to impose sanctions. On the basis of a legal opinion, Swisscom considers it unlikely that ComCo will impose direct sanctions. Accordingly, no provisions were recognised in the 2010 consolidated financial statements in connection with these proceedings. Further developments in the proceedings may result in a revised assessment of the financial outcome in subsequent years and lead to the need to record provisions.

Allowances for doubtful receivables

Allowances for doubtful receivables are recorded in order to cover foreseeable losses arising from a customer's insolvency. As of 31 December 2010, the carrying value of allowances for trade and other receivables totalled CHF 262 million. In determining the appropriateness of the allowance, several factors are considered. These include the ageing of receivables, the current financial soundness 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 2010, recognised deferred tax assets amounted to CHF 285 million. See Note 15.

Useful lives of property, plant and equipment

As of 31 December 2010, the carrying amount of property, plant and equipment totalled CHF 7,899 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.

Business combinations

In the case of business combinations, assets and liabilities acquired are measured at fair value at the date of acquisition. In determining the fair value of the intangible assets and property, plant and equipment acquired, of the liabilities assumed at the date of acquisition as well as the useful lives of the intangible and tangible assets acquired, certain assumptions are made. The measurement is based upon projected cash flows and on information available at the date of acquisition. Actual cash flows may differ significantly from those assumed in determining fair values. See Note 5.

5 Changes in scope of consolidation and purchase of minority interests

Business combinations in 2010

Payments totalling CHF 39 million were made in 2010 for the acquisition of Group companies. Of this amount, CHF 6 million is for deferred consideration payments for business combinations in prior years and CHF 33 million for businesses acquired in 2010. The newly acquired companies in 2010 are viewed each as non-significant business combinations and they are thus reported on an aggregate basis.
On 30 April 2010, Swisscom Switzerland acquired the Swiss operating and service business of Siemens Enterprise Communications. In addition, on 15 December 2010, Swisscom Switzerland acquired the entire share capital of Axept Ltd which offers services primarily in the fields of consulting and engineering as well as outsourcing. On 7 May 2010, Swisscom IT Services completed the acquisition of the entire share capital of Panatronic Schweiz Ltd which is active in the area of printer solutions as well as servicing and repairs. After acquisition, Panatronic Schweiz Ltd changed its name to Swisscom IT Services Workplace Ltd. On 23 July 2010, Swisscom Hospitality Services completed the acquisition of 100% of the share capital of Wayport Holding A/S. Wayport provides network-based services to hotels in Europe, the Middle East and Africa (EMEA) for use by their guests.
The aggregate allocation of acquisition costs to the net assets may be analysed as follows:

In CHF million	Pre-acquisition carrying amount	Adjustments	Post-acquisition carrying amount
Cash and cash equivalents	8	–	8
Trade and other receivables	15	–	15
Other financial assets	2	–	2
Property, plant and equipment	8	–	8
Other intangible assets	–	22	22
Other current and non-current assets	7	–	7
Financial liabilities	(7)	–	(7)
Trade and other payables	(13)	–	(13)
Defined benefit obligations	(3)	–	(3)
Deferred tax liabilities	–	(4)	(4)
Other short- and long-term liabilities	(7)	–	(7)
Identifiable assets and liabilities	**10**	**18**	**28**
Goodwill			15
At cost			**43**
Cash and cash equivalents acquired			(8)
Deferred payment of purchase price			(2)
Cash outflow			**33**

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 48 million and a loss of CHF 2 million in the 2010 consolidated financial statements. Assuming that the subsidiary companies acquired in 2010 had been included in the consolidated financial statements as from 1 January 2010, there would have resulted consolidated pro-forma net revenue of CHF 12,039 million and a consolidated pro-forma net income of CHF 1,786 million.

Business combinations in 2009

Payments totalling CHF 47 million were made in 2009 for the acquisition of Group companies. Of this amount, CHF 11 million are for deferred consideration payments for business combinations in prior years. The newly acquired companies in 2009 are viewed each as non-significant acquisitions and are thus presented on an aggregate basis in the financial statements.
On 30 June 2009, Swisscom IT Services completed the acquisition of 60% of the share capital of Sourcag Ltd which provides standardised back office services in the fields of security settlements and payments for banks. On 30 June 2009, Swisscom IT Services acquired the entire capital of Resource Ltd. Resource Ltd plans, develops and implements SAP-based IT solutions both for small and medium-sized companies as well as for large corporations. On 31 October 2009, Swisscom acquired the entire capital of Weco Inkasso Ltd which is active in the field of loss certificate and receivable collection services of banks. Weco Inkasso Ltd was merged with Alphapay Ltd following the acquisition.
The aggregate allocation of acquisition costs to the net assets may be analysed as follows:

In CHF million	Pre-acquisition carrying amount	Adjustments	Post-acquisition carrying amount
Cash and cash equivalents	9	–	9
Trade and other receivables	7	–	7
Other financial assets	10	–	10
Property, plant and equipment	2	–	2
Other intangible assets	–	26	26
Deferred tax assets	2	–	2
Other current and non-current assets	2	–	2
Financial liabilities	(2)	–	(2)
Trade and other payables	(11)	–	(11)
Defined benefit obligations	(10)	–	(10)
Deferred tax liabilities	–	(6)	(6)
Other current and non-current liabilities	(4)	–	(4)
Identifiable assets and liabilities	**5**	**20**	**25**
Share of equity attributable to minority interests			(4)
Goodwill			36
Acquisition costs			**57**
Cash and cash equivalents acquired			(9)
Deferred payment of purchase price			(12)
Cash outflow			**36**

The main reasons for the recognition of goodwill are the anticipated additional future market shares, qualifying services, processes and systems as well as synergies arising from the merger of Weco Inkasso Ltd with Alphapay Ltd. The consolidated financial statements of 2009 reflect additional net revenues of CHF 28 million and net loss of CHF 2 million as a result of these business acquisitions. On the assumption that the subsidiaries acquired in 2009 had been included in consolidation as from 1 January 2009, pro-forma consolidated net revenue of CHF 12,043 million and a pro-forma consolidated net income of CHF 1,929 million would have been reported.

Disposal of subsidiaries

As a result of exiting the broadband business in Eastern Europe, Swisscom Central & Eastern Europe disposed of various companies in Bulgaria, Poland, Romania and the Ukraine in 2008 and 2009. The aggregated carrying amounts of the net assets sold as well as the aggregated net cash received from the sales of subsidiaries in 2009 are presented in the table below:

In CHF million	2009
Property, plant and equipment	10
Goodwill and other intangible assets	1
Other current and non-current assets	6
Trade and other payables	(2)
Total net assets sold	**15**
Sales price	**13**
Deferred payment of purchase price	(9)
Cash inflow	**4**

Purchase of minority interests

As a result of a friendly takeover bid in May 2007, Swisscom acquired 82.08% of the share capital of Fastweb S.p.A. (Fastweb). On 11 October 2010, Swisscom launched a public takeover bid for the remaining 17.92% of the share capital of Fastweb. The bidding period lasted until 12 November 2010. Swisscom offered a price of EUR 18.00 per Fastweb share thus equating a total purchase consideration of EUR 256 million. At the end of the bidding period, an additional 12.75% of the share capital was tendered, thus corresponding to a purchase price of EUR 183 million (CHF 243 million). In addition, a further 0.16% was acquired on the stock exchange aggregating EUR 2 million (CHF 3 million). A squeeze-out procedure was commenced for the remaining 5.01% of the share capital of Fastweb and a financial liability of EUR 71 million (CHF 96 million) recorded. In addition, transaction costs totalling CHF 7 million were incurred. It is anticipated that the takeover will be consummated in the first quarter of 2011. Accordingly, no minority interests are disclosed any longer for Fastweb.

6 Segment information

Operating segments requiring to be reported are determined on the basis of a management approach. In accordance therewith, external segment reporting reflects the internal organisational and management structure used within the Group as well as internal financial reporting to the chief operating division 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 "Networks and IT" which are regrouped under "Swisscom Switzerland", "Fastweb", and "Other Operating Segments". In addition, unallocated costs are reported separately under "Group Headquarters". In segmental 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 "Networks & 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 Wholesale thus report their contribution margins prior to network costs. Network costs are planned, monitored and controlled by the business division Networks & IT. The business division Networks & IT is managed as a cost centre. For this reason, no revenue is credited to the Networks & IT division within segmental reporting. The segment results of Networks & 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 are equal to the operating results (EBIT) of Swisscom Switzerland. Fastweb is the second-largest fixed-network operator and leading provider of IP-based services in Italy and is reported in the consolidated financial statements as a separate segment. The financial reporting of Fastweb to the Board of Directors of Swisscom is handled as a single unit. "Other Operating Segments" mainly comprise the operating segments Swisscom IT Services, Swisscom Participations, and Swisscom Hospitality Services. Swisscom IT Services mainly comprises the Group subsidiaries Swisscom IT Services Ltd, and Comit Ltd. Swisscom Participations mainly comprises Swisscom Broadcast Ltd, Swisscom Real Estate Ltd, cablex Ltd, Billag Ltd, Alphapay Ltd, and Curabill Ltd as well as the Sicap Group. "Group Headquarters" which includes unallocated cost, comprises mainly the Group central divisions of Swisscom and the employment company Worklink Ltd.

The services offered by each operating segment are described in Note 3.17. 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 Networks & IT recharges no network costs to other segments. Other inter-segmental 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.

Swisscom has modified retrospectively the accounting policies for the classification of leases involving land. Leases in the segment "Other Operating Segments" are impacted by the change. Prior year's comparatives were adjusted accordingly. See Note 3.26.

31.12.2010, in CHF million	Swisscom Switzerland	Fastweb	Other operating segments	Group Head-quarters	Elimi-nation	Total
Net revenue from external customers	8,500	2,562	925	1	–	11,988
Net revenue with other segments	66	14	811	5	(896)	–
Net revenue	**8,566**	**2,576**	**1,736**	**6**	**(896)**	**11,988**
Segment result	**2,773**	**(158)**	**148**	**(140)**	**2**	**2,625**
Financial income and financial expense, net						(365)
Share of results of associated companies						28
Income before income taxes						**2,288**
Income tax expense						(502)
Net income						**1,786**
Associated companies	218	–	11	2	–	231
Assets held for sale	–	–	4	–	–	4
Capital expenditure in property, plant and equipment and other intangible assets	1,204	585	130	–	(16)	1,903
Depreciation and amortisation	1,022	747	189	14	(11)	1,961
Impairment losses	9	–	2	–	–	11
Gain (loss) on disposal of property, plant and equipment, net	(2)	–	19	–	–	17
Share of results of associated companies	30	–	–	(2)	–	28

31.12.2010, in CHF million	Residential Customers	Small & Medium-Sized Enterprises	Corporate Business	Whole-sale	Networks & IT	Elimi-nation	Total Swisscom Switzer-land
Net revenue from external customers	4,897	1,123	1,732	748	–	–	8,500
Net revenue with other segments	293	52	126	505	–	(910)	66
Net revenue	**5,190**	**1,175**	**1,858**	**1,253**	**–**	**(910)**	**8,566**
Segment result	**2,906**	**864**	**935**	**439**	**(2,372)**	**1**	**2,773**
Associated companies	153	–	–	65	–	–	218
Capital expenditure in property, plant and equipment and other intangible assets	128	9	80	–	988	(1)	1,204
Depreciation and amortisation	102	5	55	–	862	(2)	1,022
Impairment losses	–	–	–	–	9	–	9
Gain (loss) on disposal of property, plant and equipment, net	(1)	–	–	–	(1)	–	(2)
Share of results of associated companies	10	–	–	20	–	–	30

31.12.2009, in CHF million, restated	Swisscom Switzerland	Fastweb	Other operating segments	Group Head-quarters	Elimi-nation	Total
Net revenue from external customers	8,378	2,783	839	1	–	12,001
Net revenue with other segments	75	10	888	5	(978)	–
Net revenue	**8,453**	**2,793**	**1,727**	**6**	**(978)**	**12,001**
Segment result	**2,713**	**18**	**125**	**(169)**	**2**	**2,689**
Financial income and financial expense, net						(349)
Share of results of associated companies						43
Income before income taxes						**2,383**
Income tax expense						(460)
Net income						**1,923**
Associated companies	214	–	11	3	–	228
Assets held for sale	–	–	6	–	–	6
Capital expenditure in property, plant and equipment and other intangible assets	1,219	657	121	2	(12)	1,987
Depreciation and amortisation	962	813	212	9	(15)	1,981
Impairment losses	–	–	14	–	–	14
Gain (loss) on disposal of property, plant and equipment, net	(8)	–	12	–	–	4
Share of results of associated companies	42	–	(1)	2	–	43

31.12.2009, in CHF million	Residential Customers	Small & Medium-Sized Enterprises	Corporate Business	Whole-sale	Networks & IT	Elimi-nation	Total Swisscom Switzer-land
Net revenue from external customers	4,725	1,090	1,686	877	–	–	8,378
Net revenue with other segments	292	55	146	568	–	(986)	75
Net revenue	**5,017**	**1,145**	**1,832**	**1,445**	**–**	**(986)**	**8,453**
Segment result	**2,823**	**832**	**907**	**471**	**(2,321)**	**1**	**2,713**
Associated companies	157	–	–	56	1	–	214
Capital expenditure in property, plant and equipment and other intangible assets	131	9	79	–	1,000	–	1,219
Depreciation and amortisation	94	3	50	–	817	(2)	962
Gain (loss) on disposal of property, plant and equipment, net	–	–	1	–	(9)	–	(8)
Share of results of associated companies	15	–	–	26	1	–	42

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 services 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 classified according to regions. Net revenues and assets are allocated according to the registered office of the related Group company.

	2010		2009	
In CHF million	Net revenue	Assets	Net revenue	Assets
Switzerland	9,340	13,147	9,119	12,861
Italy	2,570	6,548	2,791	7,790
Other countries in Europe	67	238	78	209
Other countries outside Europe	11	13	13	16
Unallocated	–	1,121	–	1,268
Total	**11,988**	**21,067**	**12,001**	**22,144**

Disclosures by products and services

In CHF million	2010	2009
Mobile telephony	3,549	3,433
Fixed network	6,229	6,665
Other	2,209	1,902
Unallocated	1	1
Total net revenue	**11,988**	**12,001**

The products and services offered by each operating segment are described in Note 3.17.

Significant customers

Swisscom has a large number of customers. There are no material relationships with individual customers.

7 Net revenue

In CHF million	2010	2009
Net revenue from services	11,043	11,131
Net revenue from sale of merchandise	940	864
Net revenue from assignment of use of intangible assets	5	6
Total net revenue	**11,988**	**12,001**

Further information on Swisscom's business activities is set out in Notes 3.17 and 6.

8 Goods and services purchased

In CHF million	2010	2009
Raw material and supplies	24	22
Services purchased	401	380
Customer premises equipment and merchandise	966	789
National traffic fees	241	298
International traffic fees	346	397
Traffic fees of foreign subsidiaries	687	762
Total goods and services purchased	**2,665**	**2,648**

9 Personnel expense

In CHF million	2010	2009
Salary and wage costs	2,035	2,049
Social security expenses	224	232
Expense of defined benefit plans. See Note 10.	139	163
Expense of defined contribution plans. See Note 10.	13	13
Expense of share-based payments. See Note 11.	2	2
Salary and wage costs of the employment company Worklink	10	20
Termination benefits	17	30
Other personnel expense	80	68
Total personnel expense	**2,520**	**2,577**

Termination benefits programmes

Swisscom supports employees affected by downsizing through a social plan for which expenses of CHF 17 million were recorded in 2010 (prior year: CHF 30 million). Depending on the relevant social plan, age and length of service, certain employees affected by downsizing may transfer to the employment company Worklink Ltd. The employment company Worklink Ltd hires out participating employees to third parties on a temporary basis. The total wage expense for Worklink participants in 2010 aggregated CHF 10 million (prior year: CHF 20 million).

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 “Altrentner PUBLICA” and for Fastweb employees. Expenses of defined benefit plans totalled CHF 139 million (prior year: CHF 163 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 6.8%. 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. 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% and contributions in the form of credits to individual retirement savings of 5% to 13% of the insured salary, depending on age. In addition, Swisscom also paid additional contributions of 3% of the insured salary from 2006 to 2010 in order to constitute reserves for fluctuations in the value of plan assets. In 2010, these additional contributions aggregated CHF 52 million. In 2010, the Council of the Foundation resolved to make several amendments to the plan which are designed to ensure financial stability considering low interest rates and growing life expectancy. The amendments take effect in 2011 and encompass measures affecting pension benefits as well as contributions. In particular, the level of future retirement benefits for new pensioners will be decreased. The amendments to the pension plan lead to a reduction in defined benefit obligations of CHF 142 million. Of this amount, CHF 6 million was recorded as a gain on plan settlements and CHF 136 million as the unamortised costs of retroactive changes to the pension plan. Of the gain on plan settlements, CHF 5 million was recorded as a reduction of retirement benefit expense and CHF 1 million as a reduction of unamortised actuarial losses.

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 reserves. Any extraordinary pension increases must be funded by Swisscom through payment of sufficient covering funds. In order to evaluate the effective commitment, 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 2,734 million gross (prior year: CHF 2,722 million). Of this, obligations for pension increases and administrative costs amount to CHF 35 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. However, the gross commitments of CHF 2,734 million are used as a basis to determine the corridor for amortising the actuarial gains or losses. At 31 December 2010, included in the PUBLICA’s pension obligations are unrecognised actuarial gains of CHF 272 million (prior year: CHF 274 million). These are outside the corridor of 10%. In the prior year, the difference of CHF 2 million was taken to income immediately.

Fastweb

Employees of the Italian subsidiary Fastweb have acquired 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 may be analysed as follows:

In CHF million	Funded pension plans	Non-funded pension plans	2010	Funded pension plans	Non-funded pension plans	2009
Current service cost	147	–	147	135	–	135
Interest cost on defined benefit obligations	257	1	258	250	1	251
Expected returns on plan assets	(272)	–	(272)	(245)	–	(245)
Gains resulting from plan settlement	(5)	–	(5)	–	–	–
Amortisation of retroactive plan amendments	(5)	–	(5)	(4)	–	(4)
Amortisation of actuarial loss	4	(2)	2	19	–	19
Employment termination benefits	14	–	14	7	–	7
Total pension cost from defined benefit plans	**140**	**(1)**	**139**	**162**	**1**	**163**

Expenses in 2010 for defined contribution plans aggregated CHF 13 million (prior year: CHF 13 million).

Status of pension plans

The pension plan assets and obligations over the year have changed as follows:

In CHF million	Funded pension plans	Non-funded pension plans	2010	Funded pension plans	Non-funded pension plans	2009
Defined benefit obligations						
Balance at 1 January	**7,578**	**62**	**7,640**	**7,044**	**66**	**7,110**
Current service cost	147	–	147	135	–	135
Interest cost on defined benefit obligations	257	1	258	250	1	251
Plan participants' contributions	139	–	139	138	–	138
Retirement benefits paid	(322)	(2)	(324)	(364)	(3)	(367)
Actuarial (gains) losses	672	–	672	295	(2)	293
Additions from acquisition of subsidiaries	11	–	11	73	–	73
Change in pension plans	(138)	–	(138)	–	–	–
Employment termination benefits	14	–	14	7	–	7
Foreign currency translation adjustments	–	(5)	(5)	–	–	–
Balance at 31 December	**8,358**	**56**	**8,414**	**7,578**	**62**	**7,640**
Plan assets						
Balance at 1 January	**6,810**	**–**	**6,810**	**6,065**	**–**	**6,065**
Expected returns on plan assets	272	–	272	245	–	245
Employer contributions	370	–	370	285	–	285
Plan participants' contributions	139	–	139	138	–	138
Retirement benefits paid	(322)	–	(322)	(364)	–	(364)
Actuarial gains (losses)	(23)	–	(23)	378	–	378
Additions from acquisition of subsidiaries	8	–	8	63	–	63
Balance at 31 December	**7,254**	**–**	**7,254**	**6,810**	**–**	**6,810**
Net defined benefit obligations						
Net obligations at 31 December	**1,104**	**56**	**1,160**	**768**	**62**	**830**
Unrecognised actuarial gains (losses)	(1,477)	272	(1,205)	(788)	274	(514)
Unrecognised costs of retroactive changes in pension plans	123	–	123	(3)	–	(3)
Net defined benefit obligations recorded in balance sheet at 31 December	**(250)**	**328**	**78**	**(23)**	**336**	**313**

Movements in recognised defined benefit obligations may be analysed as follows:

In CHF million	Funded pension plans	Non-funded pension plans	2010	Funded pension plans	Non-funded pension plans	2009
Balance at 1 January	**(23)**	**336**	**313**	**90**	**338**	**428**
Pension cost, net	140	(1)	139	162	1	163
Employer contributions and benefits paid	(370)	(2)	(372)	(285)	(3)	(288)
Additions from acquisition of subsidiaries	3	–	3	10	–	10
Foreign currency translation adjustments	–	(5)	(5)	–	–	–
Balance at 31 December	**(250)**	**328**	**78**	**(23)**	**336**	**313**
Thereof defined benefit assets	(263)	–	(263)	(38)	–	(38)
Thereof defined benefit obligations	13	328	341	15	336	351

The plan assets include shares of Swisscom Ltd with a fair value of CHF 5 million (prior year: CHF 5 million). The effective return on plan assets was CHF 249 million (prior year: CHF 623 million).

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

Category	Investment strategy	31.12.2010	31.12.2009
Third-party debt instruments	56.0%	53.3%	58.4%
Equity instruments	26.0%	27.5%	25.5%
Real estate	8.0%	8.5%	6.9%
Cash and cash equivalents and other investments	10.0%	10.7%	9.2%
Total plan assets	**100.0%**	**100.0%**	**100.0%**

Swisscom expects to make payments to pension funds for ordinary employee contributions in 2011 totalling CHF 216 million.

Actuarial assumptions

	2010		2009	
Assumptions	Funded pension plans	Non-funded pension plans	Funded pension plans	Non-funded pension plans
Discount rate at December 31	2.74%	2.87%	3.46%	3.56%
Rate of increase in compensation levels	2.24%	–	2.24%	–
Long-term rate of return on plan assets	3.96%	–	3.98%	–
Pension increases	0.10%	0.10%	0.10%	0.10%
Life expectancy at age of 65 – men (number of years)	19.65	19.65	18.71	18.71
Life expectancy at age of 65 – women (number of years)	22.81	22.81	21.72	21.72

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 past four years:

In CHF million	2010	2009	2008	2007	2006
Defined benefit obligations	(8,414)	(7,640)	(7,110)	(7,715)	(8,342)
Plan assets	7,254	6,810	6,065	6,863	6,745
Underfunding	**(1,160)**	**(830)**	**(1,045)**	**(852)**	**(1,597)**
Experience adjustments on defined benefit obligations	58	24	(7)	(9)	15
Experience adjustments on plan assets	(23)	378	(1,200)	(272)	72

11 Share-based payments

In CHF million	2010	2009
Share-based payments to the members of the Board of Directors	0.7	0.7
Share-based payments to the members of the Group Executive Board	1.1	1.1
Change in accrual for share-based payments to the members of the Group Executive Board	0.2	–
Total expense of share-based payments	2.0	**1.8**

Swisscom offers the members of the Group Executive Board and the Board of Directors share-based payments in the form of the equity-share purchase plan "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 emoluments 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 328 (prior year: CHF 265). 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 expense of share-based payments excluding the change in the accrual for share-based payments payable to the members of the Group Executive Board may be analysed as follows:

Year of allocation 2010	Number of allocated shares	Market price in CHF	Expense in CHF million
Members of the Board of Directors	1,712	392	0.7
Members of the Group Executive Board [1]	2,767	392	1.1
Total 2010	**4,479**	**392**	**1.8**

[1] Allocation for the fiscal year 2009.

Year of allocation 2009	Number of allocated shares	Market price in CHF	Expense in CHF million
Members of the Board of Directors	2,119	316	0.7
Members of the Group Executive Board [1]	3,254	316	1.1
Total 2009	**5,373**	**316**	**1.8**

[1] Allocation for the fiscal year 2008.

12 Other operating expense

In CHF million	2010	2009 restated
Rental expense	350	366
Repair and maintenance expense	273	260
Loss on disposal of property, plant and equipment	7	12
Energy costs	110	112
Information technology cost	187	187
Advertising and selling expenses	222	199
Dealer commissions	386	400
Consultancy expenses and freelance employees	202	222
Allowances for receivables	132	138
General and administrative expenses	204	211
Miscellaneous operating expenses	437	402
Total other operating expense	**2,510**	**2,509**

In 2010, other operating expense includes a provision of EUR 70 million (CHF 102 million) recorded in connection with VAT-related legal proceedings in Fastweb. See Note 28.

13 Capitalised costs of self-constructed assets and other income

In CHF million	2010	2009 restated
Capitalised self-constructed assets	234	278
Gain on sale of property, plant and equipment	24	16
Income from employment company Worklink (personnel hire)	10	12
Compensation payment from Telecom Italia in connection with proceedings about unfair solicitation of customers	–	30
Miscellaneous income	36	81
Total capitalised self-constructed assets and other income	**304**	**417**

Capitalised costs of self-constructed assets include personnel costs for the production of technical installations, the creation of network infrastructures and the development of software for internal use. In the second quarter of 2009, Fastweb recorded a non-recurring amount of EUR 20 million (CHF 30 million) resulting from a compensation payment from Telecom Italia. This compensation payment resulted from a settlement between Fastweb and Telecom Italia in connection with legal proceedings concerning the unfair solicitation of customers.

14 Financial income and financial expense

In CHF million	2010	2009 restated
Interest income	46	48
Capitalised borrowing costs	12	15
Foreign exchange gains	–	14
Dilution gain in connection with associated companies	–	44
Other financial income	35	23
Total financial income	**93**	**144**
Interest expense	(307)	(329)
Present-value adjustments on provisions	(30)	(22)
Foreign exchange losses	(58)	–
Costs for termination of hedges	(34)	(96)
Other financial expense	(29)	(46)
Total financial expense	**(458)**	**(493)**
Financial income and financial expense, net	**(365)**	**(349)**

In the second half-year of 2010, hedging relationships designated as cash flow hedges in connection with the early repayment of bank loans were terminated. The cumulative revaluation losses amounting to CHF 34 million were taken out of other reserves within equity and recorded as other financial expenses in the income statement. In connection with company acquisitions, options were recognised and an amount of CHF 14 million was recorded as other financial income during the first quarter of 2010. In 2010, settlements were reached with various telecommunication service providers regarding regulatory proceedings. As a result of the settlements, provisions for interest aggregating CHF 18 million were released and credited to other financial income. See Note 28. In 2009, the associated company Belgacom International Carrier Services undertook a share capital increase. Swisscom did not participate in this capital increase. As a result of this, a profit on dilution of CHF 44 million was recorded as financial income. See Note 25. In the second half of 2009, hedging relationships designated as cash flow hedges were terminated in connection with the early repayment of bank debt. The cumulative revaluation losses aggregating CHF 96 million were transferred out of other reserves within equity and recognised as financial expense in the income statement. See Note 33. In 2009, as a result of the early termination of various cross-border lease agreements, previously unrecorded financial assets and liabilities were recorded for the first time. The revaluation difference from the initial recording of CHF 16 million was reported as other financial income. See Note 26.

In CHF million	2010	2009 restated
Interest income on cash and cash equivalents	1	2
Interest income on held-to-maturity financial assets	–	20
Interest income on other financial assets	45	26
Total interest income	**46**	**48**
Interest expense on bank loans, debenture bonds and private placements	(244)	(249)
Interest expense on financial liabilities from cross-border lease agreements	–	(26)
Interest expense on finance lease liabilities	(46)	(44)
Interest expense on other financial liabilities	(17)	(10)
Total interest expense	**(307)**	**(329)**
Net interest expense	**(261)**	**(281)**

15 Income taxes

In CHF million	2010	2009
Current income tax expense	424	342
Adjustments of current income tax expense of prior years	68	(3)
Deferred tax expense	10	121
Total income tax expense recognised in income statement	**502**	**460**

In addition, an income tax expense of CHF 271 million was recorded directly in other comprehensive income (prior year: CHF 6 million) as follows:

In CHF million	2010	2009
Foreign currency translation adjustments of foreign subsidiaries	270	–
Change in fair value of available-for-sale financial assets	–	(1)
Gains and losses from available-for-sale financial assets transferred to income statement	–	1
Change in fair value of cash flow hedges	3	–
Gains and losses from cash flow hedges transferred to income statement	(2)	(6)
Total income taxes recognised in other comprehensive income	**271**	**(6)**

In 2010, 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 which were deducted for tax purposes. In consequence of the tax claim for the foreign currency-related allowances recognised in the other comprehensive income income tax expense was decreased by CHF 270 million.
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 is an unchanged 20.9%.

In CHF million	2010	2009 restated
Income before income taxes	2,288	2,383
Applicable income tax rate	20.9%	20.9%
Income tax expense at the applicable income tax rate	**478**	**498**
Reconciliation to reported income tax expense		
Effect of share of results of associated companies	(6)	(9)
Effect of tax rate changes on deferred taxes	4	8
Effect of use of different income tax rates in Switzerland	(3)	(12)
Effect of use of different income tax rates in foreign countries	9	13
Effect of non-recognition of tax loss carry-forwards	8	7
Effect of recognition and offset of income loss carry-forwards not recognised in prior years	(23)	(7)
Effect of initial recognition of deferred tax assets	(52)	–
Effect of deferred tax assets written off	54	2
Effect of exclusively tax-deductible expenses and income	20	(20)
Effect of non-taxable income and non-deductible expenses	(1)	(17)
Effect of income tax of prior periods	14	(3)
Total income tax expense	**502**	**460**
Effective income tax rate	21.9%	19.3%

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

In CHF million	2010	2009
Balance at 1 January	**171**	**125**
Recognised in income statement	492	339
Recognised in other comprehensive income	(271)	6
Income taxes paid	(365)	(300)
Recording of tax assets previously unrecognised	(22)	–
Foreign currency translation adjustments	–	1
Balance at 31 December	**5**	**171**
Thereof current income tax assets	30	48
Thereof current income tax liabilities	(35)	(219)

In the years 2003 and 2006, Fastweb sold income tax and value-added tax receivables to financial institutions. With this sale, substantially all of the risks and opportunities related to these tax assets were transferred. In 2010, a new contract was entered into with the financial institutions and the tax assets, including accrued interest, were taken back. As a result thereof income tax receivables of CHF 22 million, value-added tax receivables of CHF 25 million as well as other financial liabilities of CHF 47 million were recorded. The value-added tax receivables are recorded in the caption "other non-financial assets".
Recognised deferred tax assets and liabilities may be analysed as follows:

	31.12.2010			31.12.2009 restated		
In CHF million	Assets	Liabilities	Net amount	Assets	Liabilities	Net amount
Trade and other receivables	27	–	27	29	–	29
Property, plant and equipment	–	(262)	(262)	–	(205)	(205)
Intangible assets	–	(447)	(447)	–	(530)	(530)
Defined benefit obligations	–	(35)	(35)	6	–	6
Tax loss carry-forwards	169	–	169	250	–	250
Other	89	(23)	66	32	(48)	(16)
Total tax assets (tax liabilities)	**285**	**(767)**	**(482)**	**317**	**(783)**	**(466)**
Thereof deferred tax assets			71			57
Thereof deferred tax liabilities			(553)			(523)

Deferred tax assets and liabilities have changed as follows:

In CHF million	Balance at 31.12.2009	Recognised in income statement	Change in scope of consolidation	Foreign currency translation adjustments	Balance at 31.12.2010
Trade and other receivables	29	7	–	(9)	27
Property, plant and equipment	(205)	(48)	–	(9)	(262)
Intangible assets	(530)	32	(4)	55	(447)
Defined benefit obligations	6	(39)	–	(2)	(35)
Tax loss carry-forwards	250	(47)	–	(34)	169
Other	(16)	85	–	(3)	66
Total	**(466)**	**(10)**	**(4)**	**(2)**	**(482)**

In CHF million	Balance 31.12.2008 restated	Recognised in income statement	Change in scope of consolidation	Foreign currency translation adjustments	Balance at 31.12.2009
Trade and other receivables	37	(8)	–	–	29
Property, plant and equipment	(163)	(42)	–	–	(205)
Intangible assets	(564)	40	(6)	–	(530)
Defined benefit obligations	39	(35)	2	–	6
Tax loss carry-forwards	313	(63)	–	–	250
Other	(2)	(13)	–	(1)	(16)
Total	**(340)**	**(121)**	**(4)**	**(1)**	**(466)**

As a result of a change in tax legislation, the tax status of one foreign subsidiary changed resulting in the recognition of deferred tax assets of CHF 52 million. Deferred tax assets relating to unused tax loss carry-forwards and 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 2010, various subsidiaries recognised deferred tax assets on tax loss carry-forwards and other temporary differences totalling CHF 285 million (prior year: CHF 317 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 11 million (prior year: CHF 9 million) were recognised by subsidiaries reporting a loss in 2009 or 2010. 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 amounted to:

In CHF million	31.12.2010	31.12.2009
Expiring within 1 year	59	47
Expiring within 1 to 2 years	41	17
Expiring within 2 to 3 years	46	56
Expiring within 3 to 4 years	47	47
Expiring within 4 to 5 years	45	47
Expiring within 5 to 6 years	21	63
Expiring within 6 to 7 years	45	8
Expiring without limitation	46	108
Total unrecognised tax loss carry-forwards	**350**	**393**

Deferred tax liabilities of CHF 2 million were recorded on the undistributed earnings of subsidiaries as of 31 December 2010 (prior year: none).

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 amount of outstanding shares.

In CHF million, except where indicated	2010	2009 restated
Share of net income attributable to equity holders of Swisscom Ltd	1,811	1,926
Weighted average number of shares outstanding (number)	51,797,945	51,799,521
Basic and diluted earnings per share (in CHF)	**34.96**	**37.18**

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	31.12.2010	31.12.2009
Cash and sight balances	483	496
Term deposits	–	36
Total cash and cash equivalents	**483**	**532**

In 2010, Swisscom had no term deposits outstanding. In the prior year, the average interest rate on term deposits in CHF was 0.32% and in EUR 0.89%. In the prior year, the average maturity of term deposits in CHF was 27 days and in EUR 41 days.

18 Trade and other receivables

In CHF million	31.12.2010	31.12.2009
Billed revenue	2,518	2,645
Accrued revenue	139	138
Allowances	(247)	(251)
Total trade receivables, net	**2,410**	**2,532**
Receivables from collection activities	24	23
Receivables from construction contracts	44	26
Accrual from international roaming traffic	263	333
Other receivables	16	27
Allowances	(15)	(15)
Total other receivables, net	**332**	**394**
Total trade and other receivables	**2,742**	**2,926**

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 risk, on-going review of credit risks and the monitoring of receivables. Credit-risk concentrations in Swisscom are minimised due to the large number of customers and their geographical spread. Risks are monitored by country and by class of counterparty.
The geographical distribution of trade receivables is as follows:

In CHF million	31.12.2010	31.12.2009
Switzerland	1,544	1,625
Italy	1,100	1,143
Other countries	13	15
Total billed and accrued revenue	**2,657**	**2,783**
Switzerland	(54)	(54)
Italy	(192)	(196)
Other countries	(1)	(1)
Total allowance for receivables	**(247)**	**(251)**
Total trade receivables, net	**2,410**	**2,532**

Analysis of maturity and allowances

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

In CHF million	31.12.2010 Gross amount	31.12.2010 Allowance	31.12.2009 Gross amount	31.12.2009 Allowance
Not overdue	1,673	9	1,759	30
Past due up to 3 months	471	6	545	11
Past due 4 to 6 months	103	8	122	10
Past due 7 to 12 months	152	31	130	40
Past due over 1 year	258	193	227	160
Total	**2,657**	**247**	**2,783**	**251**

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

In CHF million	Trade receivables	Other receivables
Balance at 31 December 2008	**225**	**14**
Additions to allowances	152	1
Write-off of irrecoverable receivables subject to allowance	(110)	–
Release of unused allowances	(13)	–
Change in scope of consolidation	(2)	–
Foreign currency translation adjustments	(1)	–
Balance at 31 December 2009	**251**	**15**
Additions to allowances	142	1
Write-off of irrecoverable receivables subject to allowance	(102)	–
Release of unused allowances	(11)	(1)
Foreign currency translation adjustments	(33)	–
Balance at 31 December 2010	**247**	**15**

Construction contracts

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

In CHF million	2010	2009
Contract costs of current projects	94	60
Recognised gains less losses	23	8
Contract costs including share of gains and losses, net	**117**	**68**
Less progress billings	(78)	(46)
Total net receivables from construction contracts	**39**	**22**
Thereof receivables from construction contracts	44	26
Thereof liabilities from construction contracts	(5)	(4)
Advance payments received	27	17

Net revenue of CHF 295 million was recorded on construction contracts in 2010 (prior year: CHF 235 million).

19 Other financial assets

In CHF million	Loans and receivables	Held-to-maturity	Available-for-sale	Derivative financial instruments	Total
Balance at 31 December 2008	**176**	**808**	**27**	**12**	**1,023**
Additions	495	–	7	–	502
Disposals	(93)	(803)	(12)	–	(908)
Change in scope of consolidation	10	–	–	–	10
Change in fair value recognised in equity	–	–	4	(12)	(8)
Foreign currency translation adjustments recognised in income statement	(20)	3	–	–	(17)
Balance at 31 December 2009	**568**	**8**	**26**	**–**	**602**
Additions	135	–	6	–	141
Disposals	(189)	(8)	(2)	–	(199)
Change in scope of consolidation	2	–	–	–	2
Change in fair value recognised in equity	–	–	2	–	2
Change in fair value recognised in income statement	–	–	–	24	24
Foreign currency translation adjustments recognised in income statement	(35)	–	–	–	(35)
Balance at 31 December 2010	**481**	**–**	**32**	**24**	**537**
Thereof other current financial assets	115	–	7	–	122
Thereof other non-current financial assets	366	–	25	24	415

Loans and receivables

Included are term deposits as at 31 December 2010 totalling CHF 98 million (prior year: CHF 104 million). As of 31 December 2010, financial assets aggregating CHF 252 million (prior year: CHF 263 million) pledged to secure liabilities were not freely available. In 2009, previously unrecorded financial assets of USD 356 million (CHF 367 million) resulting from the early termination of various cross-border lease agreements were recognised for the first time as loans and receivables. See Note 26.

Held-to-maturity financial assets

As of the balance-sheet date, Swisscom had no held-to-maturity assets. In 2009 and 2010, several cross-border lease agreements were terminated prematurely. As a result of the termination, financial assets were disposed of which had been previously recorded as held-to-maturity financial assets. In the prior year, the remaining investments were not reclassified since the early termination of various cross-border lease agreements was not under control of Swisscom. See Note 26.

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 2010, the carrying amount of investments in shares recorded at cost totalled CHF 11 million (prior year: CHF 22 million).

Derivative financial instruments

As at 31 December 2010, derivative financial instruments with a positive market value of CHF 24 million were recognised (prior year: none). During the first quarter of 2010, a financial asset of CHF 14 million was recorded in connection the initial recognition of options relating to company acquisitions. Other derivative financial instruments comprise interest rate swaps and forward-exchange contracts. See Note 33.

20 Inventories

In CHF million	31.12.2010	31.12.2009
Raw material and supplies	4	4
Customer premises equipment and merchandise	156	142
Finished and semi-finished goods	3	2
Total inventories, gross	**163**	**148**
Allowances on inventories	(13)	(13)
Total inventories, net	**150**	**135**

In 2010, inventory-related costs amounting to CHF 990 million (prior year: CHF 811 million) were recorded under the cost of goods and services purchased.

21 Other non-financial assets

In CHF million	31.12.2010	31.12.2009
Prepaid expenses	146	147
Value-added taxes receivable	128	116
Advances made	18	12
Other assets	37	54
Total other current non-financial liabilities	**329**	**329**
Prepaid expenses	8	22
Other assets	36	23
Total other non-current non-financial assets	**44**	**45**

22 Non-current assets held for sale

Non-current assets held for sale include real estate from the segment "Other Operating Segments" of CHF 4 million (prior year: CHF 6 million) which is expected to be sold within the next twelve months. In 2010, non-current assets held for sale were sold for a total of CHF 13 million (prior year: CHF 6 million). A gain on disposal of CHF 11 million (prior year: CHF 3 million) was recorded under the caption capitalised self-constructed assets and other income. In the prior year, real estate with a carrying amount of CHF 8 million classified as non-current assets held for sale could not be sold as planned in 2010 and therefore was reclassified to property, plant and equipment. Depreciation and amortisation of the reclassified real estate amounted to CHF 1 million in the prior year.

23 Property, plant and equipment

In CHF million	Land, buildings and leasehold improvements	Technical installations	Other installations	Advances made and assets under construction	Total
At cost					
Balance at 31 December 2009	**3,025**	**23,172**	**2,972**	**300**	**29,469**
Additions	8	946	188	309	1,451
Disposals	(30)	(424)	(115)	3	(566)
Additions from acquisition of subsidiaries	–	2	6	–	8
Adjustment to dismantlement and restoration costs	–	40	–	–	40
Reclassifications	3	138	47	(187)	1
Foreign currency translation adjustments	(15)	(517)	3	(5)	(534)
Balance at 31 December 2010	**2,991**	**23,357**	**3,101**	**420**	**29,869**
Accumulated depreciation and impairment losses					
Balance at 31 December 2009	**2,124**	**17,182**	**1,987**	**–**	**21,293**
Depreciation	26	1,058	270	–	1,354
Impairment losses	–	–	7	–	7
Disposals	(23)	(420)	(106)	–	(549)
Foreign currency translation adjustments	(2)	(138)	5	–	(135)
Balance at 31 December 2010	**2,125**	**17,682**	**2,163**	**–**	**21,970**
Net carrying amount					
Net carrying amount at 31 December 2010	**866**	**5,675**	**938**	**420**	**7,899**

In CHF million	Land, buildings and leasehold improvements	Technical installations	Other installations	Advances made and assets under construction	Total
At cost					
Balance at 31 December 2008, restated	**3,025**	**22,578**	**2,903**	**319**	**28,825**
Additions	7	969	155	300	1,431
Disposals	(18)	(518)	(182)	–	(718)
Additions from acquisition of subsidiaries	–	–	2	–	2
Disposals from sale of subsidiaries	–	(27)	(1)	–	(28)
Adjustment to dismantlement and restoration costs	–	(6)	–	–	(6)
Reclassification to non-current assets held for sale	7	–	–	–	7
Other reclassifications	4	184	95	(319)	(36)
Foreign currency translation adjustments	–	(8)	–	–	(8)
Balance at 31 December 2009	**3,025**	**23,172**	**2,972**	**300**	**29,469**
Accumulated depreciation and impairment losses					
Balance at 31 December 2008, restated	**2,096**	**16,608**	**1,907**	**–**	**20,611**
Depreciation	35	1,122	271	–	1,428
Impairment losses	–	10	4	–	14
Disposals	(9)	(511)	(174)	–	(694)
Reclassification to non-current assets held for sale	1	–	–	–	1
Other reclassifications	1	(24)	(20)	–	(43)
Disposals from sale of subsidiaries	–	(17)	(1)	–	(18)
Foreign currency translation adjustments	–	(6)	–	–	(6)
Balance at 31 December 2009	**2,124**	**17,182**	**1,987**	**–**	**21,293**
Net carrying amount					
Net carrying amount at 31 December 2009	**901**	**5,990**	**985**	**300**	**8,176**
Net carrying amount at 31 December 2008, restated	**929**	**5,970**	**996**	**319**	**8,214**

Impairment losses on property, plant and equipment result from changes in estimated future cash flows anticipated from the use and ultimate disposal of these items of property, plant and equipment. In 2010, impairment losses on property, plant and equipment amounted to CHF 7 million (prior year: CHF 14 million).

In 2010, borrowing costs amounting to CHF 12 million were capitalised (prior year: CHF 15 million). The average interest rate used for the capitalisation of borrowing costs was 2.6% (prior year: 2.6%). As of 31 December 2010, real estate with a carrying amount of CHF 11 million (prior year: CHF 15 million) was pledged to secure mortgages. As of 31 December 2010, the carrying amount of property, plant and equipment acquired under finance leases amounted to CHF 604 million (prior year: CHF 619 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	Customer relationships	Brands	Other intangible assets	Total
At cost						
Balance at 31 December 2009	**6,675**	**867**	**1,307**	**332**	**1,692**	**10,873**
Additions	–	121	–	–	354	475
Disposals	–	(10)	–	–	(42)	(52)
Purchase price adjustments	5	–	–	–	–	5
Reclassifications	–	58	–	–	(59)	(1)
Additions from acquisition of subsidiaries	15	2	14	–	6	37
Foreign currency translation adjustments	(423)	(15)	(199)	(51)	(118)	(806)
Balance at 31 December 2010	**6,272**	**1,023**	**1,122**	**281**	**1,833**	**10,531**
Accumulated amortisation and impairment losses						
Balance at 31 December 2009	**11**	**534**	**406**	**90**	**810**	**1,851**
Amortisation	–	155	140	31	281	607
Impairment losses	–	3	–	–	1	4
Disposals	–	(10)	–	–	(40)	(50)
Foreign currency translation adjustments	–	(10)	(72)	(16)	(67)	(165)
Balance at 31 December 2010	**11**	**672**	**474**	**105**	**985**	**2,247**
Net carrying amount						
Net carrying amount at 31 December 2010	**6,261**	**351**	**648**	**176**	**848**	**8,284**

In CHF million	Goodwill	Internally generated software	Customer relationships	Brands	Other intangible assets	Total
At cost						
Balance at 31 December 2008	**6,644**	**469**	**1,287**	**333**	**1,654**	**10,387**
Additions	–	177	–	–	402	579
Disposals	–	(29)	–	–	(138)	(167)
Purchase price adjustments	(2)	–	–	–	–	(2)
Reclassifications	–	250	6	–	(220)	36
Additions from acquisition of subsidiaries	36	–	19	–	7	62
Disposals from sale of subsidiaries	–	–	(3)	–	(10)	(13)
Foreign currency translation adjustments	(3)	–	(2)	(1)	(3)	(9)
Balance at 31 December 2009	**6,675**	**867**	**1,307**	**332**	**1,692**	**10,873**
Accumulated amortisation and impairment losses						
Balance at 31 December 2008	**11**	**335**	**253**	**57**	**779**	**1,435**
Amortisation	–	142	151	34	226	553
Disposals	–	(29)	–	–	(133)	(162)
Reclassifications	–	86	6	–	(49)	43
Disposals from sale of subsidiaries	–	–	(3)	–	(9)	(12)
Foreign currency translation adjustments	–	–	(1)	(1)	(4)	(6)
Balance at 31 December 2009	**11**	**534**	**406**	**90**	**810**	**1,851**
Net carrying amount						
Net carrying amount at 31 December 2009	**6,664**	**333**	**901**	**242**	**882**	**9,022**
Net carrying amount at 31 December 2008	**6,633**	**134**	**1,034**	**276**	**875**	**8,952**

As of 31 December 2010, other intangible assets included advance payments and assets under construction of CHF 186 million (prior year: CHF 154 million). As of 31 December 2010, accumulated impairment losses on goodwill of CHF 11 million were recorded. Goodwill arising on the acquisition of associated companies is reflected under the shareholdings in associated companies.

Impairment test on goodwill

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	31.12.2010	31.12.2009
Residential Customers	2,496	2,501
Small & Medium-Sized Enterprises	656	656
Corporate Business	734	728
Wholesale	45	45
Cash-generating units of Swisscom Switzerland	**3,931**	**3,930**
Fastweb	2,210	2,623
Other cash-generating units	120	111
Total goodwill	**6,261**	**6,664**

Apart from goodwill, there are no recorded intangible assets with indefinite useful lives. Goodwill was tested for impairment in the fourth quarter 2010 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 put together on the basis of the business plans approved by management covering a three-year period in general. A planning horizon of five years is used for the impairment tests in 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 the growth rates customarily assumed for the country or market. The key assumptions underlying the calculations are as follows:

Disclosures in %	WACC pre-tax	WACC post-tax	Long-term growth rate
Cash-generating units of Swisscom Switzerland	5.6 to 6.2	4.1 to 4.8	–1.2 to 0
Fastweb	9.91	7.58	1.0
Other cash-generating units	7.3 to 11.9	5.8 to 9.4	1 to 1.5

The application of pre- or post-tax discount rates (WACC pre-tax and WACC post-tax) both 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 test at 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 was 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%. 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 conducted in the fourth quarter 2010. The basis for projecting future cash flows is the business plan prepared by management for the five years 2011 to 2015. The latter takes into consideration historical empirical values and management's expectations regarding the future development of the relevant market. Key assumptions for the impairment test are the forecasted growth in revenue and the discount rate. The terminal value was computed on the basis of the planned free cash flows for 2015 which was considered to be a reliable basis. The post-tax discount rate (WACC post-tax) is 7.58%, and the corresponding pre-tax discount rate (WACC pre-tax) is 9.91%. The normalised free cash flows in the terminal value were capitalised using a constant growth rate of 1.0%. The growth rate used represents the growth rates customarily assumed for the country and market, which are based on past experiences and forecasts, corroborated by external sources of information. The growth rate applied does not exceed the long-term average growth rate for the country or the market in which the entity operates. As of the measurement date, the impairment test did not indicate any impairment of goodwill. The recoverable amount exceeds the carrying amount by EUR 527 million or CHF 659 million. The discount rate and the projected growth in revenue have a significant influence on the sensitivity of the impairment test. For the detailed five-year planning period, an average annual growth in revenue of 5.1% was projected. If the average annual growth in revenue were to decline by 0.9% assuming a constant cash flow margin, the recoverable amount would equal its carrying amount. If the post-tax discount rate increased from 7.58% to 8.39%, the value in use would equal the carrying amount.

25 Investments in associated companies

In CHF million	2010	2009
Balance at 1 January	**228**	**285**
Additions	1	1
Disposals	–	(35)
Dividends	(15)	(110)
Share of net results	28	43
Dilution gain	–	44
Foreign currency translation adjustments	(11)	–
Balance at 31 December	**231**	**228**

The most significant participations classified as associated companies are LTV Yellow Pages (formerly PubliDirect), Cinetrade, and Belgacom International Carrier Services.
In the fourth quarter of 2009, Belgacom International Carrier Services resolved to reduce its share capital and distribute a dividend, both of which were settled only in 2010 and 2011. Swisscom's share of these payments was CHF 44 million (share capital reduction of CHF 29 million; dividend CHF 15 million). At the end of November 2009, the share capital of Belgacom International Carrier Services was increased by 25%. Swisscom did not participate in this capital increase. As a result, the shareholding of Swisscom in Belgacom International Carrier Services declined from 28% to 22.4%. As a consequence, a profit on dilution of CHF 44 million was recorded as financial income.
Dividends received totalling CHF 15 million (prior year: CHF 110 million) are attributable mainly to the dividends paid by LTV Yellow Pages and Belgacom International Carrier Services.

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

In CHF million	2010	2009
Income statement		
Net revenue	2,520	2,205
Operating expense	(2,380)	(2,052)
Operating income	140	153
Net income	**103**	**121**
Balance sheet at 31 December		
Current assets	891	995
Non-current assets	343	416
Current liabilities	(760)	(954)
Non-current liabilities	(24)	(20)
Equity	**450**	**437**

26 Financial liabilities

In CHF million	31.12.2010	31.12.2009 restated
Money market borrowings	700	300
Bank loans	16	8
Debenture bonds	76	423
Private placements	1	337
Financial liabilities from cross-border lease agreements	–	9
Finance lease liabilities	14	17
Other interest-bearing financial liabilities	12	126
Derivative financial instruments. See Note 33.	33	44
Other non-interest-bearing financial liabilities	89	6
Total current financial liabilities	**941**	**1,270**
Bank loans	1,444	2,562
Debenture bonds	5,119	4,378
Private placements	1,408	1,186
Financial liabilities from cross-border lease agreements	–	6
Finance lease liabilities	661	678
Other interest-bearing financial liabilities	8	9
Derivative financial instruments. See Note 33.	166	108
Other non-interest-bearing financial liabilities	25	22
Total non-current financial liabilities	**8,831**	**8,949**
Total financial liabilities	**9,772**	**10,219**

Money-market borrowings

As of 31 December 2010, Swisscom had money-market borrowings outstanding of CHF 700 million (prior year: CHF 300 million). The money-market borrowings have maturities of less than 30 days. The effective interest rate of money-market borrowings is 0.31%. Swisscom employs this instrument for short-term liquidity management.

Bank loans

In CHF million	Due within	Par value in CHF	Carrying amount 31.12.2010	31.12.2009
Bank loans in CHF variable interest-bearing	2011	2,200	–	2,199
Bank loans in CHF variable interest-bearing	2015	685	686	–
Bank loans in EUR variable interest-bearing	2015	438	437	–
Bank loans in USD fixed interest-bearing	2013–2028	276	337	371
Total			**1,460**	**2,570**

In 2010, Swisscom took up variable interest-bearing bank loans in CHF and EUR. The nominal amount of the bank financing taken up in CHF and EUR was CHF 685 million and EUR 350 million (CHF 438 million), respectively. Through currency swaps, the whole amount of the EUR-denominated bank loans was exchanged to CHF variable interest financing. In 2010, bank loans amounting to CHF 2,200 million (prior year: CHF 3,950 million) resulting from refinancing transactions were repaid prior to maturity. As a result of the early repayment of bank loans, cash flow hedges relating to hedged items of an aggregate of CHF 1,300 million (prior year: CHF 1,100 million) were closed out. The cumulative revaluation losses of CHF 34 million (prior year: CHF 96 million) were taken out of other reserves within equity and recognised as other financial expense in the income statement. Transaction costs relating to the outstanding bank loans of CHF 1 million (prior year: CHF 1 million) were recognised as of 31 December 2010. 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 0.79%. For the bank loans in USD and EUR, the rate is 3.82% and 0.51%, 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.

Debenture bonds

In CHF million, except where indicated	Maturity Years	Par value	Coupon	Carrying amount 31.12.2010	31.12.2009
Debenture bonds in CHF	2007–2010	350	3.25%	–	352
Debenture bonds in CHF	2007–2013	550	3.50%	564	565
Debenture bonds in CHF	2007–2017	600	3.75%	611	610
Debenture bonds in CHF	2008–2015	500	4.00%	503	503
Debenture bonds in CHF	2009–2014	1,250	3.50%	1,277	1,276
Debenture bonds in CHF	2009–2018	1,500	3.25%	1,495	1,495
Debenture bonds in CHF	2010–2012	250	0.75%	250	–
Debenture bonds in CHF	2010–2022	500	2.63%	495	–
Total				**5,195**	**4,801**

In 2010, Swisscom issued debenture bonds aggregating CHF 750 million. The issue was made in two tranches with the first tranche of CHF 250 million bearing a coupon rate 0.75% and a term of two years and the second tranche of CHF 500 million with a coupon rate of 2.625% with a term of 12 years. In 2010, debenture bonds aggregating CHF 350 million were redeemed upon maturity. The effective interest rate on debenture bonds is 3.26%. 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 31.12.2010	Carrying amount 31.12.2009
Private placements in CHF abroad	2017–2019	600	560	575
Private placements in CHF domestic	2012–2016	500	500	200
Private placements in EUR abroad	2013–2014	344	349	748
Total			**1,409**	**1,523**

In 2010, financing was received in the amount of CHF 300 million in the form of variable interest bearing private placements. Of this amount, CHF 150 million matures in 2012 and CHF 150 million in 2016. The interest rate risk of the tranche maturing in 2016 was hedged with an interest rate swap and was designated as a cash flow hedge for hedge accounting purposes. The duration of the hedge is identical to the duration of the hedged private placement. In 2010, Swisscom repaid both tranches of the EUR-denominated private placement totalling EUR 225 million upon maturity. 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. No transaction costs were recorded as of 31 December 2010 in connection with the private placements (prior year: CHF 1 million). The effective interest rate on the private placements in CHF is 1.00%. For the EUR private placements, the rate is 0.86%. The Swiss-franc-denominated private placements arising in 2007 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 abandon 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 and the conclusion of several payment undertaking agreements. The financial assets were irrevocably deposited with a trust. The payment undertaking agreements were entered into with financial institutions of a high credit rating. In accordance with Interpretation SIC 27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”, these financial investments and payment undertaking agreements and the liabilities in the same amount are offset and not recorded in the balance sheet. In the first half of 2008, Swisscom entered into an agreement for the early termination of three quarters of the volume of the cross-border leases. Following receipt of regulatory approval, the early termination of the contracts could be consummated in the second quarter of 2009. Furthermore, in 2009, previously unrecognised financial assets aggregating USD 356 million (CHF 367 million) and financial liabilities of USD 317 million (CHF 326 million) were recognised for the first time. A revaluation difference of CHF 16 million from initial recording was reported as financial income.

In 2009 and 2010, further cross-border lease agreements were terminated and repaid. At 31 December 2010, the financial liabilities including accrued interest arising from cross-border lease agreements aggregated USD 104 million (CHF 98 million) and assets USD 104 million (CHF 98 million), respectively, which, in compliance with SIC 27, were not recognised in the balance sheet. Future minimum payments under the cross-border lease agreements as of 31 December 2009 are due as follows:

In CHF million	31.12.2009
Within 1 year	10
Within 1 to 2 years	2
Within 2 to 3 years	–
Within 3 to 4 years	3
Within 4 to 5 years	2
After 5 years	–
Total future minimum lease payments	**17**
Less future finance costs	(2)
Total financial liabilities from cross-border lease agreements	**15**
Thereof current financial liabilities from cross-border lease agreements	9
Thereof non-current financial liabilities from cross-border lease agreements	6

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 of CHF 196 million realised on the sale of those properties and classified as being subject to finance leases is deferred and released to income over the individual lease terms as other income. In 2010, CHF 6 million (prior year: CHF 3 million) of the deferred gain was released. The effective interest rate of the finance lease liabilities was 6.55%. The minimum lease payments relating to these leaseback agreements are included in the table below. The remaining real estate has been leased back under operating leases over periods ranging from 5 to 20 years. See Note 35. In 2010, 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	31.12.2010	31.12.2009 restated
Within 1 year	56	62
Within 1 to 2 years	65	57
Within 2 to 3 years	48	63
Within 3 to 4 years	46	48
Within 4 to 5 years	46	46
After 5 years	1,704	1,750
Total future minimum lease payments	**1,965**	**2,026**
Less future finance costs	(1,290)	(1,331)
Total finance lease liabilities	**675**	**695**
Thereof current finance lease liabilities	14	17
Thereof non-current finance lease liabilities	661	678

The future payments of the liabilities arising under finance leases, expressed in terms of their present value, as of 31 December 2009 and 2010 were as follows:

In CHF million	31.12.2010	31.12.2009 restated
Within 1 year	14	17
Within 1 to 2 years	24	12
Within 2 to 3 years	7	20
Within 3 to 4 years	6	5
Within 4 to 5 years	6	4
After 5 years	618	637
Total present value of finance lease liabilities	**675**	**695**

Other financial liabilities

Other financial liabilities as of 31 December 2010 include an amount payable of EUR 71 million (CHF 96 million) in connection with the squeeze-out proceedings with regard to the minority shareholders of Fastweb. See Note 5. Furthermore, other financial liabilities as of 31 December 2010 include debts of CHF 6 million (prior year: CHF 5 million) which are secured by mortgages over real estate with a carrying amount of CHF 11 million (prior year: CHF 15 million). In 2010, other financial liabilities which had been collateralised by value-added tax receivables were repaid in full.

27 Trade and other payables

In CHF million	31.12.2010	31.12.2009
Supplier invoices received	1,317	1,402
Goods and services received not yet invoiced	369	351
Total trade payables	**1,686**	**1,753**
Liabilities from collection activities	23	24
Liabilities from construction contracts	5	4
Accrual from international roaming traffic	180	225
Miscellaneous liabilities	321	308
Total other liabilities	**529**	**561**
Total trade and other payables	**2,215**	**2,314**

28 Provisions

In CHF million	Termination benefits	Dismantlement and restoration costs	Regulatory proceedings	Cross-border lease agreements	Other	Total
Balance at 31 December 2008	**22**	**435**	**312**	**258**	**170**	**1,197**
Additions to provisions	33	2	53	–	69	157
Present-value adjustments	–	14	6	–	2	22
Release of unused provisions	(5)	(12)	(7)	–	(40)	(64)
Use of provisions	(15)	–	(113)	(258)	(49)	(435)
Balance at 31 December 2009	**35**	**439**	**251**	**–**	**152**	**877**
Additions to provisions	33	44	76	–	154	307
Present-value adjustments	–	12	14	–	4	30
Release of unused provisions	(18)	(6)	(66)	–	(30)	(120)
Use of provisions	(25)	(2)	(116)	–	(81)	(224)
Foreign currency translation adjustments	–	–	–	–	(8)	(8)
Balance at 31 December 2010	**25**	**487**	**159**	**–**	**191**	**862**
Thereof current provisions	25	–	26	–	95	146
Thereof non-current provisions	–	487	133	–	96	716

Provisions for termination benefits

The provisions for termination benefits comprise the costs for the programmes defined in the social plans of 2001 and 2006. 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 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 2.79% (prior year: 3.28%). The effect of using different interest rates amounted to CHF 42 million (prior year: CHF 2 million). In 2010, adjustments aggregating CHF 40 million (prior year: CHF 2 million) were recorded under the dismantling costs capitalised as part of property, plant and equipment and CHF 5 million (prior year: CHF 1 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

Provisions for interconnection and other access services pursuant to the revised Swiss Federal Telecommunications Law (FMG)

Swisscom provides interconnection services and other services to other telecommunication service providers in Switzerland. 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 (FMG) 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).

Since 2000, several telecommunication service providers have filed petitions with the Federal Communications Commission (ComCo) for the reduction of the interconnection prices charged to them by Swisscom. As a result of various rulings and decisions, the interconnection prices for the years 2000 to 2008 were fixed in a legally binding manner and the payments for these years were made in 2009. As a consequence of the decision of the Federal Court of 21 April 2006, the risk exists that those telecommunication service providers having accepted the charges will demand retroactively a reduction in their interconnection prices from Swisscom. In 2006, provisions were therefore raised to cover this risk of claim. With two rulings of 9 October 2008, ComCo recorded the fact that, by virtue of law, the price rulings are valid retroactively for all telecommunication service providers (retrospective third-party clause). Swisscom contested these rulings with its appeal of 10 November 2008. With its decisions of 1 and 19 February 2010, the Federal Administrative Court allowed the appeals of Swisscom as it is of the opinion that the price rulings shall apply only to the parties to the proceedings and not additionally to third parties by virtue of law. In two rulings of 21 June 2010, ComCo laid down retrospective third-party clauses without limiting the period for their retrospective application. ComCo thus left the decision as to the period of application of the retrospective third-party clause to the civil courts. In the second half of 2010, settlements were reached with different telecommunication service providers in an aggregate amount of CHF 104 million, which was paid in the fourth quarter of 2010. As a result of the settlements, provisions totalling CHF 46 million were released in the fourth quarter of 2010. Of this amount, CHF 18 million relates to interest and thus was released to financial income. The remaining portion of the release of CHF 28 million was recorded in other operating expense. In 2009, in related additional petitions, three telecommunication service providers applied to ComCo to rule on a reduction in interconnection prices charged by Swisscom for 2009. In its ruling of 13 December 2010, ComCo laid down the interconnection prices for 2009 and 2010 and lowered the prices each by some 5%.

Proceedings are still pending with ComCo in respect of other access services pursuant to the revised Federal Telecommunications Act. Other access services encompass collocation, subscriber connections, cable ducts and rental lines. With its ruling of 13 December 2010, ComCo lowered the prices for subscriber connections for the years 2009 and 2010 by 8% to 9%. On the other hand, the prices for collocation were largely reconfirmed. In rulings of 10 March 2010, ComCo established the Swisscom's position of market dominance regarding all transmission technologies capable of being used for rental lines of all bandwidths throughout Switzerland. The only exception was the connection between various locations where connections of at least two alternative service providers are possible. On 26 April 2010, Swisscom appealed against these rulings. In the fourth quarter of 2010, these proceedings were reappraised and the provisions were increased by CHF 39 million.

As of 31 December 2010, the provisions for the proceedings concerning interconnection and other access services of Swisscom (Switzerland) Ltd totalled CHF 159 million. Payments made in 2010 amounted to CHF 116 million. Payment of the remaining claims is dependent of the timing of the respective legally binding rulings and decisions.

Provisions for interconnection – Fastweb

In earlier years, Fastweb recorded provisions for legal action initiated by Telecom Italia regarding interconnection services. In June 2008, a settlement with Telecom Italia could be reached and the legal action terminated. Provisions as of 31 December 2008 of EUR 11 million (CHF 16 million) were used in 2009 to settle the outstanding liabilities.

Provisions arising from cross-border lease agreements

In 2008, Swisscom raised provisions of CHF 258 million for costs in connection with the early termination of three quarters of the volume of cross-border leases. The consummation of the early contract termination and the compensation payment of CHF 258 million occurred in the second quarter of 2009. See Note 26.

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 2012 and 2015.

Tax risks Fastweb

On 23 February 2010, the Italian investigatory authorities, based upon an inquiry 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. The outcome of the investigation is difficult to predict and involves uncertainties. On the basis of a legal opinion, Swisscom estimates that an outflow of funds for the aggrieved Fastweb is probable and has therefore set up a provision of EUR 70 million (CHF 102 million) in the first quarter of 2010. The establishment of the provision, however, does not constitute a recognition of guilt. The amount of the provision was arrived at on the basis of a computation which takes into account the possible financial risks and uncertainties arising from the proceedings and was the best estimate which could be made on the basis of the information then available. In the fourth quarter of 2010, an accord was reached with the public prosecutor's office for part of the VAT proceedings and provisions in an amount of EUR 46 million (CHF 61 million) were settled. As of 31 December 2010, the provisions relating to the VAT proceedings amounted to EUR 28 million (CHF 35 million).
The further development of the proceedings or a decision of the competent authorities in subsequent years may lead to a differing assessment of the financial outcome and thus to an increase or decrease of the recorded provision. Furthermore, it is possible that, as a result of the tax audit, further matters may be contested by the tax authorities which are unrelated to the alleged VAT fraud and which could have a financial impact on income taxes and value-added taxes.

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. The latter 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.

Investigation concerning mobile phone termination fees

In October 2002, the Competition Commission (ComCo) initiated an investigation in accordance with Antitrust Law against Swisscom in connection with termination fees in the mobile phone market. In several proposed rulings issued to Swisscom, the Secretariat of ComCo was of the opinion that Swisscom has a dominant market position for the termination of mobile phone traffic in its network and has violated Swiss Antitrust Law by demanding disproportionately high termination fees compared with its competitors. It has therefore proposed to the Competition Commission that sanctions of CHF 489 million be imposed on Swisscom. The proposed sanctions relate to the period from 1 April 2004 (date on which the revised Swiss Antitrust Law entered into effect) through 31 May 2005 (when Swisscom lowered its mobile termination prices from CHF 0.335 to CHF 0.20). Swisscom contests the view that it holds a dominant market position and is of the opinion that its tariffs are not abusive. Prior to lowering its termination fees on 1 June 2005, Swisscom's fees were approximately 10% lower than those charged by its competitors. In addition, as Swisscom has a higher volume of outgoing calls than the other mobile phone providers, Swisscom makes net payments to its competitors.
On 5 February 2007, ComCo issued a ruling. It came to the conclusion that Swisscom is dominant in the market and has abused this position in violation of Swiss Antitrust Law by demanding unreasonably high termination fees from other mobile phone providers and particularly end consumers during the period from 1 April 2004 to 31 May 2005. The reasoning was in essence identical to that of the previous proposed rulings of the Secretariat. As a result of this allegedly unlawful behaviour, ComCo has imposed a sanction of CHF 333 million. The development in prices subsequent to 1 June 2005 is the object of a further investigation. In connection with the repurchase of the 25%-share in Swisscom Mobile Ltd from Vodafone, it was agreed that, in the event of a sanction, 25% of the sanction may be claimed back from Vodafone. Swisscom refutes the accusation that it has abused its dominant market position as well as the sanction and has challenged the ruling

in the Federal Administrative Court on 19 March 2007. With its decision of 24 February 2010, the Federal Administrative Court rescinded the ruling in part i.e. the allegation of abuse and the sanction. Swisscom and the Federal Department of Economic Affairs have challenged this decision in the second quarter of 2010 at the Federal Tribunal.
On the basis of a legal opinion, Swisscom comes to the conclusion that, from today's perspective, it is unlikely that sanctions will be imposed by the court of last instance and has therefore recorded no provision in the consolidated financial statements as at 31 December 2009 and 2010. In the event of a binding decision on abuse, civil claims could be asserted against Swisscom. Swisscom considers it unlikely that such civil claims can be enforced.

Investigation into the relationship of ADSL wholesale prices to retail prices

On 20 October 2005, ComCo launched an investigation into Swisscom Ltd and Swisscom (Switzerland) Ltd, ComCo alleging abuse of a dominant market position. The object of the investigation is the question whether Swisscom set the prices for ADSL pre-services in favour of Internet service providers at such a high level that no scope remains for an adequate profit margin in relation to the end-customer prices charged by Swisscom itself (price squeezing). Swisscom contests the allegation that it has a market-dominant position and refutes the accusation of price squeezing since it is of the opinion that the prices for its ADSL pre-services leave its ADSL competitors enough room for a reasonable profit margin. On 12 November 2008, the ComCo Secretariat provided Swisscom with its proposed ruling for comment which imposes sanctions on the grounds that Swisscom has abused its market-dominant position in ADSL services. The proposal to ComCo foresees a monetary sanction of approximately CHF 237 million. 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 refutes the accusation of abusing a market-dominant position and rejects the allegation of price squeezing. Swisscom is of the opinion that the prices for its ADSL pre-services leave its ADSL competitors an absolutely reasonable profit margin. Swisscom has 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, and thus has raised no provisions in the consolidated financial statements as of 31 December 2009 and 2010. In the event of a 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

Other access services in accordance with the revised Swiss Federal Telecommunications Act (FMG)

Swisscom provides interconnection and other access services for other telecommunication service providers in Switzerland in accordance with the revised Swiss Federal Telecommunications Law. Proceedings concerning other access services in accordance with the revised Swiss Federal Telecommunications Act are pending with ComCo.

30 Other non-financial liabilities

In CHF million	31.12.2010	31.12.2009 restated
Deferred revenue	351	381
Value-added taxes payable	104	112
Advance payments received	60	71
Other current non-financial liabilities	170	137
Total other current non-financial liabilities	**685**	**701**
Deferred gain on sale and leaseback of real estate	196	202
Other non-current non-financial liabilities	124	128
Total other non-current non-financial liabilities	**320**	**330**

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 2010, the total number of shares issued remained unchanged from the prior year at 51,801,943 shares. In the prior year, as a result of a resolution of the Annual General Meeting of Shareholders of 21 April 2009, one third of the shares acquired within the framework of the 2006 share buy-back programme was cancelled. The capital reduction of 1,639,057 to 51,801,943 shares was completed in July 2009. All shares have a par value of CHF 1 and are fully paid up. Each share entitles the holder to one vote. Shares of a market value of an aggregate CHF 2 million (prior year: CHF 2 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 2008	**1,639,500**	**450**	**738**
Share capital reduction	(1,639,057)	450	(738)
Purchases on the market	8,762	322	3
Allocated for share-based compensation	(5,373)	316	(2)
Balance at 31 December 2009	**3,832**	**331**	**1**
Purchases on the market	4,506	392	2
Allocated for share-based compensation	(4,479)	392	(2)
Balance at 31 December 2010	**3,859**	**332**	**1**

After deducting 3,859 treasury shares (prior year: 3,832 shares), the balance of shares outstanding as at 31 December 2010 totalled 51,798,084 (prior year: 51,798,111 shares).

Other reserves

In CHF million	Hedging reserve	Fair-value reserve	Cumulative foreign currency translation adjustments	Total other reserves
Balance at 31 December 2008	**(158)**	**–**	**(749)**	**(907)**
Foreign currency translation adjustments of foreign subsidiaries	–	–	(12)	(12)
Change in fair value of available-for-sale financial assets	–	4	–	4
Gains and losses from available-for-sale financial assets transferred to income statement	–	(4)	–	(4)
Change in fair value of cash flow hedges	(6)	–	–	(6)
Ineffective portion of cash flow hedges transferred to income statement	101	–	–	101
Income taxes	(6)	–	–	(6)
Balance at 31 December 2009	**(69)**	**–**	**(761)**	**(830)**
Foreign currency translation adjustments of foreign subsidiaries	–	–	(993)	(993)
Purchase of minority interests	–	–	(66)	(66)
Change in fair value of available-for-sale financial assets	–	2	–	2
Change in fair value of cash flow hedges	(9)	–	–	(9)
Fair value losses of cash flow hedges transferred to income statement	39	–	–	39
Income taxes	1	–	270	271
Balance at 31 December 2010	**(38)**	**2**	**(1,550)**	**(1,586)**

The hedging reserves comprise the changes in the fair value of hedging instruments which were designated as cash flow hedges. Under the fair value reserves are reflected the changes in the fair value of available-for-sale financial assets. Reserves arising from cumulative foreign currency translation adjustments comprise the differences from the foreign currency translation of the financial statements of subsidiaries and associated companies from the functional currency into Swiss francs. On 31 December 2010, cumulative foreign currency translation losses at Fastweb amounted to CHF 1,815 million (prior year: CHF 745 million).

32 Dividends

Distributable reserves are determined based on 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 2010, Swisscom Ltd's distributable reserves amounted to CHF 5,086 million. The dividend is proposed by the Board of Directors and approved by the Annual General Meeting of Shareholders. The dividend proposed for the 2010 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 2009 and 2010:

In CHF million, except where indicated	2010	2009
Number of registered shares eligible for dividend (in thousands of shares)	51.798	51.801
Ordinary dividend per share (in CHF)	20.00	19.00
Dividends paid	**1,036**	**984**

The Board of Directors proposes to the Annual Shareholders' Meeting to be held on 20 April 2011 the payment of an ordinary dividend of CHF 21 per share in respect of the 2010 financial year thus equating a total dividend distribution of CHF 1,088 million. The dividend payment is foreseen on 29 April 2011.

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 of foreign exchange rates, interest rates as well as credit ratings 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 also specify risk monitoring processes. As a general principle, the guidelines prohibit the use of derivative financial instruments for purposes of speculation. 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 in principle 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 2010, 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.
The following currency risks and hedging contracts for foreign currencies existed as of 31 December 2010:

In CHF million	EUR	USD	Other
31 December 2010			
Cash and cash equivalents	20	3	1
Trade and other receivables	3	6	12
Other financial assets	12	343	–
Financial liabilities	(814)	(369)	–
Trade and other payables	(57)	(34)	(28)
Gross exposure at carrying amounts	**(836)**	**(51)**	**(15)**
Gross forecasted cash flows exposure in the next 12 months	(688)	(337)	–
Total gross exposure	**(1,524)**	**(388)**	**(15)**
Forward currency contracts	306	155	–
Currency options	38	–	–
Currency swaps	–	6	–
Currency swaps	781	37	–
Hedges	**1,125**	**198**	**–**
Net exposure	**(399)**	**(190)**	**(15)**

The following currency risks and hedging contracts for foreign currencies existed as of 31 December 2009:

In CHF million	EUR	USD	Other
31 December 2009			
Cash and cash equivalents	5	2	–
Trade and other receivables	9	10	38
Other financial assets	2	389	–
Financial liabilities	(835)	(408)	–
Trade and other payables	(20)	(21)	(49)
Gross exposure at carrying amounts	**(839)**	**(28)**	**(11)**
Gross forecasted cash flows exposure in the next 12 months	(398)	(319)	–
Total gross exposure	**(1,237)**	**(347)**	**(11)**
Forward currency contracts	163	32	–
Currency swaps	742	48	–
Hedges	**905**	**80**	**–**
Net exposure	**(332)**	**(267)**	**(11)**

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	31.12.2010	31.12.2009
Income impact on balance sheet items		
EUR volatility of 11.99% (previous year: 5.25%)	100	44
USD volatility 12.68% (previous year: 12.85%)	6	4
Hedges for balance sheet items		
EUR volatility of 11.99% (previous year: 5.25%)	(94)	(39)
USD volatility 12.68% (previous year: 12.85%)	(5)	(6)
Planned cash flows		
EUR volatility of 11.99% (previous year: 5.25%)	82	21
USD volatility 12.68% (previous year: 12.85%)	43	41
Hedges for planned cash flows		
EUR volatility of 11.99% (previous year: 5.25%)	(41)	(9)
USD volatility 12.68% (previous year: 12.85%)	(20)	(4)

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 can result in changes in interest income and expense as well as the market value of certain financial assets, liabilities, and hedging instruments. Swisscom actively manages interest rate risks. The main aim of Swisscom's interest rate risk management 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 is as follows:

In CHF million	31.12.2010	31.12.2009 restated
Fixed interest-bearing financial liabilities	6,141	6,404
Variable interest-bearing financial liabilities	3,247	3,528
Total interest-bearing financial liabilities	**9,388**	**9,932**
Fixed interest-bearing financial assets	(331)	(300)
Variable interest-bearing financial assets	(633)	(734)
Total interest-bearing financial assets	**(964)**	**(1,034)**
Total interest-bearing financial assets and liabilities, net	**8,424**	**8,898**
Variable interest-bearing	2,614	2,794
Fixed through interest rate swaps	(150)	(1,148)
Variable through interest rate swaps	59	113
Variable interest-bearing, net	**2,523**	**1,759**
Fixed interest-bearing	5,810	6,104
Fixed through interest rate swaps	150	1,148
Variable through interest rate swaps	(59)	(113)
Fixed interest-bearing, net	**5,901**	**7,139**
Total interest-bearing financial assets and liabilities, net	**8,424**	**8,898**

Sensitivity analysis

The following sensitivity analysis shows the effects on the income statement and equity if CHF interest rates move by 100 base points.

	Income statement		Equity	
In CHF million	Increase 100 base points	Decrease 100 base points	Increase 100 base points	Decrease 100 base points
31 December 2010				
Variable financing	(26)	26	–	–
Interest rate swaps	1	(1)	7	(8)
Cash flow sensitivity, net	**(25)**	**25**	**7**	**(8)**
31 December 2009				
Variable financing	(28)	28	–	–
Interest rate swaps	10	(10)	20	(19)
Cash flow sensitivity, net	**(18)**	**18**	**20**	**(19)**

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 accounts are continually monitored as part of its operating activities. Credit risks are taken into account 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 issued by ISDA (Interna-

tional 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 may be analysed as follows:

In CHF million	Note	31.12.2010	31.12.2009
Cash and cash equivalents	17	483	532
Trade and other receivables	18	2,742	2,926
Loans and receivables	19	481	568
Held-to-maturity financial assets	19	–	8
Derivative financial instruments	19	24	–
Total carrying amount of financial assets		**3,730**	**4,034**

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

In CHF million	31.12.2010	31.12.2009
AAA	9	–
AA	123	26
AA–	342	469
A+	133	99
A	57	38
A–	67	185
Without rating, with government guarantee	163	181
Without rating	94	110
Total	**988**	**1,108**

Liquidity risk

Prudent liquidity management includes the holding of adequate reserves of cash and cash equivalents and marketable securities as well as the provision of adequate financing. Swisscom has processes and policies in place that guarantee sufficient liquidity in order to settle current and future obligations. Swisscom has a confirmed line of credit from banks with a maturity ending in 2015 of CHF 2,000 million (prior year: CHF 1,050 million). As of 31 December 2010, CHF 250 million had been drawn- under this credit line.

The contractual maturities of financial liabilities including estimated interest payments 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
31 December 2010						
Non-derivative financial liabilities						
Money market borrowings	700	700	700	–	–	–
Bank loans	1,460	1,628	37	26	1,365	200
Debenture bonds	5,195	6,195	170	420	2,721	2,884
Private placements	1,409	1,501	18	164	367	952
Finance lease liabilities	675	1,965	56	65	140	1,704
Other interest-bearing financial liabilities	20	20	11	5	3	1
Other non-interest-bearing financial liabilities	114	114	90	24	–	–
Trade and other payables	2,215	2,215	2,215	–	–	–
Derivative financial liabilities						
Derivative financial instruments	199	204	38	3	163	–
Total	**11,987**	**14,542**	**3,335**	**707**	**4,759**	**5,741**

In CHF million, restated	Carrying amount	Contractual payments	Due within 1 year	Due within 1 to 2 years	Due within 3 to 5 years	Due after 5 years
31 December 2009						
Non-derivative financial liabilities						
Money market borrowings	300	300	300	–	–	–
Bank loans	2,570	2,475	11	2,220	18	226
Debenture bonds	4,801	5,799	516	155	2,245	2,883
Private placements	1,523	1,691	371	35	479	806
Financial liabilities from cross-border lease agreements	15	17	10	2	5	–
Finance lease liabilities	695	2,026	62	57	157	1,750
Other interest-bearing financial liabilities	135	135	125	4	5	1
Other non-interest-bearing financial liabilities	28	28	6	13	9	–
Trade and other payables	2,314	2,314	2,314	–	–	–
Derivative financial liabilities						
Derivative financial instruments	152	160	68	32	60	–
Total	**12,533**	**14,945**	**3,783**	**2,518**	**2,978**	**5,666**

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 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

The carrying amounts and fair values of financial assets and liabilities may be allocated to the asset/liability categories as follows:

In CHF million	Carrying amount: Loans and receivables	Held-to-maturity	Available-for-sale	At fair value through profit or loss	Financial liabilities	Fair value
31 December 2010						
Cash and cash equivalents	483	–	–	–	–	483
Trade and other receivables	2,742	–	–	–	–	2,742
Other financial assets						
Term deposits with maturities over 90 days	98	–	–	–	–	98
Other loans and receivables	383	–	–	–	–	388
Available-for-sale financial assets	–	–	32	–	–	32
Derivative financial instruments	–	–	–	24	–	24
Total financial assets	**3,706**	**–**	**32**	**24**	**–**	**3,767**
Money market borrowings	–	–	–	–	700	700
Bank loans	–	–	–	–	1,460	1,488
Debenture bonds	–	–	–	–	5,195	5,506
Private placements	–	–	–	–	1,409	1,365
Finance lease liabilities	–	–	–	–	675	1,284
Other interest-bearing financial liabilities	–	–	–	–	20	20
Other non-interest-bearing financial liabilities	–	–	–	–	114	114
Derivative financial instruments	–	–	–	199	–	199
Trade and other payables	–	–	–	–	2,215	2,215
Total financial liabilities	**–**	**–**	**–**	**199**	**11,788**	**12,891**

In CHF million, restated	Carrying amount					
	Loans and receivables	Held-to-maturity	Available-for-sale	At fair value through profit or loss	Financial liabilities	Fair value
31 December 2009						
Cash and cash equivalents	532	–	–	–	–	532
Trade and other receivables	2,926	–	–	–	–	2,926
Other financial assets						
Term deposits with maturities over 90 days	103	–	–	–	–	103
Other loans and receivables	465	–	–	–	–	451
Held-to-maturity financial assets	–	8	–	–	–	9
Available-for-sale financial assets	–	–	26	–	–	23
Derivative financial instruments	–	–	–	–	–	–
Total financial assets	**4,026**	**8**	**26**	**–**	**–**	**4,044**
Money market borrowings	–	–	–	–	300	300
Bank loans	–	–	–	–	2,570	2,575
Debenture bonds	–	–	–	–	4,801	5,080
Private placements	–	–	–	–	1,523	1,588
Financial liabilities from cross-border lease agreements	–	–	–	–	15	16
Finance lease liabilities	–	–	–	–	695	1,193
Other interest-bearing financial liabilities	–	–	–	–	135	135
Other non-interest-bearing financial liabilities	–	–	–	–	28	28
Derivative financial instruments	–	–	–	152	–	152
Trade and other payables	–	–	–	–	2,314	2,314
Total financial liabilities	**–**	**–**	**–**	**152**	**12,381**	**13,381**

Fair value hierarchy

The fair value hierarchy has 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
31 December 2010				
Available-for-sale financial assets	4	–	17	21
Derivative financial assets	–	24	–	24
Derivative financial liabilities	–	199	–	199
31 December 2009				
Available-for-sale financial assets	–	–	4	4
Derivative financial liabilities	–	152	–	152

In addition, available-for-sale financial assets as of 31 December 2010 with a carrying amount of CHF 11 million (prior year: CHF 22 million) were accounted for at cost. The level-3 assets consist of investments in various investment funds. The fair value was arrived at using a valuation model. In 2009 and 2010, there were no reclassifications between the various levels.

Asset/liability categories and results of financial instruments

The results for each asset/liability category may be analysed as follows:

In CHF million	Loans and receivables	Held-to-maturity	Available-for-sale	At fair value through profit or loss	Financial liabilities	Hedging transactions
31 December 2010						
Interest income (interest expense)	33	–	–	11	(300)	(5)
Change in fair value	–	–	–	14	–	–
Foreign currency translation adjustments	(35)	–	–	(167)	148	–
Gains and losses transferred from equity	–	–	–	–	–	(34)
Net result recognised in income statement	**(2)**	**–**	**–**	**(142)**	**(152)**	**(39)**
Change in fair value	–	–	2	–	–	(9)
Gains and losses transferred to income statement	–	–	–	–	–	39
Net result recognised in other comprehensive income	**–**	**–**	**2**	**–**	**–**	**30**
Total net result by asset/liability category	**(2)**	**–**	**2**	**(142)**	**(152)**	**(9)**

In CHF million, restated	Loans and receivables	Held-to-maturity	Available-for-sale	At fair value through profit or loss	Financial liabilities	Hedging transactions
31 December 2009						
Interest income (interest expense)	28	20	–	(3)	(321)	(5)
Change in fair value	–	–	–	(19)	–	–
Foreign currency translation adjustments	(20)	3	–	28	(20)	–
Gains and losses transferred from equity	–	–	4	–	–	(96)
Net result recognised in income statement	**8**	**23**	**4**	**6**	**(341)**	**(101)**
Change in fair value	–	–	4	–	–	(6)
Gains and losses transferred to income statement	–	–	(4)	–	–	101
Net result recognised in other comprehensive income	**–**	**–**	**–**	**–**	**–**	**95**
Total net result by asset/liability category	**8**	**23**	**4**	**6**	**(341)**	**(6)**

In addition, in 2010, allowances for trade and other receivables amounting to CHF 132 million (prior year: CHF 138 million) were recorded under other operating expenses.

Derivative financial instruments

In CHF million	Contract value 31.12.2010	Contract value 31.12.2009	Positive fair value 31.12.2010	Positive fair value 31.12.2009	Negative fair value 31.12.2010	Negative fair value 31.12.2009
Foreign currency forward contracts in USD	155	32	–	–	(7)	–
Foreign currency forward contracts in EUR	306	163	–	–	(15)	(2)
Currency swaps in USD	24	–	–	–	–	–
Currency options in EUR	75	–	–	–	(3)	–
Cross currency interest rate swaps in USD [1]	37	48	–	–	(21)	(21)
Cross currency interest rate swaps in EUR [1]	781	742	–	–	(143)	(90)
Total currency instruments	**1,378**	**985**	**–**	**–**	**(189)**	**(113)**
Interest rate swaps in CHF	1,250	1,100	10	–	(11)	(43)
Cross currency interest rate swaps in USD [1]	37	48	–	–	(1)	(1)
Cross currency interest rate swaps in EUR [1]	781	742	4	5	(2)	–
Total interest rate instruments	**2,068**	**1,890**	**14**	**5**	**(14)**	**(44)**
Options from business combinations			14	–	–	–
Total derivative financial instruments			**28**	**5**	**(203)**	**(157)**
Reconciliation to amount reported in balance sheet			(4)	(5)	4	5
Thereof current derivative financial instruments			–	–	33	44
Thereof non-current derivative financial instruments			24	–	(166)	(108)

[1] Separated into foreign exchange and interest rate components.

As of 31 December 2010, derivative financial instruments comprise cross-currency swaps to hedge foreign exchange risks with respect to USD-denominated bank loans. The hedges were designated for hedge accounting purposes. As of the balance sheet date, these hedging instruments had negative fair values of CHF 22 million (prior year: CHF 22 million). For these hedging instruments designated as cash flow hedges, CHF 6 million pre-tax (prior year: CHF 7 million) was recorded in the hedging reserve within consolidated equity at 31 December 2010. The maximum remaining term of the hedges is three years.

In 2010, cross-currency swaps aggregating EUR 350 with a term of five years were entered into in order to hedge currency and interest-rate risk arising on euro-denominated financing. These hedges were not designated for hedge accounting.

In 2007, for the purpose of hedging the foreign currency and interest rate risks of financing in EUR, cross currency swaps for EUR 500 million were entered into. Hedges amounting to EUR 68 million were designated as fair value hedges for hedge accounting. Of this amount, currency swaps of EUR 29 million matured in 2010. As of 31 December 2010, the instruments designated for hedge accounting had a negative fair value of CHF 15 million (prior year: CHF 7 million).

In order to hedge interest rate risk for CHF 150 million of the variable interest rate private placements, in 2010 Swisscom concluded CHF interest rate swaps with a term of 2016. This hedge was designated as a cash flow hedge for hedge accounting. As of 31 December 2010, these interest rate swaps were recorded with a negative fair value of CHF 1 million. CHF 2 million pre-tax was recorded in the hedging reserve within consolidated equity for these hedging instruments.

In 2006 and 2007, interest rate swaps were entered into to hedge the interest rate risk of a total of CHF 2,935 million of the variable Swiss-franc denominated bank loans. These hedges were designated as cash flow hedges. In 2009 and 2010, Swisscom terminated interest rate swaps of an aggregate CHF 1,100 million (prior year: CHF 1,835 million). The cumulative revaluation losses of CHF 34 million (prior year: CHF 96 million) for prematurely repaid interest rate swaps of CHF 1,300 million (prior year: CHF 1,635 million) were transferred from other reserves within equity and recognised as other financial expense in the income statement. As of 31 December 2010, none of hedging instruments designated as cash flow hedges for bank loans arising in 2006 and 2007 were recorded in the hedging reserve within consolidated equity (prior year: CHF 36 million). The remaining interest rate swaps aggregating CHF 400 million with a duration until 2011 presented negative fair values aggregating CHF 9 million as of 31 December 2010 (prior year: CHF 41 million). These hedging instruments are thus no longer designated for hedge accounting.

In 2009, Swisscom terminated interest rate swaps designated for hedge accounting to hedge interest rate risks in connection with planned issuance of debenture bonds totalling CHF 500 million. The effective portion of CHF 24 million was left in the caption other reserves and will be recognised as interest expense over the remaining duration of the debenture bond issued in 2009.
Furthermore, as of 31 December 2010, a basis interest rate swap with a duration until 2012 with a negative market value of CHF 1 million (prior year: CHF 2 million) as well as interest rate swaps aggregating CHF 200 million with a duration until 2040 with a negative market value of CHF 10 million were recorded under derivative financial instruments which were not designated for hedge accounting.
As of 31 December 2010, derivative financial instruments include forward currency contracts of EUR 175 million and USD 130 million which serve to hedge future purchases of goods and services in the respective currencies. These hedges with negative fair values aggregating CHF 15 million were designated for hedge accounting. CHF 16 million was recorded in the hedging reserve within consolidated equity for these designated hedging instruments.
In addition, included in derivative financial instruments are foreign currency forward contracts, currency swaps and currency options 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.

Management of equity resources

Managed capital is defined as equity including minority interests. Swisscom seeks to maintain a strong equity basis which enables it to guarantee the continuing existence of the Company 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 calculation of the equity ratio is set out in the following table:

In CHF million	31.12.2010	31.12.2009 restated
Share of equity attributable to equity holders of Swisscom Ltd	6,256	6,291
Share of equity attributable to minority interests	28	319
Total capital	**6,284**	**6,610**
Total assets	21,067	22,144
Equity ratio in %	29.8%	29.9%

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	31.12.2010	31.12.2009 restated
Money market borrowings	700	300
Debenture bonds	5,195	4,801
Bank loans	1,460	2,570
Private placements	1,409	1,523
Finance lease liabilities	675	695
Other financial liabilities	333	330
Total financial liabilities	**9,772**	**10,219**
Cash and cash equivalents	(483)	(532)
Current financial assets	(122)	(178)
Non-current fixed interest-bearing deposits	(319)	(368)
Net debt	**8,848**	**9,141**
Operating income before depreciation and amortisation (EBITDA)	4,597	4,684
Ratio net debt/EBITDA	1.9	2.0

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	2010	2009
Trade and other receivables	28	(130)
Inventories	(14)	53
Other non-financial assets	(12)	4
Trade and other payables	62	172
Provisions	(56)	(56)
Other non-financial liabilities	26	94
Defined benefit obligations	(227)	(124)
Total changes in operating assets and liabilities	**(193)**	**13**

Other cash flows from financing activities

In 2010, other cash flows from financing activities aggregated CHF 38 million which relate mainly to payments of hedging contracts.
In the prior year, other cash outflows from financing activities amounted to CHF 482 million. Included therein are payments for provisions amounting to CHF 258 million for costs in connection with the early termination of cross-border lease agreements. See Note 26. Furthermore, included in other cash flow from financing activities are mainly payments under hedging contracts.

Material non-cash investing and financing transactions

Additions to property, plant and equipment include additions from finance leases amounting to CHF 12 million (prior year: CHF 8 million). See Note 23. In the years 2003 and 2006, Fastweb sold income tax and value-added tax receivables to financial institutions. With this sale, substantially all of the risks and opportunities related to these tax assets were transferred. In 2010, a new contract was entered into with the financial institutions and the tax assets, including accrued interest, were taken back. As a result thereof income tax receivables of CHF 22 million, value-added tax receivables of CHF 25 million as well as other financial liabilities of CHF 47 million were recorded.

The value-added tax receivables are recorded in the caption "other non-financial assets". See Notes 15, 21 and 26.
In the first half of 2009, various cross-border lease agreements were terminated prematurely. As a result, previously unrecognised financial assets aggregating USD 356 million (CHF 367 million) and financial liabilities of USD 317 million (CHF 326 million) were recognised for the first time. See Note 26. The capital of Belgacom International Carrier Services was increased in 2009 by 25%. Swisscom did not participate in this capital increase. As a result, Swisscom's shareholding in Belgacom International Carrier Services declined from 28% to 22.4%, thus generating a gain on dilution of CHF 44 million which was recorded as financial income.

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 2010 aggregated CHF 399 million (prior year: CHF 229 million).

Operating leases

Operating leases relate primarily to the rental of real estate for business purposes. See Note 26. In 2010, payments for operating leases amounted to CHF 299 million (prior year: CHF 304 million). Future minimum lease payments in respect of operating lease contracts as of 31 December 2009 and 2010 are as follows:

In CHF million	31.12.2010	31.12.2009 restated
Within 1 year	280	329
Within 1 to 2 years	110	111
Within 2 to 3 years	75	100
Within 3 to 4 years	59	67
Within 4 to 5 years	51	57
After 5 years	157	188
Total future minimum lease payments	**732**	**852**

36 Research and development

Costs aggregating CHF 28 million for research and development were expensed in 2010 (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 2010, the Confederation as majority shareholder held 56.9% 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 in certain circumstances may also be subject to a referendum by Swiss voters. As the majority shareholder, the Confederation has the power to control any decisions taken at general meetings including the approval of dividend distributions and the election of the members of the Board of Directors. Swisscom supplies telecommunication services to and 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 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.

Associated companies

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

Minority interests

Publigroup 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 2009 and 2010 are as follows:

In CHF million	Income	Expense	Receivables	Liabilities
Confederation	371	149	198	723
Associated companies	67	163	8	12
Other minority shareholders	28	14	2	2
Total in 2010 / balance at 31 December 2010	**466**	**326**	**208**	**737**

In CHF million	Income	Expense	Receivables	Liabilities
Confederation	470	166	238	271
Associated companies	168	197	43	12
Other minority shareholders	20	3	2	–
Total in 2009 / balance at 31 December 2009	**658**	**366**	**283**	**283**

Key management compensation

In CHF million	2010	2009
Current compensation	1.4	1.4
Share-based payments	0.7	0.7
Social security contributions	0.2	0.2
Total compensation to members of the Board of Directors	**2.3**	**2.3**
Current compensation	8.3	8.8
Share-based payments	1.3	1.1
Benefits paid following retirement from Group Executive Board	0.7	0.6
Pension contributions	1.1	1.2
Social security contributions	1.1	1.1
Total compensation to members of the Group Executive Board	**12.5**	**12.8**
Total compensation to members of the Board of Directors and of the Group Executive Board	**14.8**	**15.1**

Individuals in key positions of Swisscom are the members of the Board of Directors and the Group Executive Board of Swisscom Ltd. Current compensation comprises fixed and variable remuneration and functional allowances and non-cash benefits, as well as meeting allowances for the members of the Board of Directors. A third of the entire compensation paid to the Board of Directors (excluding meeting allowances) is paid in the form of shares. 25% of the variable performance-related share of profits of the members of the Group Executive Board is paid out in shares. See Note 11. Remuneration and shareholdings are disclosed in the Notes to 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 (FMG), ComCo 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. From 2008 onwards, in addition to the provision of a basic service to the population of Switzerland enabling access to the telephone network, the basic-service provision of broadband Internet access services providing comprehensive territorial coverage constitutes the centrepiece of the license. In addition, Swisscom, as a market-dominant provider of telecommunication services, must price its interconnection services to other service providers in a transparent and cost-based manner without discrimination. Since these new requirements are formulated in a technologically neutral manner and exceptions are permitted for technical or economic reasons, the total investment needed to fulfil the new access obligations is on a manageable scale. Consequently, Swisscom has waived claims for financial compensation in the first five years of the license. However, as price pressure increases, be it through competition or regulation, the more difficult it will become to provide the same basic service with comprehensive territorial coverage on the same conditions. Swisscom has therefore reserved the right to claim compensation in the second half of the license period in order to limit the entrepreneurial risks associated with the long license period.

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 16 February 2011. 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	Ostermundigen	100	CHF	5.0	Other
Comit Ltd	Zurich	100	CHF	0.1	Other
Comit Strategic Sourcing Ltd	Olten	100	CHF	0.1	Other
CT Cinetrade Ltd	Zurich	49.0	CHF	0.5	Swisscom Switzerland
Curabill Ltd	Zurich	100	CHF	1.9	Other
Evita Ltd	Ittigen	100	CHF	0.5	Other
Hospitality Services Plus Ltd	Geneva	100	CHF	10.0	Other
local.ch Ltd	Zurich	51.0	CHF	3.0	Swisscom Switzerland
LTV Yellow Pages Ltd	Zurich	49.0	CHF	10.0	Swisscom Switzerland
Medgate Holding Ltd	Zug	40.0	CHF	6.2	Other
Mona Lisa Capital Ltd	Ittigen	99.5	CHF	5.0	Group Headquarters
Resource Ltd	Frauenfeld	100	CHF	0.3	Other
Sicap Ltd	Köniz	81.5	CHF	2.0	Other
Sourcag Ltd	Münchenstein	60.0	CHF	3.0	Other
Swisscom Auto-ID Services Ltd	Ittigen	100	CHF	3.9	Other
Swisscom Broadcast Ltd	Berne	100	CHF	25.0	Other
Swisscom Directories Ltd	Berne	51.0	CHF	1.5	Swisscom Switzerland
Swisscom Real Estate Ltd	Berne	100	CHF	100.0	Other
Swisscom IT Services Ltd	Berne	100	CHF	150.0	Other
Swisscom IT Services Workplace Ltd	Berne	100	CHF	0.5	Other
Swisscom Switzerland Ltd	Ittigen	100	CHF	1,000.0	Swisscom Switzerland
Transmedia Communications Ltd	Geneva	40.0	CHF	0.4	Swisscom Switzerland
Webcall GmbH	Zurich	100	CHF	0.1	Swisscom Switzerland
Wingo Ltd	Fribourg	100	CHF	3.0	Swisscom Switzerland
Worklink Ltd	Berne	100	CHF	0.5	Group Headquarters

Registered name	Registered office	Shareholding in %	Currency	Share capital in millions	Segment
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
Denmark					
Swisscom Hospitality Denmark Holding A/S	Hellerup	100	DKK	0.6	Other
Swisscom Hospitality Denmark A/S	Hellerup	100	DKK	0.6	Other
Swisscom Hospitality MEA Denmark A/S	Hellerup	100	DKK	0.5	Other
Germany					
Hospitality Services Germany GmbH	Munich	100	EUR	0.1	Other
Swisscom Telco GmbH	Eschborn	100	EUR	–	Group Headquarters
France					
Sicap France SA	Lyon	81.5	EUR	0.5	Other
Hospitality Services France SA	Paris	96.0	EUR	5.6	Other
Great Britain					
Hospitality Networks and Services UK Ltd	London	100	GBP	1.6	Other
Italy					
e.BisMedia S.p.A.	Milan	94.9	EUR	15.3	Fastweb
Fastweb S.p.A.	Milan	94.9	EUR	41.3	Fastweb
Fastweb Wholesale S.r.l.	Milan	94.9	EUR	5.0	Fastweb
Hospitality Services Italia S.r.l.	Milan	100	EUR	0.1	Other
Qualified eXchange Network S.c.p.A.	Rome	57.0	EUR	0.5	Fastweb
Swisscom ICT Italia S.r.l.	Milan	100	EUR	3.0	Fastweb
Swisscom Italia S.r.l.	Milan	100	EUR	2,502.6	Fastweb
Liechtenstein					
Swisscom Re Ltd	Vaduz	100	CHF	1.0	Group Headquarters
Luxembourg					
Comit SE	Senningerbert	100	EUR	0.1	Other
Hospitality Services Luxembourg SA	Luxembourg	100	EUR	–	Other
Malaysia					
Sicap Malaysia SdnBhd	Kuala Lumpur	81.5	MYR	0.5	Other
Netherlands					
AUCS Communications Services v.o.f.	Hoofddorp	33.3	EUR	–	Group Headquarters
HSIA Hospitality Services Netherlands B.V.	The Hague	100	EUR	–	Other
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

Registered name	Registered office	Shareholding in %	Currency	Share capital in millions	Segment
Portugal					
HSIA Hospitality Services Portugal	Lisbon	100	EUR	1.1	Other
Romania					
Hospitality Services s.r.l.	Bucarest	100	RON	–	Other
Russia					
Wayport LLC	Moscow	100	RUB	0.1	Other
Sweden					
Diino AB	Stockholm	46.1	SEK	10.1	Group Headquarters
Spain					
Hospitality Networks and Services Espana SA	Madrid	100	EUR	0.1	Other
Whisher S.L.	Barcelona	40.0	EUR	–	Group Headquarters
Singapore					
Comit Solutions Pte Ltd	Singapore	100	SGD	0.1	Other
Sicap Asia Pacific Pte Ltd	Singapore	81.5	SGD	0.1	Other
South Africa					
Sicap Africa Pty Ltd	Johannesburg	81.5	ZAR	0.1	Other
USA					
Hospitality Services North America Corp.	Dulles	98.0	USD	1.6	Other

Report of the statutory auditor

Report of the statutory auditor on the consolidated financial statements to the General Meeting of Shareholders of the Swisscom Ltd, Ittigen (Berne)

As statutory auditor, we have audited the accompanying consolidated financial statements on pages 137 to 211 of Swisscom Ltd, which comprise income statement, statement of comprehensive income, balance sheet, statement of changes in equity, statement of cash flows and notes for the year ended 31 December 2010.

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 December 31, 2010 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 Ltd

Hanspeter Stocker Licensed Audit Expert Auditor in Charge	Rolf Hauenstein Licensed Audit Expert

Gümligen-Bern, 16 February 2011

Financial statements of Swisscom Ltd
Income statement

In CHF million	2010	2009
Net revenue from sale of goods and services	228	191
Other income	34	37
Total net revenue and other income	**262**	**228**
Personnel expense	(82)	(78)
Other operating expense	(99)	(103)
Depreciation and amortisation	(5)	(4)
Total operating expenses	**(186)**	**(185)**
Operating income	**76**	**43**
Financial expense	(283)	(223)
Financial income	291	343
Income from participations	2,131	626
Income tax expense	(14)	(10)
Net income	**2,201**	**779**

Balance sheet

In CHF million	Note	31.12.2010	31.12.2009
Assets			
Cash and cash equivalents		231	200
Other financial assets	10	97	90
Treasury shares	6	1	1
Other receivables from third parties		3	4
Receivables from Group companies		326	291
Dividends receivable from subsidiaries	9	2,100	500
Other assets		13	11
Total current assets		**2,771**	**1,097**
Property, plant and equipment	3	3	5
Participations	9	6,930	6,927
Loans to third parties		120	131
Loans to Group companies		7,425	6,829
Total non-current assets		**14,478**	**13,892**
Total assets		**17,249**	**14,989**
Liabilities and equity			
Financial liabilities to third parties		732	1,028
Financial liabilities to Group companies		2,593	1,150
Trade payables due to third parties		6	5
Other payables to third parties	4	157	139
Other payables to Group companies		14	13
Total current liabilities		**3,502**	**2,335**
Financial liabilities to third parties	5	7,966	8,005
Financial liabilities to Group companies		284	299
Provisions		344	356
Other liabilities		4	10
Total non-current liabilities		**8,598**	**8,670**
Total liabilities		**12,100**	**11,005**
Share capital		52	52
General reserves / capital surplus reserve		255	255
Reserve for treasury shares		1	1
Retained earnings		4,841	3,676
Total shareholders' equity	7	**5,149**	**3,984**
Total liabilities and equity		**17,249**	**14,989**

Notes to 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 2010, guarantees in favour of third parties for the account of Group companies aggregated CHF 186 million (prior year: CHF 164 million).

3 Fire insurance values of property, plant and equipment

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

4 Amounts payable to pension funds

As of 31 December 2010, the amounts payable to pension funds amounted to CHF 6 million (prior year: CHF nil).

5 Debenture bonds issued

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

	31.12.2010		31.12.2009	
In CHF million	Par value	Interest rate	Par value	Interest rate
Debenture bond 2007 to 2013	550	3.50	550	3.50
Debenture bond 2007 to 2017	600	3.75	600	3.75
Debenture bond 2007 to 2010	–	–	350	3.25
Debenture bond 2008 to 2015	500	4.00	500	4.00
Debenture bond 2009 to 2014	1,250	3.50	1,250	3.50
Debenture bond 2009 to 2018	1,500	3.25	1,500	3.25
Debenture bond 2010 to 2012	250	0.75	–	–
Debenture bond 2010 to 2022	500	2.63	–	–

6 Treasury shares

Swisscom Ltd records treasury shares separately under assets and establishes a reserve for treasury shares in the same amount under equity. Treasury shares are valued at the lower of cost and market value. At the Annual General Meeting of Shareholders of 21 April 2009, it was resolved to cancel the remaining number of treasury shares which had been acquired within the framework of the 2006 share buy-back plan. The capital reduction of 1,639,057 to 51,801,943 shares was completed in July 2009. 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	General reserves	Reserve for treasury shares	Retained earnings	Total equity
Balance at 31 December 2008	**53,441,000**	**53**	**255**	**738**	**3,699**	**4,745**
Net income	–	–	–	–	779	779
Dividends paid	–	–	–	–	(984)	(984)
Share capital reduction	(1,639,057)	(1)	–	(737)	182	(556)
Balance at 31 December 2009	**51,801,943**	**52**	**255**	**1**	**3,676**	**3,984**
Net income	–	–	–	–	2,201	2,201
Dividends paid	–	–	–	–	(1,036)	(1,036)
Balance at 31 December 2010	**51,801,943**	**52**	**255**	**1**	**4,841**	**5,149**

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 in an amount of 20% of share capital as well as the reserve for treasury shares may not be distributed. As of 31 December 2010, distributable reserves aggregated CHF 5,086 million. Any dividend distribution must be proposed by the Board of Directors and approved by the Annual General Meeting of Shareholders.
As a result of an amendment to tax legislation, the tax reserves arising on capital contributions must now be disclosed separately in the balance sheet. As of 31 December 2010, the reserves arising on capital contributions of Swisscom Ltd amounted to CHF 487 million, whereof CHF 255 million are reported in general reserves and CHF 232 million reported in retained earnings.

8 Significant shareholders

In accordance with a notification dated 9 April 2009, the Swiss Confederation (Confederation), as majority shareholder, held 56.9% 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. Dividends from fully-consolidated subsidiaries of Swisscom Ltd are recognised in the year in respect of which the dividend is proposed. The dividends of the subsidiary companies have been approved at their respective Annual General Shareholder Meetings. 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 2010, term deposits totalling CHF 93 million (prior year: CHF 85 million) could not be freely disposed of. These assets serve to secure liabilities arising from cross-border lease arrangements. See Note 26 to the consolidated financial statements.

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 of Swisscom Ltd. See Note 39 to the consolidated financial statements.

12 Management compensation

Compensation for the members of the Board of Directors

	Base emoluments and functional allowances			
2010, in CHF thousand	Cash compensation	Share-based payment	Meeting attendance fees	Total 2010
Anton Scherrer	334	185	76	595
Hugo Gerber [1]	98	54	19	171
Michel Gobet	98	54	18	170
Torsten G. Kreindl	114	63	22	199
Hansueli Loosli [2]	98	54	25	177
Catherine Mühlemann	98	54	21	173
Felix Rosenberg	144	81	25	250
Richard Roy	114	63	25	202
Othmar Vock	112	63	28	203
Total compensation to members of the Board of Directors	**1,210**	**671**	**259**	**2,140**

[1] In addition, a cash compensation of CHF 9,000 was paid as member of the Board of Directors of Worklink AG.
[2] Cash compensation is paid to Coop.

2009, in CHF thousand	Base emoluments and functional allowances: Cash compensation	Base emoluments and functional allowances: Share-based payment	Meeting attendance fees	Total 2009
Anton Scherrer	334	186	71	591
Fides P. Baldesberger [1]	30	13	5	48
Hugo Gerber [2]	98	54	18	170
Michel Gobet	98	54	16	168
Torsten G. Kreindl	114	63	20	197
Hansueli Loosli [3,4]	64	44	8	116
Catherine Mühlemann	98	54	17	169
Felix Rosenberg	145	81	22	248
Richard Roy	114	63	21	198
Othmar Vock	112	63	25	200
Total compensation to members of the Board of Directors	**1,207**	**675**	**223**	**2,105**

1 Resigned as of 21 April 2009.
2 In addition, a cash compensation of CHF 9,000 was paid as member of the Board of Directors of Worklink AG, in charge from 1 April 2009.
3 Elected as of 21 April 2009.
4 Cash compensation is paid to Coop.

The compensation plan provides for basic emoluments for the Chairman of the Board of Directors of CHF 385,000 net, and of CHF 110,000, net, for the other Board members. Additional fees are also paid for specific duties (functional allowances). Each member of a Board Committee is entitled to compensation of CHF 10,000 net. Accordingly, each member of the Board Committees Finances, Human Resources and Organisation as well as Audit is entitled to an emolument of CHF 10,000 net. In addition, the Vice-Chairman and the Chairmen of the Board committees are entitled to compensation of CHF 20,000 net and the representative of the Swiss Confederation receives an additional CHF 40,000 net for special duties related to his function. Meeting attendance fees are also paid (half a day: CHF 500 net / whole day: CHF 750 net). 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 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 2010, a total of 1,712 shares were allocated to the members of the Board of Directors (prior year: 2,119 shares) for a tax value of CHF 328 per share (prior year: CHF 265). Their market value was CHF 392 per share (prior year: CHF 316).
As regards the disclosure of non-cash benefits and expenses, these are dealt from a tax point of view, such that 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 2010 totalled CHF 0.2 million (prior year: CHF 0.2 million).

Compensation for the members of the Group Executive Board

In CHF thousand	Total Group Executive Board 2010	Total Group Executive Board 2009	Thereof Carsten Schloter 2010	Thereof Carsten Schloter 2009
Fixed base salary paid in cash	4,889	5,474	770	770
Variable earnings-related compensation paid in cash	3,333	3,280	707	651
Non-cash compensation	76	80	17	15
Share-based payments variable	1,323	1,079	280	258
Benefits paid following retirement from Group Executive Board	664	640	–	–
Retirement benefits	1,054	1,165	125	125
Severance payments	–	–	–	–
Total compensation to members of the Group Executive Board	**11,339**	**11,718**	**1,899**	**1,819**

The compensation paid to the Group Executive Board consists of a basic salary, a variable performance-related share of profits as well as non-cash benefits and additional benefits (in particular company car) as well as pension benefits. The variable performance-related share of profits is fixed in the subsequent year on the basis of the consolidated financial statements and the incentive targets fixed in the year under review and is paid out in April of the following year. Apart from a 100% cash payment in the case of one member who did not participate in the equity-share participation programme and one member who resigned from the Group Executive Board as of the end of August 2009, 75% of the variable performance-related share of profits are paid out in cash and 25% in Swisscom shares to the remaining members of the Group Executive Board with the exception of one member with a cash portion of 64% and an equity-share portion of 36%. In the reporting period, two members each were awarded a bonus in the form of shares or shares and cash. 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 2011. As regards the financial year 2009, a total of 2,767 shares with a tax value of CHF 328 and a market value of CHF 392 per share were allocated to members of the Group Executive Board in April 2010. In April 2009, 3,254 shares with a tax value of CHF 265 and market value of CHF 316 per share were allocated in respect of the 2008 financial year. As regards 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 and risk contributions paid by the employer to pension plans, including proportionate contributions to constitute fluctuation reserves for changes in plan asset values.
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. 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 2010 totalled CHF 1.1 million (prior year: CHF 1.1 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 is not at arm's length.

Loans and credits granted

Swisscom has granted no loans and credits to present or former members of the Board of Directors and the Group Executive Board 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 127.

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

The table below discloses the shares held by the members of the Board of Directors and the Group Executive Board as of 31 December 2009 and 2010.

Number	Shares 31.12.2010	Shares 31.12.2009
Anton Scherrer	2,169	1,695
Hugo Gerber	589	451
Michel Gobet	956	818
Torsten G. Kreindl	674	514
Hansueli Loosli [1]	271	133
Catherine Mühlemann	579	441
Felix Rosenberg	2,223	2,017
Richard Roy	674	514
Othmar Vock	852	692
Total shares of the members of the Board of Directors	**8,987**	**7,275**
Carsten Schloter (CEO)	4,172	3,511
Ueli Dietiker	2,720	2,323
Kathrin Amacker-Amann [2]	40	–
Eros Fregonas	1,259	817
Guido Garrone [3]	–	–
Heinz Herren	515	426
Stefan Nünlist [4]	–	443
Christian Petit	955	687
Günter Pfeiffer [5]	–	475
Daniel Ritz	778	560
Urs Schaeppi	1,005	1,034
Total shares of the members of the Group Executive Board	**11,444**	**10,276**

[1] Elected as of 21 April 2009.
[2] Joined as of 1 October 2010.
[3] Resigned as of 31 December 2010.
[4] Resigned as of 31 May 2010.
[5] Resigned as of 31 October 2010.

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 20 April 2011 that the retained earnings of CHF 4,841 million for the year ended 31 December 2010 are appropriated as follows:

In CHF million	31.12.2010
Appropriation of retained earnings	
Balance carried forward from prior year	2,640
Net income for the year	2,201
Total retained earnings	**4,841**
Transfer to capital surplus reserves	(232)
Transfer to other reserves	(622)
Balance to be carried forward	**3,987**
Transformation and use of capital surplus reserves and use of other reserves	
Transformation of capital surplus reserves in other reserves	466
Dividend for the financial year 2010 of CHF 21 per share (CHF 9 per share from capital surplus reserves and CHF 12 per share from other reserves).[1]	1,088

[1] Excluding treasury shares.

In the event that the proposal is approved, a dividend per share will be paid to shareholders on 29 April 2011 as follows:

Per registered share	CHF
Dividend from capital surplus reservers (without withholding tax)	9.00
Dividend from other reserves	12.00
Less 35% withholding tax	(4.20)
Net dividend paid	**16.80**

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 214 to 221 of Swisscom Ltd, which comprise the income statement, balance sheet and notes for the year ended 31 December 2010.

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 2010 comply with Swiss law and the company's articles of association.

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

Hanspeter Stocker	Rolf Hauenstein
Licensed Audit Expert	Licensed Audit Expert
Auditor in Charge	

Gümligen-Berne, 16 February 2011

Further Information

Discovering new things, implementing ideas, improving existing products – those are key drivers for Swisscom.

Fibre-optic expansion

Glossary

Index of keywords

Swisscom Group five-year review

Publishing details

Glossary

Technical terms

ADSL (Asymmetric Digital Subscriber Line)

A broadband data transmission technology that uses the existing copper telephone cable for access to the data network. A filter separates voice and data traffic so that people can browse the Internet and use the telephone at the same time. Depending on the service category, the transmission speed varies between 300/100 kbps and a maximum of 6,000/600 kbps.

All-IP

All-IP is the technology behind the transition to a single network based on Internet Protocol (IP). In the medium and long term, Swisscom intends to migrate all existing communications networks to IP to enable all telecommunications services (telephony, data traffic, TV, mobile communications, etc.) to be offered over IP. All-IP means that all services such as television, the Internet or telephony run over the same IT network based on Internet Protocol. Phone calls are no longer transmitted using analogue signals but instead take the form of data packets, as is the case for existing Internet services. Thanks to the uniform All-IP network infrastructure, devices and services can exchange data and communicate with one another. For example, this enables the TV set to be used to make calls and to access the Internet.

Bandwidth

Bandwidth refers to the transmission capacity of a medium; also known as the data transmission rate. The higher the bandwidth, the more information units (bits) can be transmitted per unit of time (second). It is defined in bps, kbps or Mbps.

Connectivity

Connectivity is the generic term used to denote IP services or as a synonym for connection to the Internet and the ability to exchange data with any partner on the network.

DSL (Digital Subscriber Line)

The transmission standard used for sending and receiving data at high speed (up to 210 Mbps) over simple copper lines such as the subscriber access line.

EDGE (Enhanced Data Rates for GSM Evolution)

EDGE is a radio modulation technology used to enhance data transmission speeds in GSM mobile networks and TDMA (Time Division Multiple Access). EDGE enables higher data transmission speeds based on the GSM standard. Thanks to improved encoding, EDGE permits data rates of up to 48,400 bits per channel compared to the maximum 14,400 bps currently available in the GSM network. EDGE allows mobile customers to work or use high-bandwidth applications (video and audio transmission, for example) while on the move. Today EDGE covers 99.8% of the population.

Fibre to the Home (FTTH) / Fibre to the Office (FTTO)

FTTH denotes the use of fibre-optic cables instead of copper cables to connect homes and offices.

GPRS (General Packet Radio Service)

GPRS significantly accelerates the transmission speed in GSM mobile communications networks. Currently, GPRS enables speeds of 30 to 40 kbps. GPRS is ideal for WAP services and entertainment offerings as well as sending and receiving e-mails.

GSM (Global System for Mobile communications) network

GSM is a digital mobile communications standard which, in addition to voice and data transmission, enables services such as SMS messaging and connections to and from countries abroad (international roaming).

HSPA (High-Speed Packet Access)

A further development of the UMTS mobile communications standard. HSPA enables large volumes of data to be transmitted at faster speeds and will provide even faster mobile Internet access. HSPA enables far more customers to use the same radio cell simultaneously and at a consistently high speed than with UMTS. HSPA is upgraded to HSPA+ at locations where mobile Internet use is particularly concentrated. This technology speeds up transmission to a maximum rate of 28.8 Mbps.

ICT (Information and Communication Technology)

A term coined in the 1980s to denote the convergence of information technology (information and data processing and the related hardware) and communication technology (technically aided communications).

IP (Internet Protocol)

Internet Protocol enables different types of services to be integrated on a network. Typical applications are virtual private networks (VPN), telephony (Voice over IP) and fax (Fax over IP).

IPTV (Internet Protocol Television)

IPTV refers to the digital broadcasting of broadband applications (e.g. television programmes, films) over a digital data network.

ISDN (Integrated Services Digital Network)

ISDN is a digital communications network for transferring data, text, voice and images over the same telephone line. There are two or more transmission channels, allowing users to make several calls simultaneously or transfer data at the same time as they make a voice call. The transmission speed is 64 kbps per channel.

ISP (Internet Service Provider)

An ISP is a provider of Internet-based services. Also commonly referred to as Internet Provider. Services include Internet connection (using DSL, for example), hosting (registration and operation of Internet addresses, websites and web servers) and content provision.

LAN (Local Area Network)

A LAN is a local network for interconnecting computers, usually based on Ethernet.

LTE (Long Term Evolution)

The successor technology to HSPA. LTE enables mobile broadband data speeds of up to 300 Mbps.

MVNO (Mobile Virtual Network Operator)

MVNO is a business model for mobile communications in which a company (the MVNO) with no network infrastructure or a limited network infrastructure is able to access the infrastructure of other mobile communications providers.

Optical fibre

Optical fibre is used as a transport medium for optical data transmission.

PSTN (Public Switched Telephone Network)

PSTN is a collective term that covers the public fixed telephone network in its entirety.

PWLAN (Public Wireless Local Area Network)

A PWLAN is a public local area network that enables data access using different wireless transmission technologies. Swisscom customers can use more than 1,200 hotspots in Switzerland and over 65,000 worldwide. All that is required is a laptop, PDA or mobile telephone, a WLAN card and access via a telecommunications provider. Maximum transmission capacity in the PWLAN is 2 Mbps.

Roaming

The term "roaming" originally comes from the GSM world.
Traditional GSM roaming is defined as the ability of a mobile network subscriber to make and receive automatic calls in a network other than their own, to automatically send and receive data or have access to other mobile network services. Roaming enables mobile network subscribers to use their mobile phones when travelling abroad. The mobile telephone of a subscriber outside Switzerland automatically selects the best-quality partner network. Information indicating the country and region where the mobile phone is located at any given time is sent to the exchange in Switzerland where the mobile phone is registered. On receipt of the calling signal, the exchange in Switzerland transmits it within a fraction of a second to the right region in the respective country, where the signal is forwarded to the base station in whose vicinity the mobile phone is located. The base station then forwards the signal to the mobile phone and the call can be taken. Roaming only works if all countries involved operate on the same frequency bands. In Europe all GSM networks use the same frequency bands. Other countries such as the USA or countries in South America use a different frequency range. Most mobile telephones today are triband or quadband and support 900 MHz and 1800 MHz networks (which are most commonly used in Europe) as well as 850 MHz and 1900 MHz networks.

Router

A router is a device for combining or separating several computer networks. The router analyses incoming data packets according to their destination address, and either blocks them or forwards them accordingly (packet routing).

TIME (Telecommunications, Information, Media, Entertainment)

The TIME market covers applications in the areas of telecommunications, IT, media and entertainment.

Triple play

The provision of three services – telephony, broadband Internet and TV – over the telephone line.

UMTS (Universal Mobile Telecommunications System)

UMTS is an international third-generation mobile communications standard that combines mobile multimedia and telematic services within the 2 GHz frequency spectrum. A further development of GSM, UMTS complements GSM and Public Wireless LAN in urban regions of Switzerland. Data transmission speeds of up to 384 kbps can be achieved, enabling the transmission of short video clips, for example. Swisscom has set up its own UMTS mobile network. Today the UMTS network covers around 92% of the Swiss population. UMTS can only be used with special handsets.

Unified communications

An attempt used to integrate the wide variety of modern communication technologies. Different telecommunication services such as e-mail, unified messaging, telephony, mobile, PDAs, instant messaging and presence functions are coordinated to enhance the reachability of dispersed communication partners, thereby speeding up business processes.

VDSL (Very High Speed Digital Subscriber Line)

VDSL broadband technology is the successor to ADSL and is the fastest of all DSL technologies, allowing data transmission speeds of up to 55 Mbps.

Video-on-demand

A service that allows subscribers to choose from a selection of films and to watch the selected film at any time. The film is delivered to the subscriber either over the broadband cable network or over DSL and the telephone network.

VoIP (Voice over Internet Protocol)

VoIP is used to set up telephone connections via the Internet. There are three VoIP methods: PC-to-PC, PC-to-fixed network, or telephoning over an IP-based internal network.

VPN (Virtual Private Network)

VPN is generally used to refer to logical private subnetworks set up within a public network. The most common interpretation of VPNs at present is IP-VPNs, where subscribers are connected over IP tunnels.

WLAN (Wireless Local Area Network)

WLAN is a wireless network that provides mobile Internet access. A WLAN connects several computers with each other wirelessly and links them to a central information system, printer or scanner.

Networks

Access network

Swisscom's access network largely consists of twisted copper wire pairs and extends to practically every household in Switzerland. It also deploys add-on technologies such as microwave radio and fibre optics. In 2000 Swisscom rolled out ADSL broadband technology, which today delivers reliable, top-quality, high-speed multimedia services to over 98% of households in Switzerland. Local and geographical redundancy in the network elements and data centres assures high availability. Swisscom also guarantees nationwide broadband Internet access as part of its universal service provision mandate. In addition to fibre-optic and DSL technologies, Swisscom uses wireless technologies such as UMTS and satellite to fulfil this mandate.
To facilitate the provisioning of new bandwidth-hungry services such as IPTV and video telephony while also meeting the growing demand for faster Internet connections, Swisscom started supplementing its broadband offerings with VDSL technology in 2006. This technology allows the transmission of multiple TV streams in standard quality or up to two streams in high-definition quality (HDTV) at the same time as using a high-speed Internet connection. Today, a large number of Swiss households already receive live TV, video-on-demand, pay-per-view and radio in excellent quality. Three geographically dispersed data centres serve to ensure high availability. Swisscom also continuously implements measures to provide service quality of an even higher standard. Customer satisfaction was raised demonstrably yet again in 2010.

Data networks

Swisscom has several leased-line networks. These are supplemented by an SDH (Synchronous Digital Hierarchy) and an Ethernet platform which support bandwidths of 2 Mbps to 10 Gbps and are ideal for business customers requiring permanent point-to-point broadband connectivity free from the risk of overload. Redundancies are adapted to customers' individual availability and security needs.

Fixed network

Swisscom operates a nationwide PSTN/ISDN network infrastructure, different data networks and a broadband and IP network. The infrastructure comprises the access and transport network as well as various service platforms for telephony and data services.

Mobile network

Swisscom operates a nationwide mobile network in Switzerland. The mobile services it provides are based on GSM and UMTS, the two dominant digital standards across Europe and much of the world. Swisscom's GSM network operates in the 900 MHz and 1800 MHz frequency bands and covers 99% of the population, while the UMTS network uses the 2,100 MHz frequency band. The Federal Communications Commission has extended Swisscom's GSM mobile licence, which expired in 2008, to the end of 2013. The extension is of a provisional nature due to a complaint concerning the licence renewal procedure. In 2011 an auction will be held for new licences in all frequency bands.
Swisscom has implemented different technologies that enable transmission between handsets and base stations. In 2005, it enhanced all active GSM antennas with EDGE technology, a further development of GPRS. EDGE enables bandwidths of between 150 kbps and 200 kbps and currently covers 99% of the population. Swisscom began rolling out UMTS as far back as 2004 and since 2006 has continued to expand it using HSPA/HSPA+. This allows download speeds of up to 7.2 Mbps or even up to 21 Mbps in some areas. By the end of 2010, UMTS/HSPA was available to around 93% of the Swiss population. Swisscom thus possesses the most efficient mobile network in Switzerland and will continue to expand its technological lead. Swisscom took another major step in 2010 when it became the first mobile provider in Switzerland to launch a field trial with LTE, which supports bandwidths of up to 100 Mbps.

Next-generation network

To enable new services such as VoIP and convergent solutions to be offered more cost-effectively in the future, Swisscom is investing in an All-IP network infrastructure. This structure will allow services to be provided irrespective of the type of access technology selected, be it copper, wireless or fibre optic. Through its migration of the data transport network to IP, the commissioning of an IP-based telephony and multimedia platform, and the launch of its first IP-based services such as Swisscom TV and VoIP, Swisscom has already gained experience in the area of All-IP. The first products based solely on IP were already rolled out in 2009 and supplemented in 2010 by a wide range of new services and bundled offerings.

PSTN/ISDN network

The PSTN/ISDN network connects virtually all private households and a large proportion of business customers in Switzerland. Four-fold redundancy in the core network and two-fold redundancy in the switching layer ensure excellent voice quality and optimum security and availability.

Transport network

The transport network is an exclusively digital network that supports the transmission of voice, video and data services between access networks. All transmission points are equipped with optical fibre and enable the provision of Ethernet services for business customers as well as VDSL connectivity.

Financial terms

Average minutes per user (AMPU)

The average number of charge minutes per mobile user per month. This includes charge minutes for outgoing and incoming calls, roaming traffic of Swisscom customers abroad, as well as charge minutes for using value-added services.

Average revenue per user (ARPU)

Average mobile revenue (voice, data, SMS and MMS) generated per mobile subscriber per month. This includes revenue from outgoing and incoming calls, monthly subscription charges, revenue from roaming for Swisscom customers abroad, and revenue from value-added services. Traffic revenue from M-Budget users is not included, nor is revenue generated by non-Swisscom customers (e.g. inbound roaming).

Broadband access lines

All activated broadband connections using ADSL or VDSL technology, irrespective of the bandwidth selected by the customer.

Customer acquisition costs

Average costs incurred for new customer acquisition during a reporting period. These comprise subsidies for handsets sold in Swisscom's own sales outlets, dealer commissions, subsidies for third-party channels and advertising cost subsidies.

Customer retention costs

Average costs incurred for renewing contracts with existing customers during a reporting period. This is made up of subsidies for handsets sold in Swisscom's own sales outlets, dealer commissions and subsidies for third-party channels.

Mobile customers, postpaid and prepaid

Number of active SIM cards. Postpaid systems are telephone contracts under the terms of which charges are billed after use. Prepaid systems involve a contractual relationship without a fixed monthly charge, whereby services are paid from a credit account that is topped up in advance. With postpaid systems, SIM cards are used to quantify the customer base for the duration of the contract. With prepaid systems, SIM cards are included in the customer base from their first active use until they have not been used for twelve consecutive months (no explicit cancellation of the contract by the customer). Internal business lines used by Swisscom are included. If a postpaid SIM card is temporarily suspended by the customer (due to a lengthy absence) or by Swisscom (due to payment default), it is no longer included in the customer base. SIM cards issued on the basis of prepaid systems are suspended as soon as the balance is less than CHF 0, although the SIM card is still included in the customer base.

Net debt

Financial liabilities less cash and cash equivalents, current financial assets and non-current money market investments.

Operating free cash flow

Operating income before depreciation and amortisation (EBITDA), change in operating assets and liabilities less net capital expenditure on tangible and intangible assets as well as dividend payments to minority interests.

Operating income (EBIT)

Operating income before gains and losses on the sale of subsidiaries, net financial result, share of profit of investments in associates and income taxes.

Operating income (EBITDA)

Operating income before depreciation, amortisation and impairment on tangible and intangible assets, gains and losses on the sale of subsidiaries, net financial result, share of profit of investments in associates and income taxes.

PSTN/ISDN lines

Total number of active access lines connected to the network using PSTN (Public Switched Telephone Network) or ISDN (Integrated Services Digital Network) transmission technology. Internal business lines used by Swisscom are included. PSTN lines: one line corresponds to one access channel. ISDN access lines: one line consists of two or 30 access channels.

Swisscom TV customers

Number of activated IPTV connections.

Unbundled subscriber lines

The number of unbundled telephone lines within the last mile which are leased from Swisscom by other providers in order to deliver their own services to end customers at regulated conditions.

Other terms

Bit-stream access (BSA)

Regulated bit-stream access refers to a high-speed link (from the local exchange to the home on a metallic pair cable) on the last mile, which Swisscom sets up and provides to other telecoms service providers (TSP) as an upstream service at a price regulated by the government. TSPs can use this link, for example, to offer their customers broadband services or fast Internet access.

Collocation

Collocation is governed by the Ordinance on Telecommunications Services (Verordnung über Fernmeldedienste, FDV). The market-dominant provider offers alternative providers non-discriminatory access to the required locations so that they can use the location and install and operate their own telecommunications systems at that location.

ComCom (Federal Communications Commission)

As the decision-making authority for telecommunications, the primary responsibilities of the Federal Communications Commission include issuing concessions for use of the radio frequency spectrum as well as basic service licences, providing access (unbundling, interconnection, leased lines, etc.), approving national numbering plans and regulating the conditions governing number portability and freedom of choice of service provider.

Competition Commission (ComCo)

The Competition Commission enforces the Federal Cartel Act, the aim of which is to safeguard against the harmful economic or social impact of cartels and other constraints on competition, and in so doing foster competition. The Competition Commission combats harmful cartels and monitors market-dominant companies for signs of anti-competitive conduct. It is also responsible for examining mergers and issuing statements on official decrees that affect competition.

Ex ante

In an ex-ante regime, the particulars of the regulated offerings (commercial, technical and operating conditions) must be approved by a government authority (authorisation obligation). The conditions approved by the authority (e.g. price) are known to the parties using the regulated services, and there is legal provision for the affected providers to have the authorised price examined for correctness.

Ex post

In an ex-post regime, the parties must agree – wherever possible – on the contractual content (primacy of negotiation). In the event of a dispute, the authorities decide only on the points on which the parties have been unable to agree (objection principle).

Federal Office of Communications (OFCOM)

The Federal Office of Communications deals with issues related to telecommunications and broadcasting (radio and television), and performs official and regulatory tasks in these areas. OFCOM prepares the groundwork for decisions by the Federal Council, the Federal Department for Environment, Transport, Energy and Communications (DETEC) and the Federal Communications Commission (ComCom).

Full access

Full access means providing alternative telecommunications service providers with access to subscriber lines for the purpose of using the entire frequency spectrum of metallic pair cables.

Interconnection

Interconnection means linking up the systems and services of two TSPs so as to enable the logical interaction of the connected telecoms components and services and to provide access to third-party services. Interconnection allows the customer of one provider to communicate with the subscribers of another provider. Under the terms of the Federal Telecommunications Act, market-dominant telecommunications service providers are required to allow their competitors interconnection at cost-based (LRIC) prices.

Last mile

Also referred to as the local loop, the last mile denotes the subscriber access line between the subscriber access point and the local exchange. In Switzerland, as in most other countries, access to the last mile is regulated.

LRIC (Long-Run Incremental Costing):

LRIC is the method defined by the Ordinance on Telecommunications Services (Verordnung über Fernmeldedienste, FDV) for calculating regulated prices. It is future-oriented and therefore creates economically efficient investment incentives.

Telecommunications Act

The Federal Telecommunications Act (Fernmeldegesetz, FMG) stipulates that the Swiss population and the business community are to be provided with a wide range of affordable, high-quality telecommunications services that are nationally and internationally competitive. In particular, it guarantees the framework for the reliable, mandatory provision of basic telecommunications services for all sections of the population in all regions of the country, provides fault-free telecommunications traffic that respects personal and intellectual property rights, enables effective competition among providers of telecommunications services, and protects users of telecommunications services against unfair mass advertising and misuse of value-added services.

Termination charges

Termination charges are levied by the network operator for forwarding calls to other third-party networks (e.g. calls from Orange to Swisscom or from Sunrise to Orange).

Unbundling

Unbundling of the last mile (Unbundling of the Local Loop, ULL) enables fixed-network competitors without their own access infrastructure to access customers directly at non-discriminatory conditions based on original cost. The requirement for ULL is a market-dominant position.

Index of keywords

Swisscom Group five-year review

In CHF million, except where indicated		2006	2007	2008	2009	2010
Net revenue and results						
Net revenue		9,652	11,089	12,198	12,001	11,988
Operating income before depreciation and amortisation (EBITDA)		3,803	4,518	4,806	4,684	4,597
EBITDA as % of net revenue	%	39.4	40.7	39.4	39.0	38.3
Operating income (EBIT)		2,362	2,526	2,651	2,689	2,625
Net income		1,902	2,069	1,749	1,923	1,786
Share of net income attributable to equity holders of Swisscom Ltd		1,596	2,066	1,754	1,926	1,811
Earnings per share	CHF	28.86	39.88	33.87	37.18	34.96
Balance sheet and cash flows						
Equity at end of year		4,368	5,890	5,647	6,610	6,284
Equity ratio at end of year	%	27.6	24.7	24.6	29.9	29.8
Cash flow provided by operating activities		3,279	3,604	4,126	4,395	4,024
Capital expenditure in property, plant and equipment and other intangible assets		1,324	2,025	2,050	1,987	1,903
Net debt		4,594	10,550	10,071	9,141	8,848
employees						
Full-time equivalent employees at end of year	number	17,068	19,844	19,943	19,479	19,547
Average number of full-time equivalent employees	number	16,734	18,755	19,801	19,813	19,464
Operational data						
Telephone access lines PSTN/ISDN in Switzerland	in thousand	3,747	3,686	3,556	3,391	3,213
Broadband access lines retail in Switzerland	in thousand	1,368	1,602	1,334	1,478	1,584
Mobile subscribers in Switzerland	in thousand	4,632	5,007	5,359	5,602	5,828
Swisscom TV subscribers in Switzerland	in thousand	10	59	118	232	421
Unbundled fixed access lines in Switzerland	in thousand	–	–	31	153	255
Broadband subscribers in Italy	in thousand	–	1,263	1,483	1,644	1,724
Swisscom share						
Par value per share at end of year	CHF	1.00	1.00	1.00	1.00	1.00
Number of issued shares at end of period		56.719	56.719	53.441	51.802	51.802
Closing price at end of period	CHF	461.25	442.00	339.50	395.60	411.10
Market capitalisation at end of year		23,894	22,896	17,587	20,491	21,296
Ordinary dividend per share	CHF	17.00	18.00	19.00	20.00	21.00 [1]
Extraordinary dividend per share	CHF	–	2.00	–	–	–
Ratio payout/earnings per share	%	58.91	50.15	56.10	53.79	60.06

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

Publishing details

Key dates

- **17 February 2011**
  Annual Press Conference 2011, Zurich
- **20 April 2011**
  Annual General Meeting of Shareholders, Hallenstadion, Zurich
- **29 April 2011**
  Dividend payment
- **4 May 2011**
  2011 First-Quarter Report
- **11 August 2011**
  2011 Half-Year Report
- **9 November 2011**
  2011 Third-Quarter Report
- **February 2012**
  Annual Press Conference 2012, Zurich

Publication and production

Swisscom Ltd, Berne

Translation
CLS Communication AG, Basel

Photos
Marc Welti, Zurich
Florian Böhm, Munich

Production
MDD Management Digital Data AG, Schlieren

Content and creative conception
PETRANIX
Corporate and Financial Communications AG, Adliswil-Zurich

Prepress and printing
Ast und Fischer AG, Wabern

Printed on chlorine-free paper

The Annual Report is published in English, French and German.

Further copies of the Annual Report can be ordered from
E-mail: annual.report@swisscom.com
A Swisscom company brochure is also available in English, French, German, and Italian.

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