2012

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 provided in the respective sections of the report.

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 the reliability of the information contained in this report.

Swisscom also provides a report for stakeholders on the Group's economic, social and environmental performance. The scope and content of the sustainability report are based on the guidelines of the Global Reporting Initiative (GRI 3.1). GRI is the leading global standard for corporate sustainability reporting.

> Global Reporting Initiative at www.globalreporting.org
> GRI Index and GRI Appendix to the 2012 Annual Report at www.swisscom.ch/GRI-2012/en

The GRI Index offers a standardised overview of sustainability reporting by subject area.

The Index contains references to the relevant pages in the Annual Report or other information sources and can be viewed online.

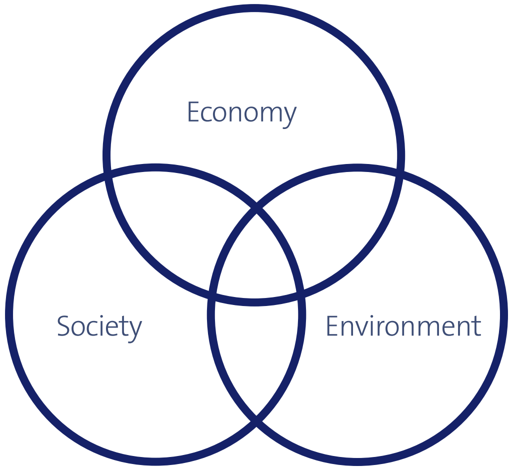
External auditing and evaluation

Parts of the Swisscom report are audited by a third party. The auditing firm KPMG Ltd 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 likewise audited financial statements of the Swisscom Group companies.

> Reports of the Statutory Auditors
Pages 217 and 229

The Sustainability Report, prepared in accordance with GRI 3.1, was audited by SGS AG and certified with Level A+ of the Global Reporting Initiative.

> GRI certified by SGS
Page 114



Triple bottom line

In its reporting Swisscom takes into account the ecological, economic and social aspects and factors that shape its business activities and its role as a corporate citizen.

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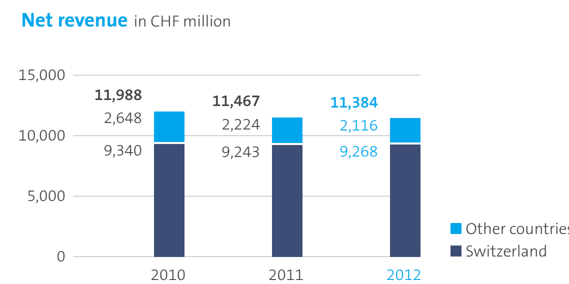
Facts & Figures

Economy

11,384 m

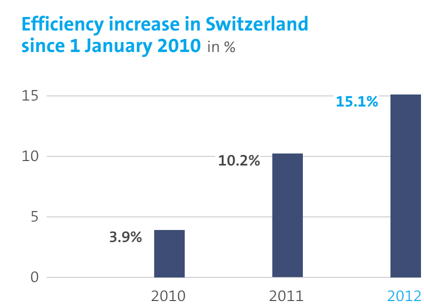
CHF net revenue in 2012, which represents a decline of 0.7%.



Environment

15 %

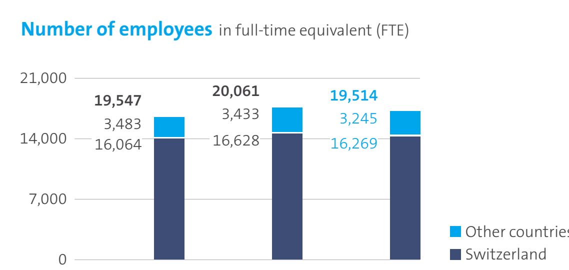
Swisscom increases the efficiency of its energy usage in Switzerland by 15% since 1 January 2010.



Society

19,514 FTE

is the headcount at Swisscom as of the end of 2012. Swisscom's workforce includes 88 different nationalities.



KPIs of Swisscom Group

In CHF million, except where indicated		2012	2011	Change
Economic performance				
Net revenue and results				
Net revenue		11,384	11,467	–0.7%
Operating income before depreciation and amortisation (EBITDA)		4,381	4,584	–4.4%
EBITDA as % of net revenue	%	38.5	40.0	
Operating income (EBIT) before impairment losses on goodwill		2,431	2,681	–9.3%
Operating income (EBIT)		2,431	1,126	115.9%
Net income		1,762	694	153.9%
Earnings per share	CHF	33.88	13.19	157.0%
Balance sheet and cash flows				
Equity at end of year		4,156	4,296	–3.3%
Equity ratio at end of year	%	20.7	22.1	
Operating free cash flow		1,882	2,068	–9.0%
Capital expenditure in property, plant and equipment and other intangible assets		2,529	2,095	20.7%
Net debt at end of period		8,071	8,309	–2.9%
Operational data at end of period				
Fixed access lines in Switzerland	in thousand	3,013	3,120	–3.4%
Broadband access lines retail in Switzerland	in thousand	1,727	1,661	4.0%
Swisscom TV access lines in Switzerland	in thousand	791	608	30.1%
Mobile access lines in Switzerland	in thousand	6,217	6,049	2.8%
Unbundled fixed access lines in Switzerland	in thousand	300	306	–2.0%
Broadband access lines wholesale in Switzerland	in thousand	186	181	2.8%
Broadband access lines in Italy	in thousand	1,767	1,595	10.8%
Swisscom share				
Closing price at end of period	CHF	393.80	355.90	10.7%
Market capitalisation at end of year		20,400	18,436	10.7%
Dividend per share	CHF	22.00 [1]	22.00	–
Ecological performance				
Environmental key figures in Switzerland				
Energy consumption	GWh	532	507	4.9%
Carbon dioxide CO_2	tons	24,662	23,242	6.1%
Average carbon dioxide CO_2 emission vehicle fleet	gram per km	131.0	140.0	–6.4%
Rate of return handy recycling	%	11.4	8.9	
Social performance				
Employees				
Full-time equivalent employees at end of year	number	19,514	20,061	–2.7%
Full-time equivalent employees in Switzerland at end of year	number	16,269	16,628	–2.2%
Fluctuation rate headcount in Switzerland	%	10.1	11.9	
Days lost headcount in Switzerland	number	117,876	116,210	1.4%

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

Highlights 2012

Market

- Swisscom intends to drive forward fibre-optic expansion outside major urban centres by rolling out Fibre to the Street.
- Conclusion of mobile frequency auction: Swisscom creates a sound basis for further expansion of the mobile network.
- Swisscom becomes the first company in Switzerland to launch the high-speed 4G/LTE mobile communications standard in twelve Swiss cities.
- Swisscom wins connect magazine's network test for the fourth year in a row, proving once again that it is Swiss market leader in mobile communications.

Products and services

- New mobile subscriptions (infinity): unlimited phoning, texting and Internet surfing to all networks – all for a fixed fee.
- Swisscom builds a state-of-the-art and environmentally friendly data centre in Berne-Wankdorf.
- New features for Swisscom TV: catch up TV, remote control using the iPad, access to personal recordings while on the move.
- 552,000 households and businesses already connected to the high-speed fibre-optic network.
- Fastweb invests in fibre-optic network expansion in Italy.
- Swisscom tests Fibre to the Street in the three municipalities of Grandfontaine (JU), Charrat (VS) and Flerden (GR) with a view to speeding up the rollout of the fibre-optic network in Switzerland.
- Swisscom releases the first interactive building automation system on the market – Quing Home.
- Since December, Swisscom DSL customers have received digital TV free of charge: Swisscom TV light offers access to over 60 TV channels, including 22 in HD.
- Swisscom introduces new shop concept with more personalised advice and the option of trying out products live on site. This concept will be rolled out in all Swisscom shops by 2014.
- Crystal-clear voice quality on mobile phones: Swisscom launches HD Voice.

Business review

- Andreas König becomes new CEO of Swisscom IT Services.
- Jürgen Galler becomes Swisscom's new Chief Strategy Officer.
- Urs Schaeppi is appointed Head of Swisscom Switzerland by the Swisscom Board of Directors and assumes control of Swiss business as of 1 January 2013.
- Barbara Frei, Country Manager of ABB S.p.A., Sesto San Giovanni and Regional Manager of the Mediterranean region, is appointed a Member of the Swisscom Board of Directors.
- Swisscom and the social partners agree on a new collective employment agreement.
- Swisscom acquired Datasport Ltd, a leading international provider of services for recreational and mass sporting events.

Sustainability

- According to the Dow Jones Sustainability Index, Swisscom is one of the five most sustainable telecom companies in Europe.
- Swisscom becomes a partner of the recently opened Umwelt Arena in Spreitenbach.
- Swisscom expands its vocational training scheme, and now offers over 900 training places in six vocational areas.
- Swisscom mobile aid: Swisscom collects around 170,000 old mobile phones. The proceeds from the resale of the devices go to a SOS Children's Villages' school in Ethiopia.

Business Overview

Swisscom's financial reporting is based on the three operating divisions: Swisscom Switzerland, Fastweb and Other operating segments.

Swisscom Switzerland

The Residential Customers, Small and Medium-Sized Enterprises, Corporate Business and Wholesale divisions, as well as the Network & IT division, are reported separately under segment reporting.

In CHF million, except where indicated	2010	2011	2012
Net revenue	8,555	8,449	8,461
Segment result before depreciation and amortisation	3,806	3,778	3,612
Margin as % of net revenue	44.5	44.7	42.7
Capital expenditure in property, plant and equipment and other intangible assets	1,204	1,400	1,852 [1]
Full-time equivalent employees at end of year	11,716	12,096	11,827

[1] Including expenses of CHF 360 million for mobile frequencies.

Residential Customers

The Residential Customers segment is the contact partner for mobile and fixed-line customers. It provides Switzerland with broadband access lines, serves a growing number of Swisscom TV subscribers and operates Switzerland's most frequently visited Internet portal www.bluewin.ch. The Residential Customers segment offers telephone, Internet and TV services – all from a single source – and is also responsible for handset sales and directories business.

Small and Medium-Sized Enterprises

The Small and Medium-Sized Enterprises segment offers a comprehensive range of products and services – from fixed-line and mobile telephony to Internet and data services to IT infrastructure maintenance and operation. Small and Medium-Sized Enterprises receive bespoke integrated solutions: suitable connections, secure access, professional services and intelligent networks.

Corporate Business

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

Wholesale

The Wholesale segment provides various services for other telecommunications providers, such as regulated access to the "last mile" as well as commercial voice, data and broadband products. The Wholesale segment also covers roaming with foreign providers.

Network & IT

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

Fastweb

Fastweb is one of the largest broadband telecom companies in Italy.

In EUR million, except where indicated	2010	2011	2012
Net revenue	1,880	1,746	1,700
Segment result before depreciation and amortisation	430	506	500
Margin as % of net revenue	22.9	29.0	29.4
Capital expenditure in property, plant and equipment and other intangible assets	427	448	441
Full-time equivalent employees at end of year	3,123	3,081	2,893

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

Other operating segments

Other operating segments mainly comprises Swisscom participations and Swisscom IT Services, which is a leading provider of IT services in Switzerland.

In CHF million, except where indicated	2010	2011	2012
Net revenue	1,708	1,708	1,728
Segment result before depreciation and amortisation	337	334	277
Margin as % of net revenue	19.7	19.6	16.0
Capital expenditure in property, plant and equipment and other intangible assets	130	169	167
Full-time equivalent employees at end of year	4,368	4,515	4,454

Other operating segments mainly comprises Swisscom IT Services, Swisscom Participations and Swisscom Hospitality Services. Swisscom IT Services ranks as one of the leading providers specialising in the integration and operation of complex IT systems. Its core competencies are in the fields of IT outsourcing services, workplace services, SAP services and finance services. Swisscom Participations manages a portfolio of small and medium-sized enterprises, delivering services that are mainly related to or help support Swisscom's core business. Swisscom Hospitality Services supports the hotel industry worldwide with innovative network and communication solutions.

Group Headquarters

Group Headquarters chiefly comprises the Group divisions Group Finance & Controlling, Group Strategy & Business Development, Group Communications and Group Human Resources.

Shareholders' letter

Hansueli Loosli
(Chairman of the Board of Directors of Swisscom Ltd, on the left and
Carsten Schloter
(CEO of Swisscom Ltd, on the right)

Dear shareholders

Swisscom can look back on a successful year. As in previous years, growth was driven by Internet access and TV business. The commitment demonstrated by our employees in continually improving the customer experience is the foundation on which our success on the market is based. 2012 was characterised by a high level of investment in next-generation ICT networks, the positive outcome of the mobile frequency allocation and the successful introduction of new price plans in Switzerland. Swisscom's Italian subsidiary Fastweb is on course: adjusted for one-off items, revenue was up slightly and EBITDA was up considerably on a like-for-like basis.

Marginal decline in operating profit

In 2012 Swisscom's net revenue fell by CHF 83 million or 0.7% to CHF 11,384 million. Operating income before depreciation and amortisation (EBITDA) declined by CHF 203 million or 4.4% to CHF 4,381 million. Net income rose by CHF 1,068 million to CHF 1,762 million, which is primarily attributable to the impairment loss recognised by Fastweb in the previous year. On a like-for-like basis and at constant exchange rates, revenue was up 0.3% while EBITDA declined by 0.6%. Swisscom's capital expenditure increased by CHF 434 million or 20.7% to CHF 2,529 million. In its Swiss business, Swisscom generated net revenue of CHF 9,268 million (+0.3%) and EBITDA of CHF 3,768 million (–4.5%). After being adjusted for one-off costs, EBITDA of the Swiss business declined by 2.1% on a like-for-like basis. Price erosion of around CHF 400 million was offset by customer and volume growth. Capital expenditure in Switzerland increased by CHF 457 million or 29.7% to CHF 1,994 million. The causes for the rise in capital expenditure were the expansion of broadband networks and expenses of CHF 360 million for the mobile frequencies auctioned in the first quarter of 2012. Swisscom expects to close 2013 with net revenue of CHF 11.3 billion, EBITDA of at least CHF 4.25 billion and capital expenditure of CHF 2.4 billion.

Swisscom share performance in 2012

Taking the dividend into account, the Swisscom share achieved a total return of 16.8% over the course of the year. The total return on the Swiss Market Index (SMI), which comprises the 20 leading listed Swiss companies, amounted to 17.6% over the same period. The total return on the European Stoxx Europe 600 Telco index fell by 4.8% in Swiss francs. Payment of an ordinary dividend of CHF 22 per share (prior year: CHF 22) will be proposed to the Annual General Meeting of shareholders. This is equivalent to a total dividend payout of CHF 1,140 million. Swisscom is thus upholding the principle of continuity in its dividend policy.

A powerful vision driving developments in the ICT sector

Having a clear insight into what the future will bring is part of a long-term, sustainable strategy in the unbelievably dynamic ICT market. At the centre of this strategy stands a vision: that of fulfilling the need of our customers to be able to access digital data during the course of a day through a variety of different devices for the purpose of keeping themselves informed, working, communicating and entertaining themselves. In the not-too-distant future, we will be able to access all our private and work-related data and applications on all of these devices in real time. We will no longer have to worry about synchronisation, nor will we need to wonder where our data are stored or whether our device supports the application we want. The data and applications will always be available instantly on every device. High-speed networks and state-of-the-art cloud services are making this possible. As simple and appealing as such a vision may sound, it places high demands on our infrastructure. Nevertheless, it is our mission to make this vision a reality. To do so requires large-scale investment: Swisscom invests per inhabitant around three times more in infrastructure than its European counterparts.

Our business model is changing as a result of global competition

What was once a domestic market for telephony and news services is now a global market: providers of online services such as Google, Apple and Microsoft & Co. can now offer all their services on our networks thanks to the Internet protocol. Many of these services are free, because although these providers rely on our networks, they don't have to invest in them. This is forcing Swisscom to change its business model and tap new fields of business. As a result, we now provide network access with different performance features, allowing our customers to use all services on an unlimited basis via this network connection. Thanks to our new infinity subscriptions, this is already a reality in the field of mobile communication. Swisscom customers can simply choose between different data transmission speeds. The new price plans have been a resounding success: by the end of 2012, around 889,000 customers had opted for one of these new mobile phone offerings in the last six months of the year alone. This transition in our business model is already well underway and we are very optimistic about the future. Offering our customers a business model that provides them with network access and unlimited possibilities is a business with enormous potential for growth. The population is growing, as is the number of devices and network connections per inhabitant. Our customers' demands as regards the security and performance of their network access will continue to increase in the coming years. At the same time, this business is subject to local and national competition.

Customer growth in the mobile sector – trend towards bundled offerings

The number of mobile customers in Switzerland increased by 168,000 or 2.8% year-on-year to 6.2 million. Swisscom sold 1.55 million mobile handsets (+6.7%), 68% of which were smartphones. In general, the trend is towards bundled offerings. Customers appreciate being able to get their fixed-line access, telephony, Internet and TV services all from a single source. By the end of 2012, a total of 788,000 customers were using bundled offerings, around 28% more than the previous year. The number of broadband lines with end customers grew by 66,000 or 4.0% year-on-year to 1.73 million, while the number of Swisscom connections used by alternative providers declined somewhat in 2012 to 486,000.

Leader in digital TV

Since 2011 Swisscom has been the leading provider of digital television in Switzerland. The focus of this strategic pillar is on extending the core business along the value chain. Swisscom TV's customer base increased by over 30.1% to 791,000 customers in 2012. The functionality and range of programmes offered by Swisscom TV were expanded in the year under review. Regional programmes and national sporting events in particular are an effective means for Swisscom to distinguish itself from international providers. In local competition with cable providers, Swisscom offers much higher interactivity in its television services thanks to functionalities such as Catch Up TV, Pay per View and the various apps.

New areas of business through IT expertise

The Group's subsidiary Swisscom IT Services, which offers a broad portfolio of IT services, has been going from strength to strength in recent years. In IT outsourcing, Swisscom IT Services is now one of the largest providers on the Swiss market. The company is the market leader in banking solutions, with over 190 Swiss financial services providers now entrusting us with all their IT, which we operate in our state-of-the-art data centres. Swisscom sees a growth market in the "Internet of Things" (machine-to-machine); in future, machines will increasingly communicate with each other via the Internet. In concrete terms, Swisscom expects that in a few years from now, over 100 million devices will be connected to each other via the Internet in Switzerland. In addition, Swisscom is currently tapping new fields of business in the healthcare and energy markets.

Fastweb on course again

2012 was a very good year for Fastweb. Adjusted for one-off items, revenue was up slightly by 0.5% to EUR 1,613 million and EBITDA was up considerably by 11.1% to EUR 500 million on a like-for-like basis. Fastweb was the only Italian provider to report customer growth in 2012. Over the course of the year, it also further expanded its sales channels, intensified the partnership with pay-TV provider Sky and extended the range of mobile communications products. Market share and customer growth increased significantly in 2012 despite the adverse economic environment. In order to further increase efficiency, Fastweb implemented various cost-cutting initiatives. The measures for reducing bad debt losses were also further improved on those of the previous year. They are having a clear positive effect and are contributing to the significant increase in the operating result. To enhance its competitiveness, Fastweb will continue investing in fibre-optic expansion. Like Swisscom, Fastweb is focusing on rolling out Fibre to the Street (FTTS) to complement its existing Fibre to the Home (FTTH) network.

Strategic investments in infrastructure in Switzerland

The rapid growth in expectations resulting from the vision outlined at the beginning of this letter regarding the security and performance of infrastructure open up a wide variety of ways to enhance competitiveness through differentiation and growth opportunities. These necessitate long-term investments in our infrastructure. Swisscom spent a total of CHF 1.63 billion in 2012 on enhancing the performance and security of Swiss infrastructure, in particular the expansion of the fibre-optic network. That is about CHF 100 million more than in 2011. Switzerland is excellently positioned by international standards: according to an OECD study, Switzerland leads the world in terms of broadband penetration (OECD Broadband Portal, July 2012). By the end of 2012, around 552,000 homes and businesses had been connected to the fibre-optic network. Swisscom plans to market fibre-optic services more quickly in 2013. The number of homes and businesses connected to the fibre-optic network is set to rise to around a million by 2015, representing a third of all Swiss households. Some of these connections are being realised in cooperation with power utility companies or cable network operators. To enable all of Switzerland to benefit from a considerable increase in fixed broadband performance, Swisscom is deploying a new fibre-optic technology, Fibre to the Street (FTTS), which allows ultra high-speed broadband to be supplied more quickly and more efficiently. Pilot testing is currently underway in Grandfontaine (JU), Flerden (GR) and Charrat (VS). With FTTS, fibre-optic cable is laid to within a short distance of individual homes and businesses. This enables bandwidths of up to 100 Mbps, with speeds as high as 400 Mbps expected in the next few years. For the fourth time in succession, the trade journal connect has rated Swisscom as the best network in Switzerland. The demand for bandwidth is continuing to grow rapidly. Mobile data traffic increased by 85% in 2012, with a year-on-year increase of even 120% in the fourth quarter of 2012.

Swisscom is continuously investing in new mobile communication technologies. At the end of 2012, Swisscom became the first provider in Switzerland to launch a 4G/LTE network, giving customers with a 4G/LTE-enabled smartphone or notebook and a surf subscription even faster mobile Internet access while on the move. The network was initially available in 26 different towns and cities. Swisscom will push ahead with the further expansion of the 4G/LTE network next year: which should cover 70% of Switzerland's population by the end of 2013. Swisscom is again planning to increase capital expenditure in Swiss infrastructure in 2013, taking it to a record level of CHF 1.75 billion. This investment makes a major contribution towards ensuring that Switzerland, as an information and knowledge society, will continue to boast one of the world's best telecoms infrastructures in the future.

Sustainability as a key element in a long-term strategy

Sustainable management and long-term responsibility are firmly enshrined in Swisscom's corporate culture. Swisscom takes responsibility for the environment and the community – now and in the future – and is one of the top five telecom companies in Europe in terms of sustainability. The company is aiming to improve its energy efficiency by 20% and thereby help realise the Swiss Confederation's 2050 energy strategy. Swisscom promotes media skills among Switzerland's general population through initiatives such as "Internet for Schools" and media competency courses, enabling its customers to navigate the digital world securely and responsibly. Sustainability is also an important issue for our customers, as evidenced by the fact that corporate responsibility is a key driver of customer satisfaction. In the year under review, Swisscom set binding targets for all its operating divisions in Switzerland in order to fulfil the goals of our Corporate Responsibility Strategy in the four strategic priority areas of "Sustainable living and working", "Sustainable use of resources and responsibility in the supply chain", "Telecommunications for all" and "Responsible employer". This year's sustainability report again meets the requirements of level A+ in accordance with the GRI Index. Details about how Swisscom is meeting its objectives can be found in the section on "Corporate Responsibility" in this Annual Report.

Modification of Group structure – management changes

Swisscom's management structure was modified as of 1 January 2013 with the aim of strengthening the management of the Swiss business and enhancing the Group's efficiency. Urs Schaeppi will head up Swisscom Switzerland as of 1 January 2013 and will report to CEO Carsten Schloter. Urs Schaeppi will continue in his current function as head of Corporate Business ad interim. As Chairman of the Board of Directors of Swisscom Switzerland, Carsten Schloter continues to be closely involved in topics of strategic importance for Swisscom Switzerland. In addition to strategic topics in the Swiss business, the Group Executive Board will in future focus increasingly on further developing Swisscom IT Services, Fastweb and innovations. Group Communications & Responsibility and Group Related Businesses, which includes growth businesses in the areas of health, energy and home networking, will report directly to the CEO, who is also Chairman of the Boards of Directors of Swisscom IT Services and Fastweb. The Board of Directors appointed Mario Rossi as the new Chief Financial Officer (CFO), who previously headed Business Steering for Swisscom Switzerland. He is taking over from Ueli Dietiker, who stepped down as CFO at his own request. Ueli Dietiker now heads up Group Related Businesses and has also assumed other directorships at Swisscom. Andreas König was appointed the new CEO of Swisscom IT Services. He replaces Eros Fregonas, who left Swisscom at the end of April 2012. The Board of Directors also appointed Jürgen Galler as the new head of Group Strategy & Innovation and member of the Swisscom Group Executive Board. He succeeds Daniel Ritz, who left the company at the end of 2012.

Changes to the Board of Directors

Barbara Frei, Country Manager of ABB S.p.A., Sesto San Giovanni and Regional Manager of the Mediterranean region, was appointed a member of the Board of Directors at the Annual General Meeting in 2012. She replaces Othmar Vock, who had been a member of the Board of Directors for seven years. We would like to express our sincere thanks to Othmar Vock for the formative work he did as a member of the Board of Directors and as a member of various committees, as well as for the role he played as Chairman of the Audit Committee.

Financial outlook 2013

In 2013, Swisscom anticipates stable revenue of CHF 9.34 billion, excluding Fastweb. EBITDA (excluding Fastweb) is expected to decline to CHF 3.64 billion. A new standard for pension fund accounting will lead to a CHF 110 million increase in costs not affecting cash flow. Furthermore, the steady growth in customers and volumes will bring about an increase in direct costs, mainly in the acquisition of new customers and the procurement of handsets. The maintenance and further expansion of the network infrastructure will also result in a temporary increase in indirect costs.

In 2013, Swisscom expects capital expenditure (excluding Fastweb) to rise to CHF 1.75 billion. Capital expenditure of CHF 1.65 billion in 2012 was CHF 50 million below the original forecast for the year. A slight acceleration in investment activity is anticipated in 2013, which should make up for the shortfall.

In 2013, Fastweb is forecast to enjoy stable growth in revenue in local currency, excluding hubbing, of EUR 1.6 billion. EBITDA at Fastweb is expected to stay at the previous year's level of EUR 500 million. Due to the expansion of the fibre-optic networks in Italy, investments are expected to rise to EUR 550 million.

Based on the current CHF/EUR exchange rate of 1.23, Swisscom therefore expects Group revenue of around CHF 11.3 billion, EBITDA of at least CHF 4.25 billion and capital expenditure of around CHF 2.4 billion.

If all targets are met, Swisscom will again propose a dividend of CHF 22 per share for the 2013 financial year to the Annual General Meeting of Shareholders.

Thank you

We can look back on an intensive and successful year. We owe our achievements in 2012 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 sincerely

Hansueli Loosli
Chairman of the Board of Directors
Swisscom Ltd

Carsten Schloter
CEO Swisscom Ltd

Management Commentary

Swisscom opens up new possibilities.

We make no compromises when it comes to meeting our customers' needs, and are committed to providing quality and service.

Reporting structure

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Environment, strategy and organisation

Swisscom is Switzerland's leading telecom provider and occupies a strong market position in Italy via its subsidiary Fastweb. Swisscom operates aggressively in a dynamic and increasingly international market, makes no compromises when it comes to meeting customer needs, and is committed to delivering quality and service. Swisscom is investing heavily in the networks of the future and thus in Switzerland.

Business activities

Company profile

Swisscom is Swiss market leader in the field of telecommunications. It is also one of the largest companies in Switzerland and its shares are among the 20 largest and most liquid on the Swiss equities market. Swisscom's international activities are concentrated mainly in Italy. The majority shareholder with a stake of 56.8% is the Swiss Confederation, which by law must hold a majority of the capital and voting rights. Swisscom's business strategy is geared to the long term and takes into consideration of economic, ecological and social aspects. Sustainable management and long-term responsibility are firmly enshrined in Swisscom's corporate culture. Swisscom owes its business success to the dedication and commitment of its 19,000-strong workforce, which continually strives to develop new solutions for customers and the information society. Major investments in network infrastructure ensure that Swisscom will continue to satisfy customer needs well into the future.

Swisscom's business activities are concentrated in Switzerland, where it generated around 80% of net revenue in 2012. Swisscom offers customers a full complement of telecoms products and services for fixed-line telephony, broadband, mobile communications and digital television, and is also active in IT infrastructure outsourcing and communications infrastructure management for business customers. In keeping with its mandate to provide basic service provision throughout the country, Swisscom also maintains a presence in the more sparsely populated regions of Switzerland. Swisscom's evolution to a multimedia company is reflected in the wide range of products and services it offers through multiple sales channels. Customers can check out products and services first hand and receive comprehensive advice in Swisscom's own shops as well as in numerous partner outlets. They can also obtain product information and order products and services at anytime online via the Swisscom website. The digital customer centre, which is also accessible online, allows customers to manage their personal details, subscriptions and bills on their own. Swisscom can also be reached 24/7 via a free hotline.

See
www.swisscom.ch

Net revenue
Switzerland accounts for

80 % of total net revenue

Swisscom fosters close ties with all stakeholder groups: shareholders, investors, employees, suppliers, the general public, public authorities and, above all, its customers. Swisscom has long been committed to its Swiss roots and endeavours to ensure that all citizens benefit from leading-edge technologies. For this reason, Swisscom supports a solution-oriented approach, in the interest of the common good and in the interest of the company.

Swisscom brand

The Swisscom brand was created in 1997 following the splitting of the former PTT into a postal and telecommunications company and in anticipation of the forthcoming stock market flotation in 1998. Since then it has continued to evolve. In spring 2008, Swisscom simplified the brand architecture in line with the company's guiding principles and strategy, and since then all core-business products and services have been offered in Switzerland under the Swisscom brand. Swisscom operates under a range of other brands in related business fields, and in Italy the Fastweb brand commands a strong position.

Swisscom Ltd

Swisscom Switzerland | Fastweb | Swisscom IT Services | Swisscom Participations | Others

Since its inception Swisscom has consistently pursued a strategy of growing the Swisscom brand from a telecoms and IT brand to an integrated brand positioned more broadly to cover the entire spectrum of telecoms, IT, media and entertainment. The success of Swisscom TV in particular has confirmed the Swisscom brand's competence in the field of digital entertainment. New interfaces such as the TV Guide app have boosted the innovative character of the brand, which is now firmly established as a trusted companion for Swisscom customers in a rapidly changing digital world.
According to customer surveys, the Swisscom brand is among the most trustworthy of Swiss brands. It is perceived as authentic, reliable and of a high quality, is firmly anchored among consumers and scores by far the best marks in the "top of mind" survey, well ahead of the competition. The brand's strength was once again confirmed in the year under review in a comparison of leading Swiss brands. According to the Interbrand "Best Swiss Brands 2012" study, the Swisscom brand is valued at CHF 4.8 billion, putting it in sixth place on the list of Switzerland's leading brands.
The traditional cornerstones of the Swisscom brand are quality, trust and service. Swisscom's daily contact with customers and its commitment to sustainability, which it honours continuously through numerous initiatives and activities, featured again as themes in the company's communications in 2012 and have enhanced its brand identity.

Swisscom's network infrastructure

Network infrastructure in Switzerland

Switzerland boasts one of the best IT and telecoms infrastructures worldwide. According to an OECD study, Switzerland leads the world in terms of broadband penetration (OECD Broadband Portal, July 2012). Mobile broadband coverage now extends to virtually the entire population, and Swisscom is by far the leading fixed and mobile network operator in Switzerland.

The fixed network comprises two levels: an access network and a transport network. The access network consists of 1,500 local exchanges and 3.4 million subscriber access lines to end customers. Swisscom started many years ago to upgrade the fixed network with fibre-optic cables. In a first step fibre-optic cables were laid between the local exchanges, from where they were extended to neighbourhood cabinets. Most subscriber access lines consist of copper cables. Thanks to this technology, 91% of homes and businesses receive Swisscom TV, 84% even in high-definition quality. Many large companies and office complexes have already had fibre connections for quite a few years. Since autumn 2008, Swisscom has been extending access to residential customers (fibre to the home, FTTH) and small and medium-sized enterprises. By the end of 2012, some 552,000 homes and businesses were connected with FTTH. By the end of 2015, this figure is set to rise to around a million, or around one third of all households in Switzerland. Swisscom is also planning to systematically expand the broadband network throughout Switzerland by rolling out fibre to the street (FTTS). FTTH rollout is generally carried out in cooperation with local partners – as a rule, power utility companies.

In mobile communications Swisscom has access to a frequency spectrum covering all common frequency bands between 800 and 2,600 MHz, enabling it to deploy GSM, UMTS and LTE technologies over the long term as the need arises. All mobile frequencies for the period up to the end of 2028 were newly allocated or allocated for the first time in an auction conducted in February 2012. Swisscom has therefore secured access to 42% of the entire mobile spectrum. It has also equipped all of its sites with mobile antennas using second- or third-generation technologies such as EDGE, UMTS or HSPA/HSPA+. And in 2012, Swisscom became the first mobile provider in Switzerland to launch fourth-generation LTE technology on a commercial basis. LTE technology could serve in future as an alternative to the fixed network in more sparsely populated areas. Mobile data traffic grew by 85% in 2012, driven by the continuing penetration of smartphones, new devices such as tablets, and new price plans (infinity subscriptions).

See
www.swisscom.ch/network-coverage

Mobile data traffic is increasing every year.
Data volume is growing year-on-year by around

5,100 TB

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

1.63 billion CHF

To address this growing demand Swisscom is continually expanding its broadband network, extending the product range and increasing the number of antenna sites. Swisscom is committed to deploying modern, needs-appropriate technologies in order to ensure efficiency and compliance with up-to-date zoning requirements, while also minimising emissions. Swisscom's rollout of LTE marks a further important technological step into the future. Wherever possible, site expansion is coordinated with third-party mobile providers. Swisscom already shares around 21% of its nearly 6,400 antenna sites with other providers. And with around 1,800 hotspots across Switzerland, Swisscom is also the country's leading provider of public wireless local area networks.
By 2015, Swisscom plans to boost energy efficiency by 20% compared to 1 January 2010, using a raft of measures aimed at optimising the energy consumption and cooling of network platforms and infrastructure installations. By the end of 2012, Swisscom had increased energy efficiency by 15% versus 1 January 2010.

Network infrastructure in Italy

Fastweb's network infrastructure comprises an all-IP fibre-optic network that extends over a distance of more than 33,000 kilometres. Fastweb reaches more than half of the Italian population with its own fixed-line infrastructure, with around two million or 10% of urban homes and businesses enjoying fibre-optic coverage (FTTH).
Fastweb aims to build on the competitive advantage afforded by its own infrastructure, substantially expand network coverage and improve profitability. Under a cooperation agreement with Telecom Italia, Fastweb intends to target investments of around EUR 400 million in fibre-optic expansion by the end of 2016. The focus will be on rolling out fibre to the street (FTTS) with the aim of providing around 20% of Italian households with ultra high-speed broadband by the end of 2016. Fastweb also offers its own mobile communications services under an agreement with a third-party mobile virtual network operator (MVNO).

General conditions

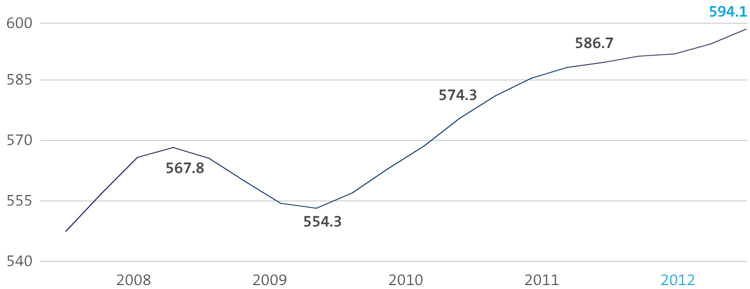
Macroeconomic environment

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

Economy

While 2012 saw a recovery in the general economic situation following the global economic crisis, concerns about future global economic development started rising again towards the end of year. The European debt crisis remains unsolved, and social tensions are growing, especially in southern European countries. There is the risk of weak economic growth in 2013.

Gross domestic product Switzerland, rolling in CHF billion

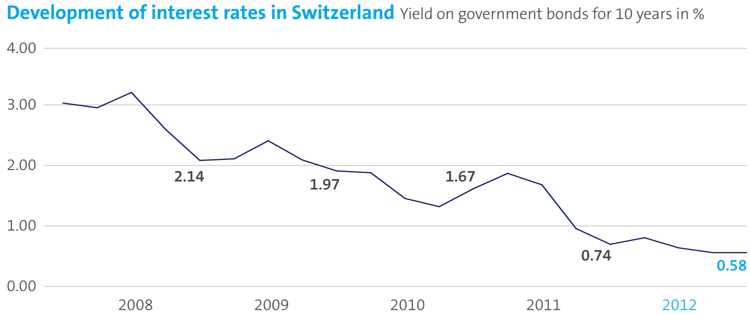


In Switzerland gross domestic product (GDP) grew by around 1% in 2012. Because Switzerland as a small and open economy is unable to detach itself from the global economy, prospects have become bleaker. A substantial share of Swisscom's revenue from fixed and broadband lines as well as mobile subscriptions is based on fixed monthly fees. Short-term economic fluctuations therefore have little impact on these revenue items. On the other hand, project business with business customers and revenue from international roaming are more subject to cyclical factors. If economic growth in Switzerland remains sluggish or if a recession sets in, the effect on consumer demand for telecoms services is likely to be negative.

Interest rates

For many years the general level of interest rates in Switzerland has been lower than in most other industrialised countries. The country's expansive monetary policy has pushed down interest rates further. The yield on ten-year government bonds is now around 0.6%.

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



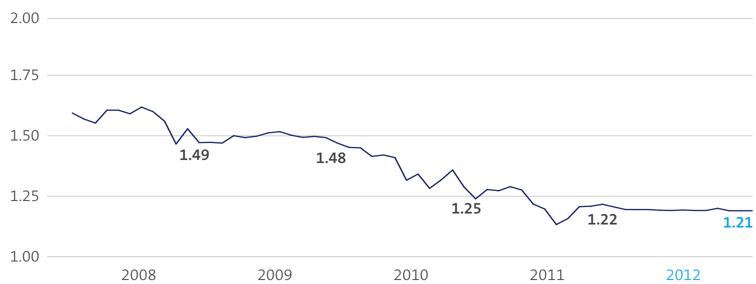
Swisscom's debt financing costs benefit from low interest rates. Average interest expense on financial liabilities is around 2.5% and the average term to maturity is around four years.

Market-based interest rates influence the valuation of various items in the Swisscom consolidated financial statements, such as goodwill (Fastweb), defined benefit obligations and non-current provisions for dismantlement and restoration costs. Interest levels also have a material impact on returns and thus on the financial situation of the Swisscom pension fund.

Exchange rates

There was no further appreciation in the value of the Swiss franc against currencies of key relevance for Swisscom's operations in 2012. The Swiss National Bank (SNB) adhered to the minimum CHF/EUR exchange rate of 1.20.

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



Swisscom's business activities in Switzerland are not materially influenced by currency movements. Only a small share of revenue is generated in foreign currencies. The procurement of handsets and technical equipment as well as roaming charges for the use of fixed networks and mobile networks abroad by Swisscom customers 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 denominated almost exclusively 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 translation adjustments in respect of foreign subsidiaries recognised in consolidated equity remained unchanged year-on-year at around CHF 2.0 billion (before deduction of tax effect).

Capital market

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

International equity markets performed positively in 2012, with the SMI rising by around 15%. Bond markets profited from a further drop in interest rates. Swisscom holds surplus liquidity in the form of cash and cash equivalents and short-term money-market investments. There are no direct financial investments in equities, bonds or other non-current financial assets. The assets of around CHF 7.8 billion held by comPlan, Swisscom's legally independent Swisscom pension fund, which are invested in equities, bonds and other investment categories, are subject to capital market risks and therefore indirectly affect the financial position presented in Swisscom's consolidated financial statements.

Legal and regulatory environment

Swisscom's legal framework

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

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

As of 1 January 1998 the former operations of Swiss Telecom PTT were legally transformed into "Swiss Post" and "Swisscom Ltd" (hence the term "public limited company with special status"). Under the terms of the TEA and the company's articles of incorporation, Swisscom is responsible for the provision of domestic and international telecommunications and broadcast services as well as related products and services. The TEA requires the Swiss Confederation to hold a majority of the capital and voting rights in Swisscom. For the Swiss Confederation to give up its majority shareholding, the TEA would need to be amended. Swisscom is also obliged to draw up a collective employment agreement in consultation with the employee associations. Moreover, every four years the Federal Council defines the goals which the Swiss Confederation, as principal shareholder, aims to achieve (for example in terms of maximum indebtedness, returns to shareholders and shareholdings outside Switzerland). The current goal period runs from 2010 to 2013. To guarantee transparency the goals are made public to other investors. The aims of the Swiss Confederation are incorporated in the strategic and operating targets set by the Swisscom Board of Directors.

See **www.admin.ch/documentation**

Telecommunications Act

The telecommunications act governs the conditions under which market-dominant providers of telecoms services are required to make their network available to other providers. The act covers a comprehensive catalogue of access types and in the area of the "last mile" is restricted to copper cables. The access services cited in the act must be offered at regulated conditions and 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 until 2017. The Telecommunications Act also governs conditions for use of the radio frequency spectrum.

See **www.admin.ch/documentation**

Competition law/Federal Cartel Act

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

See **www.admin.ch/documentation**

Capital market law

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

Regulatory developments in Switzerland in 2012

Ongoing proceedings relating to telecommunications and competition legislation

In recent years, a number of proceedings relating to telecommunications and competition law have been initiated against Swisscom. In spring 2012, the Federal Administrative Court upheld two rulings issued by the Federal Communications Commission (ComCom) in March 2010 concerning the regulation of leased lines. The court established that Swisscom is market-dominant in all transmission technologies (including Ethernet services) and bandwidths, with the exception of point-to-point connections where connectivity is offered by at least two alternative service providers besides Swisscom. The Federal Administrative Court also lowered access prices for leased lines with bandwidths between 2 Mbps and 10 Gbps (excluding Ethernet services) by 15 to 30% for the years 2007 to 2009. Ongoing legal proceedings in connection with the Telecommunications Act and Cartel Act are described in the notes 28 and 29 to the consolidated financial statements.

See report
pages 195–197

Preliminary clarifications concerning FTTH (fibre to the home)

In 2011 the Secretariat of the Competition Commission (ComCo) launched a preliminary enquiry into cooperation projects between Swisscom and power utility companies in six Swiss cities and the canton of Fribourg for the joint construction of the fibre-optic infrastructure (FTTH). Proceedings relating to the cities of Basel, Berne, Lucerne, St Gallen and Zurich were concluded in 2011, followed by the city of Geneva and the canton of Fribourg in February 2012. The ComCo Secretariat concluded that certain clauses could contain indications of anti-competitive practices. The agreements have been modified by Swisscom to largely address the concerns of the competition authority. No anti-trust proceedings in the area of FTTH are therefore pending.

Invitation by ComCom to tender for mobile communication frequencies

At the request of the Federal Communications Commission (ComCom), the Federal Office of Communications (OFCOM) put all frequency blocks available for mobile communications up for auction. Besides Swisscom, mobile operators Orange and Sunrise also participated in the auction. For the auctioned frequency packages, the Swiss Confederation received a total of CHF 996 million from participants. Swisscom successfully bid for 42% of the available mobile frequencies, paying CHF 360 million and acquiring all the desired frequency blocks. Compared to the present, in future Swisscom will have approximately double the size of frequency spectrum at its disposal for the mobile network. The mobile licences newly issued by ComCom will run until the end of 2028.

Telecommunications market evaluation

In 2012 the Federal Council published a follow-up report to its 2010 telecom markets evaluation in which it concluded that Switzerland essentially enjoys adequate provision of telecom services and that a number of improvements have been made since 2010. However, the Federal Council also considers that the rapid pace of technological change will ultimately render futile the rules originally relating to traditional technologies such as copper cables. For this reason it advocates a technology-neutral structuring of the legal framework in order to address the new challenges facing the telecoms market. With this in mind, it intends during the current legislative period to commission a consultation paper to be drafted with a view to a partial revision of the Telecommunications Act (TA).

Revision of the Ordinance on Telecommunications Services (OTS)

In its response to parliamentary question in November 2011, the Federal Council announced that it would submit various cost calculation methods for consultation in 2012 in view of a revision of the Ordinance on Telecommunications Services (OTS). For this reason the Federal Office of Communications (OFCOM) carried out two surveys of experts in the year under review in which the overwhelming majority of those taking part spoke out against the valuation of the network elements at replacement cost.

Roaming

On 20 September 2011, contrary to the Federal Council's proposal, the National Council approved the motion calling for "an end to exorbitant mobile charges abroad". The motion calls for the Federal Council to fix binding maximum tariffs to be adopted by all telecoms providers for incoming and outgoing calls, SMS messages and data transfers over mobile devices when used abroad, in line with the requirements imposed by the European Union. The Advisory Committee of the Council of States, however, decided to consult the operators before making a decision. The consultation is scheduled to take place in the first quarter of 2013.

Regulatory differences between Switzerland and the European Union

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

Legal and regulatory environment in Italy

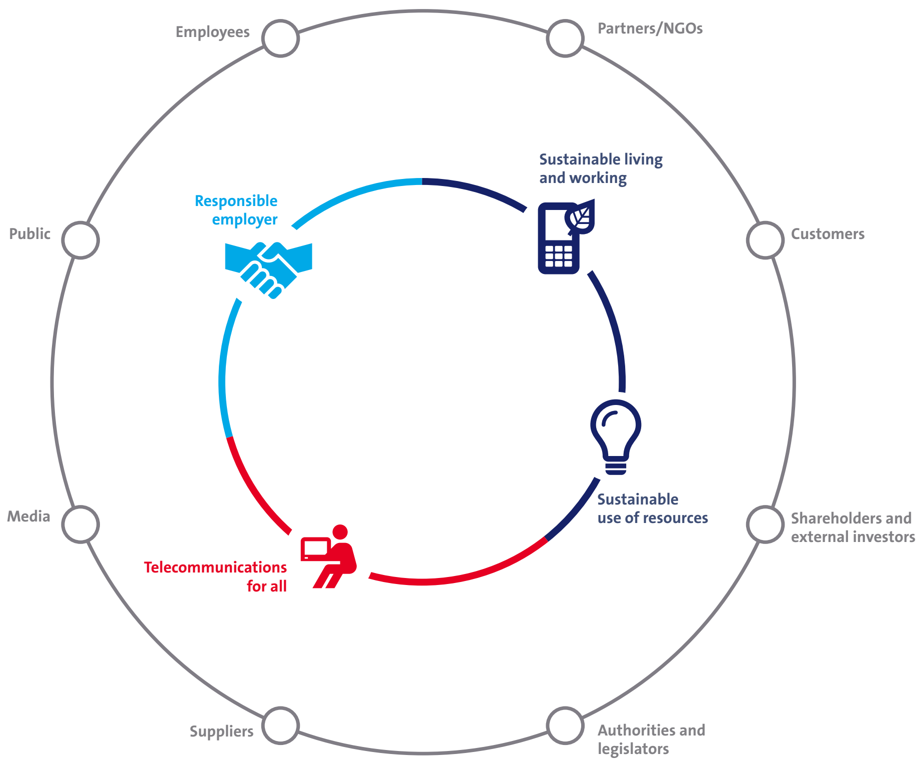
Fastweb's legal framework

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

Regulatory developments in Italy in 2012

Prices for unbundled subscriber lines and mobile termination rates agreed by AGCOM in 2010 and 2011 went into effect in 2012, resulting in an increase in the monthly price for an unbundled subscriber line to EUR 9.28 and a reduction in the mobile termination rate to 2.50 euro cents per minute from 1 July 2012. The termination rate will be reduced in steps to 0.98 euro cents per minute by July 2013.
In 2012 AGCOM published a model for calculating fixed-line termination rates based on IP technology. The model applies to all fixed-line operators and provides for a continuous reduction in prices from 0.22 euro cents per minute to 0.04 euro cents per minute over a period of three years.

Dialogue with stakeholder groups and strategic priorities



Swisscom fosters dialogue with its most important stakeholder groups via electronic media, over the phone, through surveys, information events, business meetings, road shows and conferences, as well as in customers' homes and in the Swisscom Shops. In 2012 – as in previous years – Swisscom directly incorporated the concerns of stakeholder groups in specific projects. Stakeholder management at Swisscom is decentralised in order to ensure proximity and ongoing contact with the individual stakeholder groups. Of the many stakeholder groups, customers, shareholders, investors, public authorities, legislators, suppliers, the media, employees as well as partners and NGOs have the largest influence on Swisscom's business strategy.

Customers

Swisscom systematically consults residential customers in order to identify their needs. Customer relationship managers, for example, gather information on customer needs directly at customer touch points. The Corporate Business division conducts quarterly surveys that include questions on sustainability. Swisscom also maintains regular contact with consumer organisations in all linguistic regions of Switzerland and runs electronic forums, including an environmental blog launched in 2006 and a corporate responsibility blog launched two years ago. The overall findings show that customers expect attractive pricing, market transparency, responsible marketing, comprehensive network coverage, network stability, low-radiation communication technologies and sustainable products and services.

See **www.swisscom.ch/CRblog**

Shareholders and external investors

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

Public authorities

Swisscom maintains regular, close contact with various public authorities. A key issue in its dealings with this stakeholder group concerns expansion of the mobile network. Mobile data applications are becoming increasingly popular with customers. But while mobile communications are clearly appreciated and widely used, acceptance of the required infrastructure is sometimes lacking. Network expansion gives rise to tension because of the different interests at stake. Swisscom has been engaged in dialogue with residents and local authorities for many years. Swisscom and its competitors in the Swiss mobile market have launched a dialogue model that guarantees heads of local authorities regular information on network planning in their area and, in the case of construction projects, gives them the opportunity to suggest suitable alternative locations. Swisscom also liaises regularly with the public authorities in other areas: for example, it invites ICT heads of the cantonal education authorities to an annual two-day seminar on the subject of "Internet for Schools". As a stakeholder group, public authorities expect Swisscom to act decisively in the way it recognises its responsibility towards the public at large and towards young people in particular.

Legislators

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

Suppliers

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

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

Media

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

Employees

Every two years Swisscom conducts an employee survey and also organises round-table discussions with the employee representatives. Any employee who comes across irregularities in the workplace is asked to report them to the Board of Directors' Audit Committee, which acts as the internal office responsible for handling whistle-blowing cases. Employee concerns mainly relate to social partnership, training and development, diversity, health and safety at work.

Partners and NGOs

See **www.swisscom.ch/CR-Partnerships**

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

Materiality/materiality matrix

See Report
pages 79-80

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

Swisscom carefully monitors all of the issues in the matrix and handles them according to priority. Those with the highest priority and of major relevance to both stakeholders and Swisscom are positioned in the top right-hand box. Other issues such as noise, water protection, protection of wild life and fauna, violence and population growth are important from an ecological and social point of view but are not part of Swisscom's core activities.

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

The issues are arranged alphabetically within the boxes.

Swisscom materiality matrix 2012

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

Materiality for Swisscom

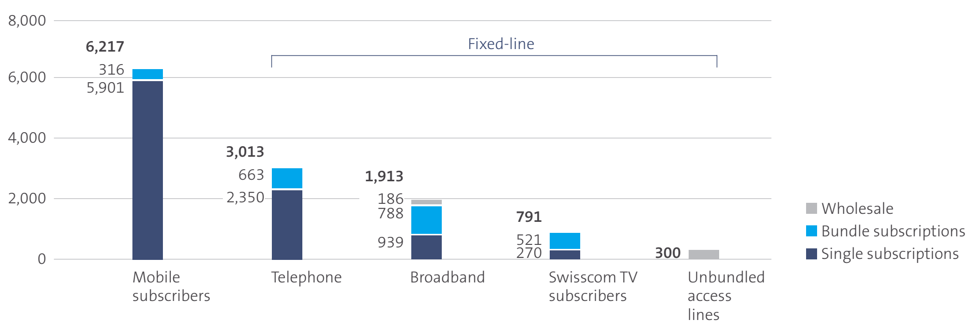
- Management commentary
- Corporate governance
- Corporate responsibility/annex

Market trend in telecom and IT services

Swiss telecommunication market

The Swiss telecommunication market is highly developed by international standards and characterised by a wide range of voice and data communications services and ongoing innovation. Total revenue volume is estimated at around CHF 17 billion. The telecommunication market is in a state of transition as telecommunications, information, as well as media and entertainment (TIME) increasingly converge. The rapid spread of smartphones is changing customer needs. People nowadays can access the Internet from anywhere and at any time. Swisscom recognised this trend and was one of the first telecom providers worldwide to introduce new mobile subscriptions which allow customers to make unlimited phone calls to all networks, send text messages and browse the Internet at flat rates. The individual subscriptions mainly differ in terms of mobile data speeds. As smartphone penetration increases, so too does the volume of data and hence the load on networks. Swisscom is investing permanently in the network infrastructure of the future, in order to keep pace with this development. Swisscom expanded its mobile frequency portfolio after participating in an auction in February 2012. Swisscom is also tackling the constant growth in data by continuously expanding the broadband network or deploying new technologies such as LTE. Back in 2011, Swisscom launched bundled offerings combining different technologies: fixed telephony, Internet, TV and mobile. Competition has continued to drive down prices. The Swiss telecoms market can be broken down into submarkets of relevance to Swisscom: fixed-line, mobile, broadband and digital TV.

Swisscom Switzerland access lines in thousand



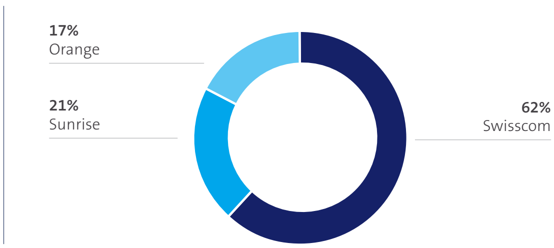
Fixed-line market

Fixed-line telephony is mainly based on lines running over the telephone network and lines running over cable networks. The past few years have seen only marginal changes in market share. Swisscom is market leader with 67%. Sunrise commands a market share of around 13%. The spread of mobile telephony in recent years has led to a rapid decline in the number of phone calls made over the fixed network. The number of Swisscom fixed lines has likewise been declining steadily. This trend continued in 2012, with the number of fixed lines falling by 3.4% to 3.0 million, mainly due to the substitution of fixed lines by mobile communications. By the end of 2012 unbundled lines totalled 300,000.

Mobile communications market

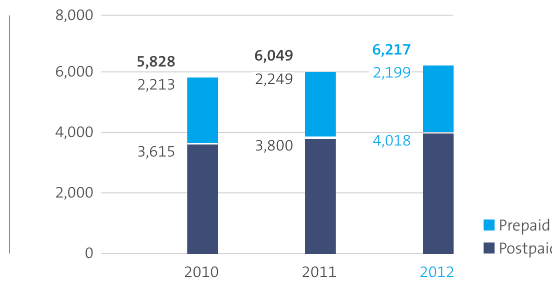
Three companies operate their own nationwide mobile networks in Switzerland: Swisscom, Orange Switzerland and Sunrise. In February 2012, Orange Switzerland was sold by France Telecom to the British company Apax. Sunrise was sold by its Danish parent TDC to Luxembourg-based CVC Capital Partners back in 2010. Unlike in previous years, 2012 was marked by slower growth of 2.4% in mobile lines (SIM cards) in Switzerland due to already high market penetration. The three network operators have a total of around 9.9 million mobile lines, with penetration in Switzerland at 124%. The technical possibilities of mobile communications are increasing due to the rapid spread of smartphones. A growing number of customers access their data, e-mails and Internet while on the move. The launch of the infinity tariffs marks a paradigm shift by Swisscom that reflects customers' changing needs. The monthly flat-rate subscription fee includes free text messaging, voice and data traffic. Customers have full cost control. By the end of 2012, 889,000 customers were using the new infinity offerings. For occasional users of the mobile network Swisscom offers prepaid services with no monthly subscription fee, so that they are charged only as and when they access the network. Machine-to-machine (M2M) mobile data traffic is a growth market which in future will support a wide range of applications such as automatic localisation in the event of a vehicle breakdown. Swisscom makes its mobile communications network available to third-party providers (MVNO, mobile virtual network operators) so that they can offer their customers proprietary products and services over the Swisscom network.

Market shares mobile subscribers in Switzerland* in %



* Estimate Swisscom

Swisscom mobile access lines in thousand

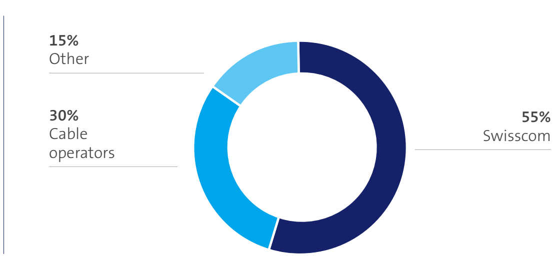


Swisscom defended its 62% market share in 2012. Switzerland boasts a much higher percentage of postpaid customers (around 65%). As in previous years, prices for mobile services in 2012 continued to be squeezed by competition, resulting in a corresponding decline in average monthly revenue per user.

Broadband market

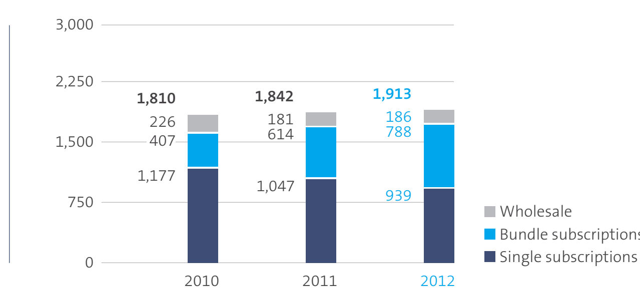
The most widespread access technologies for fixed broadband in Switzerland are the telephone network based on DSL and cable television networks. At the end of 2012, the number of retail broadband lines in Switzerland totalled around 3.1 million, or around 89% of all households. Switzerland therefore leads the way internationally in terms of market penetration of broadband lines. Swisscom's DSL offerings reach more than 98% of the Swiss population.

Market shares broadband access lines in Switzerland* in %



* Estimate Swisscom

Swisscom Broadband access lines in thousand

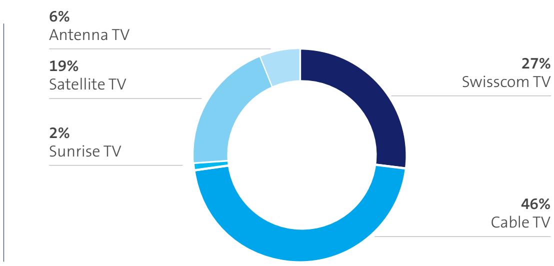


Growth in broadband lines is slowing from year to year. In 2012 the number of broadband lines grew by 5.0% versus 5.8% the previous year. In recent years growth in telephone-based DSL broadband lines has far outpaced broadband lines provided by cable network operators in recent years, but in the past year the trend has come to a halt. DSL broadband accounted for around half of new lines in 2012, corresponding to a market share of all broadband lines of around 70%. Of these, 55% (prior year: 55%) were Swisscom end customers and 16% (prior year: 16%) wholesale offerings and fully unbundled lines. Broadband lines are increasingly becoming the basic access line for households, through which customers can access additional services or bundled offerings.

Digital TV market

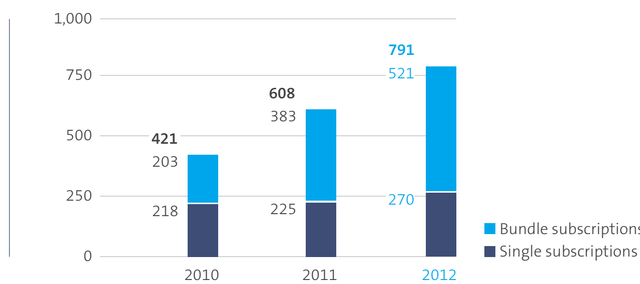
The importance and market penetration of digital television continues to grow. And with the possibility of 1.5 million users switching from analogue to digital television in future, the potential is huge. The most important modes of transmission for digital television in Switzerland are satellite, antenna (terrestrial), cable, Internet and mobile. Cable television, satellite reception and Swisscom TV account for the largest market shares. Roughly 85% of all households have an analogue or a digital cable TV connection; of these, around 75% have a digital TV connection (status as of September 2012). With 791,000 digital TV customers, Swisscom is market leader in digital cable television only six years after entering the business. Sunrise has been offering its own digital television services since 2012.

Market shares digital TV in Switzerland* in %



* Estimate Swisscom

Swisscom TV subscribers in thousand

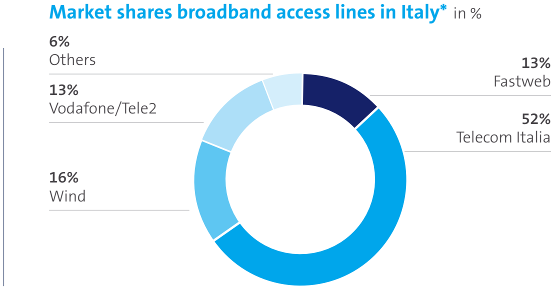


After steadily increasing its market share over the past few years thanks to its own digital Swisscom TV offering, Swisscom gained another 183,000 customers in 2012 and commanded a share of 27% (prior year: 26%) by year-end. Swisscom TV offers over 200 television channels, some 2,000 videos on demand, exclusive live transmission of sporting events (mainly football and ice hockey) and other practical features such as the replay feature (allowing viewers to watch missed programmes up to 30 hours after transmission), live-pause, a recording function, picture-in-picture, Swisscom TV apps for weather, news, photos, etc., and a TV guide. Thanks to a mobile app, customers can access the services and schedule at any time while on the move. Swisscom TV is available in a range of packages to meet all customer needs.

Italian broadband market

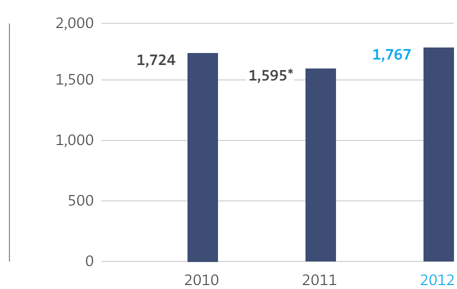
Italy's broadband market is Europe's fourth largest, with a revenue volume of around EUR 14 billion. While in most European markets DSL-based providers compete with cable network operators, this is not the case in Italy, where broadband penetration is well below the European average at just over 50% of households. In 2012 the number of broadband lines in Italy rose by 2% to around 13.7 million. Fastweb increased the number of broadband lines year-on-year by 10.8% or 172,000 to around 1.8 million, outperforming the competition in terms of new customers in 2012.

Market shares broadband access lines in Italy* in %



* Estimate Swisscom

Fastweb broadband access lines in thousand



* Adjusted by 197,000 as a result of the settlement of litigations.

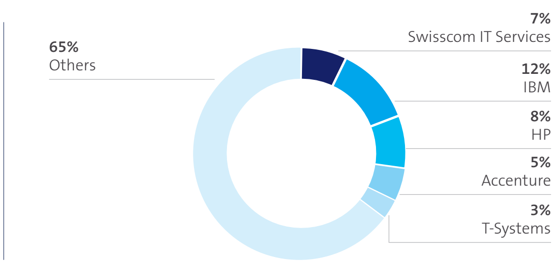
Telecom Italia leads the broadband market with a share of 52% (prior year: 51%), compared with Fastweb's 13% (prior year: 13%). Three integrated players dominate the market: Telecom Italia, Vodafone and Wind. Thanks to economies of scale, they are able to maintain a strong advertising presence and build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

IT services market in Switzerland

In 2012 the IT services market generated revenue volume of around CHF 6.6 billion. Swisscom estimates a total market volume in 2015 of around CHF 7.3 billion. Growth prospects have been weakening slightly. Cloud services and the off-shoring and near-shoring of services outside Switzerland are experiencing growth.

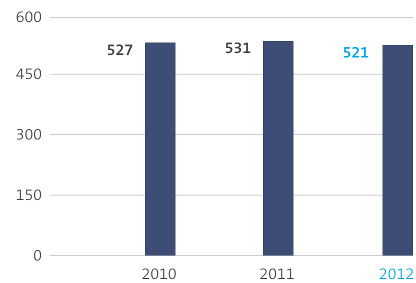
International providers offering on-demand services (cloud computing) and service delivery from low-wage countries (off-shoring) are fuelling competition and putting increased price pressure on Swiss IT service providers. In the SAP area, growth opportunities are opening up in the field of mobile services, business intelligence and SAP solutions for smaller customers. Swisscom IT Services expects to see server and storage services increasingly being procured as a standardised cloud service. In the workplace management segment, the use of tablets and other devices normally associated with residential customers, coupled with the shift of functionality to central data centres (cloud services), is changing the market.

Market shares IT services in Switzerland* in %



* Estimate Swisscom

Swisscom IT Services
Revenue from external customers in CHF million



With a market share of 7%, Swisscom IT Services is one of the largest providers on the Swiss market. Swisscom successfully defended its leadership position in the banking systems integration segment. Swisscom IT Services’ portfolio ranges from implementation and operation of IT solutions for the finance sector to the full hosting of back-office processes for banks (BPO). In the workplace management segment, Swisscom manages complex work environments on behalf of customers. Swisscom IT Services is a full-service provider in the area of SAP and IT outsourcing, including cloud services.

Group structure and organisation

Management structure in the 2012 financial year

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

Group structure

Swisscom Ltd and its four Group divisions, Group Finance & Controlling (from 2013 Group Business Steering), Group Strategy & Business Development (from 2013 Group Strategy & Innovation), Group Communications (from 2013 Group Communication & Responsibility) and Group Human Resources, together with its subsidiaries, make up the Swisscom Group. The shares of Swisscom Ltd are listed on the SIX Swiss Exchange in Zurich and are also traded over the counter (OTC) in the form of Level 1 American Depositary Receipts (ADR). The majority shareholder at 31 December 2012 was the Swiss Confederation, with a share of 56.8% of the voting rights and capital.
As at 31 December 2012, 22 Swiss subsidiaries (prior year: 27) and 32 foreign subsidiaries (prior year: 31) are fully consolidated in Swisscom's consolidated financial statements. In addition, nine associates (prior year: ten) are included according to the equity method. In the year under review, Swisscom acquired Datasport AG and Treufida GmbH as well as a minority stake in Metroweb S.p.A. in Italy and sold Athon SA. The following companies were merged in 2012: Webcall GmbH with Axept AG; Hospitality Services Plus SA, curabill AG and Evita AG with Swisscom (Switzerland) Ltd; and Swisscom IT Services Enterprise Solutions Ltd, Swisscom IT Services Finance Ltd and Swisscom IT Services Workplace Ltd with Swisscom IT Services Ltd.
Swisscom Ltd holds direct shareholdings in Swisscom (Switzerland) Ltd, Swisscom IT Services Ltd, Swisscom Broadcast Ltd and Swisscom Real Estate Ltd. Fastweb S.p.A. (Fastweb) is indirectly held via Swisscom (Switzerland) Ltd and intermediate companies in Belgium and Italy. While Swisscom Participations (from 2013 Group Related Business) does not constitute a legal entity, it is responsible for managing a portfolio of small and medium-sized enterprises. Swisscom and PubliGroupe have reciprocal interests of 49% each in LTV Yellow Pages Ltd and Swisscom Directories Ltd.

Change in management structure from 1 January 2013

From 1 January 2013 Swisscom will simplify its management structure with the aim of strengthening the Group's Swiss business and enhancing efficiency. In a move to strengthen Swiss core business in the face of ever-growing competition, the Swisscom Switzerland Management Board will be headed by Urs Schaeppi, until now Head of Corporate Business. In addition the Group Executive Board is to be streamlined. From 2013, the Group Executive Board will comprise CEO Carsten Schloter; Urs Schaeppi (Swisscom Switzerland); Andreas König (Swisscom IT Services); Mario Rossi (Group Business Steering); Jürgen Galler (Group Strategy & Innovation); and Hans Werner (Group Human Resources).

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Board of Directors

Group Executive Board

Headquarters

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

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

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

[2] Swisscom IT Services Ltd has subsidiaries in Austria and Singapore.

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

[4] Hospitality Services has subsidiaries in Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Italy, Luxembourg, the Netherlands, in Norway, Portugal, Romania, Russia, Spain, Turkey, the UK and USA.

[5] Venturing Participations comprises the fully consolidated company Mona Lisa Capital AG.

The scope of the sustainability report in accordance with the Global Reporting Initiative (GRI) covers Swisscom Ltd and all fully consolidated subsidiaries domiciled in Switzerland. It does not cover Group companies domiciled abroad or associates. The main foreign shareholdings are Fastweb and the Swisscom Hospitality Group. The closely related foundations comPlan (pension fund) and sovis are also not included in the scope. Any deviation of the GRI reporting boundary from the above definition is duly reported.

Guiding principles

Swisscom – we open up new possibilities

Our promise

As a trustworthy companion to the digital world, we help our customers
- feel secure and at ease
- find what they're looking for quickly and simply
- experience and achieve extraordinary things

Our strategic roles

The most trustworthy and reliable ICT infrastructure
We provide our customers with the most reliable ICT infrastructure that can be adapted quickly and flexibly to changing needs. We give our customers access wherever they need and expect it.

Leaders in identity, data and security management
We are recognised experts in the secure handling of data and virtual identities.
Our customers feel protected from risks and dangers.

Personalised, proactive, value-generating customer interactions
We offer our customers bespoke products and services that simplify and enrich their lives.
We are there where our customers need us.

Leaders in Corporate Responsibility
We act responsibly at all times and in everything we do and have a special responsibility towards our environment, our society and Switzerland.

Our goals

Winning hearts
We delight our customers with unique experiences.
Swisscom is one of Switzerland's favourite brands.

Making things simple
We offer our customers maximum benefit and a service that is constantly being improved. We achieve sustainable success through focus and effectiveness.

Shaping the future
We promote innovations that promise added value both for customers and Swisscom.
We combine the best ideas and drive forward projects that offer future potential.

Our principles

Passionate about customers
We surprise our customers, convey enjoyment and inspire by providing first-class service.

Heart and soul
We put heart and soul into shaping our own inspirational working environment.

Dialogue and cooperation
We work together to shape the future and learn from one another.

Focus on the essentials
We keep improving and remain focused.

Corporate strategy

While Swisscom commands a leading position in the mobile, fixed and broadband submarkets in Switzerland, these markets are largely saturated. Intense competition and changing customer needs continue to erode prices and volumes. In network access business, competition is accelerating due to unbundling of the local loop, cable providers offering higher bandwidths and bundled products, and fibre-optic initiatives by power utility companies. Moreover, service offerings are increasingly being provided on a network-independent basis and by new market players. The resulting lower revenue and income need to be offset in order to ensure the financial resources needed to make major investments in new technologies.
Swisscom's corporate responsibility strategy (CR strategy) underpins Swisscom's long-term commitment and is broken down into the following four key areas: "Enabling sustainable living and working", "Promoting sustainable use of resources", "Providing telecommunications for all" and "Acting as a responsible employer". By minimising the consumption of energy and resources within the Group, using electricity generated from renewable sources, imposing ecological and social standards on suppliers and acting as a responsible employer, Swisscom honours its responsibility towards the environment and the community at large. Swisscom supports customers in their efforts to achieve a sustainable way of living and working by offering climate-friendly, low-radiation products and services for residential customers and Green ICT services for business customers. Swisscom's corporate strategy is based on three pillars: "Maximise", "Extend" and "Expand".

Maximise

Grow market position in Swiss core business

Extend

Develop core-related businesses in Switzerland

Expand

Leverage growth opportunities in new business fields within Switzerland or abroad

1. Maximise existing core business

For Swisscom, maximising existing core business means strengthening its competitive position in Switzerland by maintaining high network quality, strong customer ties, a clear market positioning and cost-efficient services.
To set Swisscom Switzerland apart from the competition and generate value, substantial investments are necessary to maintain the quality of the network infrastructure – and in particular to expand the fibre-optic network and the mobile network. These high investments will further improve network quality and, along with superior services and a strong brand, ensure that Swisscom continues to command a high market share. By developing its service culture further, Swisscom aims to increase the already high level of customer loyalty. A clear market positioning forms the basis for Swisscom's ability to exploit new opportunities in its core business. To remain differentiated in the marketplace, Swisscom is continuing to develop its strategy of offering bundled products and future-oriented price plans such as the successful natel infinity subscriptions launched in 2012. Traditional usage-based revenues from services like text messaging and telephony are being incorporated in new subscription models, leading to a change in the business model. In the corporate business segment, reliability, quality and flexibility make Swisscom the partner of choice in the field of communication and collaboration services. Continuous improvements such as migration to an all-IP infrastructure or programmes which reduce internal costs and optimise decision making, will ensure that Swisscom can continue to provide cost-effective services in its core business. As an internal service provider, Swisscom IT Services supports Swisscom Switzerland by helping to reduce IT costs and by delivering flexible services. Swisscom Participations also supports Swisscom Switzerland in its bid to generate further efficiency gains in the areas of fibre-optic expansion and real estate management.

2. Extend current core business

Swisscom is extending its current core business by offering customers a broad range 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.
In Switzerland the switch from analogue to digital television is in full swing. Swisscom has been market leader in the digital TV market in Switzerland since 2011, and successfully expanded this position in 2012. It aims to further improve the competitiveness of Swisscom TV and ensure market differentiation through systematic, targeted continual development of its digital TV offering. In the corporate business segment Swisscom intends to ensure the growth of Swisscom Switzerland and Swisscom IT Services by extending the service portfolio and expanding activities in communication and collaboration solutions and in the area of cloud services. Cloud services enable customers to improve their efficiency and cost structure through the flexible procurement of IT infrastructure services. Unified communication and collaboration solutions allow corporate customers to save costs by optimising their communication processes. One growth area is machine-to-machine communication (M2M communication), where Swisscom estimates that over the long term more than 100 million machines will be interconnected via the mobile network in Switzerland. In addition, continuous improvement and harmonisation of operating processes and customer focus will further enhance the competitiveness and profitability of Swisscom Switzerland and Swisscom IT Services. Swisscom intends to generate further Group-wide synergies and improve coordination of market access by exploiting the potential for optimisation across individual business units. Swisscom Participations is also pursuing targeted growth activities, focusing in the "eHealth" field on networking and all-round health management while at the same time developing an interactive monitoring solution for private households in the growing area of "Smart & Secure Living".

3. Expand outside core business

Swisscom seeks to recognise and substantiate growth opportunities outside its core business in Switzerland, based on industrial and strategic logic. To promote growth in new business fields Swisscom is concentrating on developing new services along the extended value chain. In existing activities, successful further development and consolidation of Fastweb has top priority.
The acquisition of Fastweb in 2007 marked Swisscom's entry into the Italian broadband market. Since March 2011 Swisscom has been the sole owner of Fastweb and has gained strategic and operational flexibility thanks to this full takeover. The difficult economic situation and reduced growth prospects in Italy resulted in an adjustment to the business plan at the end of 2011. Fastweb is seeking profitability and growth based on a proprietary, state-of-the-art fibre-optic infrastructure, a strong position in the corporate business segment, an innovative service portfolio, outstanding project management and integration expertise, and high customer satisfaction. Fastweb will continue to invest in fibre-optic expansion over the coming years in order to boost competitiveness. Strict cost management will also improve cash flow.
Major investments in shareholdings are strategically restricted to the two core markets of Switzerland and Italy. At the same time Swisscom is making targeted investments with a view to further expanding existing participations: for example in Swisscom Hospitality Services, a company that provides access and TV services for hotel chains and their guests. Swisscom Hospitality Services is looking to greater further differentiation by offering new services while continuing to expand its geographical reach and improve efficiency. Swisscom also invests small amounts in venture capital funds as well as directly in start-up companies, in order to identify new technologies and business ideas early on and promote innovation.

Value-oriented business management

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

In CHF million, except where indicated	31.12.2012	31.12.2011
Enterprise value		
Market capitalisation	20,400	18,436
Net debt	8,071	8,309
Non-controlling interests in subsidiary companies	24	24
Enterprise value (EV)	**28,495**	**26,769**
Operating income before depreciation and amortisation (EBITDA)	4,381	4,584
Ratio enterprise value/EBITDA	**6.5**	**5.8**

The sum of market capitalisation, net debt and minority interests in subsidiaries is the enterprise value (EV) derived from the share price. Minority interests are stated at carrying amount. Higher market capitalisation and lower net debt increased the enterprise value year-on-year by 6.4% to CHF 28.5 billion. The enterprise value/EBITDA ratio is a key figure used in relative comparisons with other companies in the sector. With a factor of 6.5 (prior year: 5.8), Swisscom is above the average for Europe's former state telecom companies. A lower interest rate, lower average tax rates and a solid market position make a significant contribution to this higher factor.

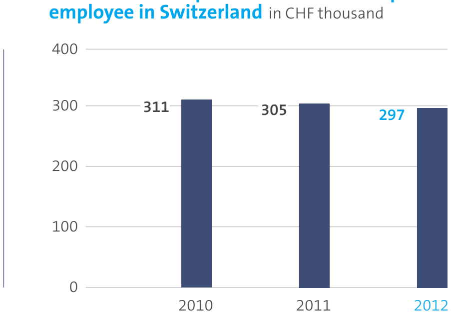
Statement of added value

Added value is equivalent to net revenue less goods and services purchased, other operating expenses and depreciation and amortisation. Personnel expense is treated as use of added value rather than as an intermediate input. Swisscom generates the bulk of its added value in Switzerland. In 2012 activities abroad accounted for 2.7% of the Group's added value from operations (prior year: 3.5%).

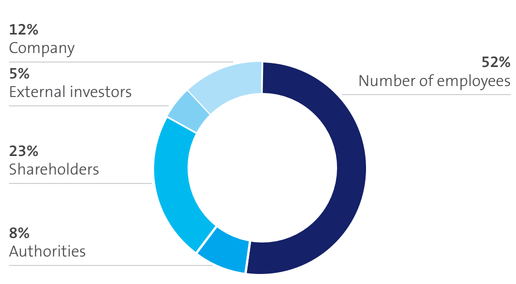
In CHF million	Switzerland	Abroad	Total 2012	Switzerland	Abroad	Total 2011
Added value						
Net revenue	**9,268**	**2,116**	**11,384**	**9,243**	**2,224**	**11,467**
Capitalised self-constructed assets and other income	(278)	(95)	(373)	(273)	(147)	(420)
Goods and services purchased	1,678	721	2,399	1,611	791	2,402
Other operating expenses	1,764	632	2,396	1,727	661	2,388
Depreciation	1,227	723	1,950	1,168	735	1,903
Indermediate inputs	**4,391**	**1,981**	**6,372**	**4,233**	**2,040**	**6,273**
Operating added value	**4,877**	**135**	**5,012**	**5,010**	**184**	**5,194**
Share of results of associates			32			30
Impairment losses on goodwill			–			(1,555)
Other financial result			(43)			(37)
Total added value			**5,001**			**3,632**
Allocation of added value						
Employees (personnel costs)	2,312	269	2,581	2,214	299	2,513
Authorities (income taxes)			405			151
Shareholders (dividends)			1,154			1,095
External investors (net interest expense)			253			274
Company (retained earnings)			608			(401)
Total added value			**5,001**			**3,632**

In 2012 added value from operations amounted to around CHF 5.0 billion, 3.5% less than in 2011. Added value in Switzerland declined year-on-year by 2.7% to CHF 4,877 million, while added value from international activities fell by CHF 49 million to CHF 135 million. Added value from operations in Switzerland accounted for 52.6% of net revenue (prior year: 54.2%).
Most of the value-generating activities in Switzerland are performed by Swisscom's 16,300 or so employees. In 2012 added value from operations per FTE declined by 2.6% to CHF 297,000 (prior year: CHF 305,000). Personnel expense in relation to added value in Switzerland increased from 44.2% to 47.4%.

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



Allocation of added value in %



Capital market

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

Swisscom share

Swisscom's market capitalisation at 31 December 2012 stood at CHF 20.4 billion, with 51.8 million shares outstanding. The par value per registered share is CHF 1. Each share entitles the holder to one vote. Voting rights can only be exercised if the shareholder has been entered with voting rights in the share register of Swisscom Ltd. The Board of Directors may refuse to enter a shareholder with voting rights in the share register if such voting rights exceed 5% of the company's share capital.

Ownership structure

			31.12.2012			31.12.2011
	Number of Shareholders	Number of Shares	Share in %	Number of Shareholders	Number of Shares	Share in %
Confederation	1	29,410,500	56.8%	1	29,494,000	56.9%
Natural person	65,591	4,624,627	8.9%	62,404	4,230,435	8.2%
Institution	2,653	17,766,816	34.3%	2,717	18,077,508	34.9%
Total	**68,245**	**51,801,943**	**100.0%**	**65,122**	**51,801,943**	**100.0%**

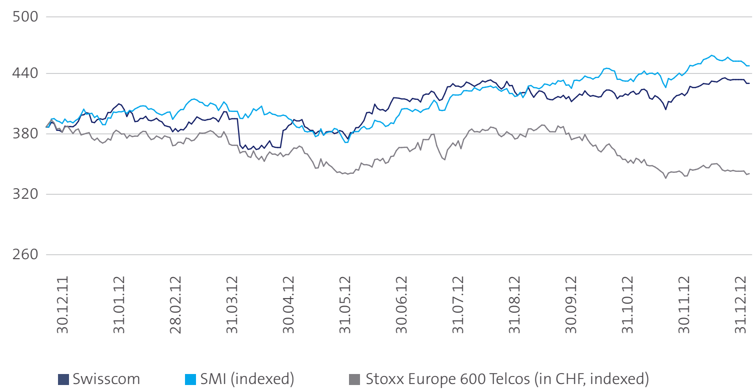
The majority shareholder at 31 December 2012 was the Swiss Confederation, with 56.8% of the voting rights and capital. By law the Swiss Confederation is required to hold a majority of the capital and voting rights. At 31 December 2012 around 97% of registered shareholders were from Switzerland.

Stock exchanges

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

Share performance in 2012

Share performance 2012 in CHF



See www.swisscom.ch/shareprice

The Swiss Market Index (SMI) gained 14.9% compared with the previous year. The Swisscom share price increased by 10.7% to CHF 393.80, outperforming the Stoxx Europe 600 Telecommunications Index (–11.4% in CHF; –10.7% in EUR). Average daily trading volume fell year-on-year by 9.5% to 100,033 shares. Total trading volume of Swisscom shares in 2012 amounted to CHF 9.2 billion.

Shareholder return in 2012

On 13 April 2012 Swisscom paid out an ordinary dividend of CHF 22 per share. Based on the closing price at the end of 2011, this equates to a return of 6.2%. Taking into account the rise in share price, the Swisscom share achieved a TSR (total shareholder return) of 16.8% in 2012, while the TSR of the SMI was 17.6% and the Stoxx Europe 600 Telecommunications Index was –4.8% in CHF or –4.0% in EUR.

Swisscom share performance indicators

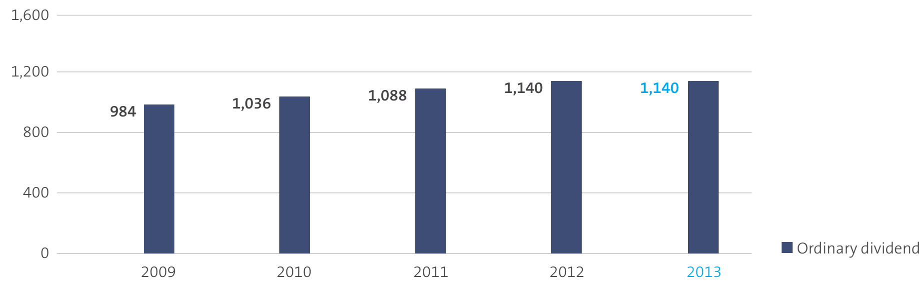
		2008	2009	2010	2011	2012
Par value per share at end of year	CHF	1.00	1.00	1.00	1.00	1.00
Number of issued shares at end of period	in thousand	53,441	51,802	51,802	51,802	51,802
Market capitalisation at end of year	in CHF million	17,587	20,491	21,296	18,436	20,400
Closing price at end of period	CHF	339.50	395.60	411.10	355.90	393.80
Closing price highest	CHF	442.75	400.90	420.80	433.50	400.00
Closing price lowest	CHF	292.00	293.50	358.00	323.10	334.40
Earnings per share	CHF	33.87	37.47	35.00	13.19	33.88
Ordinary dividend per share	CHF	19.00	20.00	21.00	22.00	22.00 [1]
Ratio payout/earnings per share	%	56.10	53.38	60.00	166.85	64.94
Equity per share at end of year	CHF	85.33	113.91	102.89	82.47	79.77

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

Distribution to shareholders

At the forthcoming Annual General Meeting on 4 April 2013 the Board of Directors will propose an ordinary dividend of CHF 22 per share (prior year: CHF 22). This is equivalent to a total dividend payout of CHF 1,140 million.

Development of payout in CHF million



Since going public in 1998 Swisscom has distributed a total of CHF 25.0 billion to shareholders: CHF 13.0 billion in dividend payments, CHF 1.6 billion in capital reductions and CHF 10.4 billion in share buybacks. Swisscom has paid out a total of CHF 257 per share since the initial public offering. Together with the overall increase in share price of CHF 53.80 per share, this corresponds to an average annual total return of 4.7%.

Analysts' recommendations

Investment specialists analyse Swisscom's business performance, results and market situation on an ongoing basis. Their findings and recommendations offer valuable indicators for investors. Around 20 analysts regularly publish studies on Swisscom. At the end of 2012 42% of analysts recommended a buy rating for the Swisscom share, 37% a hold rating and 21% a sell rating. The average price target at 31 December 2012 according to the analysts'estimates was CHF 405.

Indebtedness

Credit ratings and financing

With A (stable) and A2 (stable) respectively, Swisscom enjoys good ratings with the Standard & Poor's and Moody's rating agencies. To avoid structural downgrading, Swisscom endeavours to raise financing at the level of Swisscom Ltd. Swisscom aims for a broadly diversified debt portfolio, taking particular care to balance maturities and spread financing instruments and financial markets. Swisscom has set itself the goal of achieving a maximum ratio of net debt to EBITDA of around 2. Swisscom's solid financial standing enabled unrestricted access to money and capital markets also in 2012. Net debt fell by CHF 0.2 billion to CHF 8.1 billion, corresponding to a net debt/EBITDA ratio of 1.8. Around 90% of financial liabilities have a term to maturity of more than one year. At 31 December 2012 financial liabilities with a term of one year or less amounted to CHF 0.9 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.

Financial calendar

> 4 April 2013	Annual General Meeting
> 8 April 2013	Ex-dividend
> 11 April 2013	Dividend payment
> 2 May 2013	First-quarter results 2013
> 7 August 2013	Half-year results 2013
> 7 November 2013	Third-quarter results 2013
> February 2014	Annual results 2013

Employees

Overall headcount at Swisscom declined by 547 FTEs year-on-year, with the number of full-time positions in Switzerland decreasing by 359.

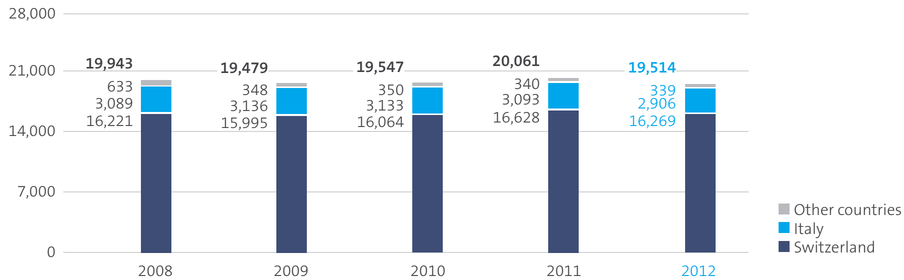
Headcount

At the end of 2012 Swisscom had 19,514 full-time equivalent employees (FTEs), of which 16,269 or 83.4%, of the total workforce were employed in Switzerland (prior year: 82.9%). Swisscom also trains 907 apprentices. The following chart shows a breakdown of full-time equivalent positions by segment:

	31.12.2010	31.12.2011	31.12.2012
Full-time equivalent employees at end of year			
Residential Customers	4,607	4,683	4,371
Small and Medium-Sized Enterprises	733	824	831
Corporate Business	2,312	2,404	2,393
Wholesale	100	110	111
Networks & IT	3,964	4,075	4,121
Swisscom Switzerland	**11,716**	**12,096**	**11,827**
Fastweb	**3,123**	**3,081**	**2,893**
Swisscom IT Services	2,858	2,895	2,692
Swisscom Participations	1,241	1,363	1,498
Swisscom Hospitality Services	263	257	264
Other	6	–	–
Other operating segments	**4,368**	**4,515**	**4,454**
Group Headquarters	**340**	**369**	**340**
Total Group	**19,547**	**20,061**	**19,514**
Thereof employees in Switzerland	16,057	16,628	16,269

Headcount decreased year-on-year by 547 full-time equivalents or 2.7% to 19,514. While efficiency improvement measures and the outsourcing of staff at Fastweb led to an overall drop in head-count, this was partially offset by the insourcing of external personnel, acquisition of subsidiaries and an increase in the resources required for investments in telecoms infrastructure.
Employees in Switzerland on fixed-term contracts accounted for 0.4% of the workforce in 2012 (prior year: 0.3%). Part-time employees made up 13.7% (prior year: 13.4%), an increase of 16 FTEs compared with 2011. Termination of employment by employees in Switzerland amounted to 6.3% of the workforce (prior year: 6.0%).

Development of headcount in full-time equivalent



Personnel expense

In CHF million	2012	2011	Change
Salary and wage costs	2,058	2,053	0.2%
Social security expenses	222	227	–2.2%
Pension cost	158	141	12.1%
Restructuring costs	68	–	–
Other personnel expenses	75	92	–18.5%
Total personnel expense	**2,581**	**2,513**	**2.7%**
Thereof personnel expense in Switzerland	2,312	2,214	4.4%
Thereof personnel expense in Italy	233	264	–11.7%
Thereof personnel expense in other countries	36	35	2.9%

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Personnel expense of Swisscom in the year under review amounted to CHF 2,581 million, with employees in Switzerland accounting for CHF 2,312 million or 89.6% of the total.

Employment law framework

Introduction

The following information applies to Swisscom in Switzerland: Swisscom is one of the largest employers in Switzerland, with around 17,200 employees. The legal terms and conditions of employment in Switzerland are based on the Swiss Code of Obligations. The collective employment agreement (CEA) sets out the key terms and conditions of employment between Swisscom and its employees. It also contains provisions governing relations between Swisscom and its social partners. In mid-June 2012 Swisscom and its social partners entered into negotiations aimed at further developing the collective employment agreement and social plan. A new CEA was agreed, improving on the already very good terms and conditions of the previous agreement. The new CEA and social plan enter into force on 1 January 2013. Swisscom IT Services and cablex AG, which operate in a special market and competitive environment, will have their own CEA. At the end of December 2012, 13,593 FTEs or 84.1% of the workforce were covered by the collective employment agreement.
General terms and conditions of employment which exceed the minimum standard defined by the Code of Obligations are governed by the special provisions for Swisscom management staff in Switzerland.

Employee representation and union relations

Swisscom is committed to fostering constructive dialogue with its social partners (syndicom and transfair unions) as well as the employee associations (employee representatives). The collective employment agreement (CEA) and the social plan are good examples of fair, consensual solutions. In the event of important operational changes, Swisscom involves the social partners and employee associations at an early stage. The CEA grants employee representatives rights of co-determination 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. Two employee representatives from the unions also sit on the Board of Directors of Swisscom Ltd.

Collective employment agreement

The working week for employees covered by the CEA is 40 hours. Five weeks' annual leave (six weeks from age 60), 16 weeks' maternity leave and ten days' paternity leave are also among the progressive fringe benefits defined by the CEA. Employees also enjoy an additional week of paid leave after five years of service. Swisscom pays a child and education allowance which in most cases is above the statutory cantonal allowance, and grants leave on special family-related grounds such as adoption leave. In the case of incapacity to work due to illness or accident, Swisscom continues to pay the employee's salary for 730 days: 100% in the first year and 80% in the second. On 1 January 2013 a new CEA entered into effect with partial adjustments to benefits and regulations aimed at strengthening the marketability of employees.

Working-hour models

Swisscom promotes the work-life balance of its employees, offering working conditions that enable those working full-time and part-time to balance their personal and professional lives. This is made possible by the following measures: flexible working hours (the standard model used by a majority of employees), variable working-hour models such as annual working hours, a long-term working-time account and alternating teleworking. Employees may also work from home with the consent of their line manager. This option is used by many employees and is becoming increasingly simpler thanks to tools such as Unified Communications & Collaboration (UCC).

Social plan

Swisscom's social plan sets out the benefits provided to employees covered by the collective employment agreement CEA who are affected by redundancy. Responsibility for implementing the social plan lies with Worklink AG, a wholly owned subsidiary of Swisscom. Worklink AG opens up new prospects for Swisscom employees affected by job cuts, by providing them with advice and support in their search for new employment outside the company or arranging temporary external or internal placements. The success rate is high, with around 48.5% of employees affected in 2012 finding another job prior to expiry of the social plan programme.
Swisscom also operates special employment schemes (phased partial retirement, temporary deployment in similar areas of expertise) in line with its commitment to providing fair solutions for older employees affected by changes in skill set requirements or redundancy. The pension plan offers employees opting for early retirement (from age 58) financial support in the form of a bridging pension until they reach the statutory retirement age.
The new social plan that enters into force on 1 January 2013 continues to offer very good benefits in the case of redundancy, as well as an increased focus on helping employees improve their marketability through further training measures.

Employee remuneration

Salary system

Competitive pay packages help to attract and retain highly-skilled and motivated specialists and managerial staff. Swisscom's salary system comprises a basic salary, a variable performance-related component and bonuses. The basic salary is determined based on function, individual performance and the job market, while the variable component is dependent on achievement of the Swisscom Group's overarching targets and individual business segment or division targets. The targets primarily relate to key financial indicators and improvement in customer satisfaction. Swisscom's share bonus rewards selected employees who have been nominated for outstanding individual achievements. The salary system and terms and conditions of employment for management staff comply with the recommendations of economiesuisse on the "Swiss Code of Best Practice in Corporate Governance". Details on remuneration for members of the Group Executive Board are provided in the remuneration report.

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Minimum wage

There is no legally defined minimum wage in Switzerland. Instead, this is negotiated by the social partners in the context of collective employment agreements. 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 present throughout Switzerland and the various locations differ little in terms of defining salaries. A study of starting salaries for the youngest employees (up to age 21) at the widely-applied starting function level found that the average hourly pay for this category is CHF 26.90 for men and women: 23% above the minimum wage rate.

Pay round

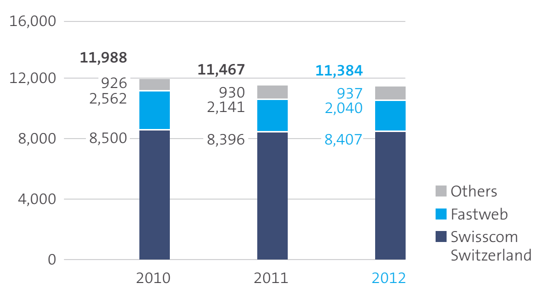
In November 2011 Swisscom and the social partners signed a new pay round agreement for the years 2012 and 2013, as a result of which Swisscom (with the exception of Swisscom IT Services) increased the total salary payout in 2012 in Switzerland by 1.2%, while the general increase for employees covered by the CEA amounted to 0.8%. Individual adjustments depending on performance and current salary level accounted for a further 0.4%. Individual management salaries were adjusted by a total of 1.1%. Swisscom (excluding Swisscom IT Services) will raise the total salary payout for employees covered by the CEA in 2013 by a further 1.2% (again 0.8% as a general increase and 0.4% reserved for individual salary adjustments).
A separate agreement was reached for Swisscom IT Services to reflect the market environment and competitive situation specific to the IT market. Accordingly, no salary increases were awarded to Swisscom IT Services in 2012, while for 2013 employees covered by the CEA will be granted a general increase of 0.8%.

Group financial review

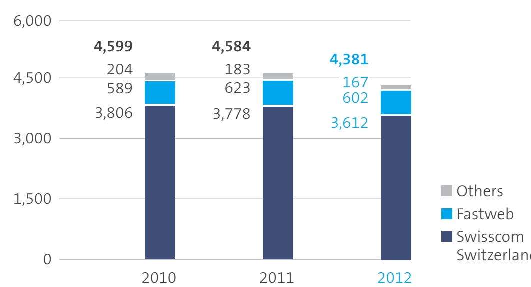
Key financial figures

In CHF million, except where indicated	2012	2011	Change
Net revenue	11,384	11,467	–0.7%
Operating income before depreciation and amortisation (EBITDA)	4,381	4,584	–4.4%
EBITDA as % of net revenue	38.5	40.0	
Operating income (EBIT) before impairment losses on goodwill	2,431	2,681	–9.3%
Operating income (EBIT)	2,431	1,126	115.9%
Net income	1,762	694	153.9%
Share of net income attributable to equity holders of Swisscom Ltd	1,755	683	157.0%
Earnings per share (in CHF)	33.88	13.19	157.0%
Operating free cash flow	1,882	2,068	–9.0%
Capital expenditure in property, plant and equipment and other intangible assets	2,529	2,095	20.7%
Net debt at end of period	8,071	8,309	–2.9%
Full-time equivalent employees at end of year	19,514	20,061	–2.7%

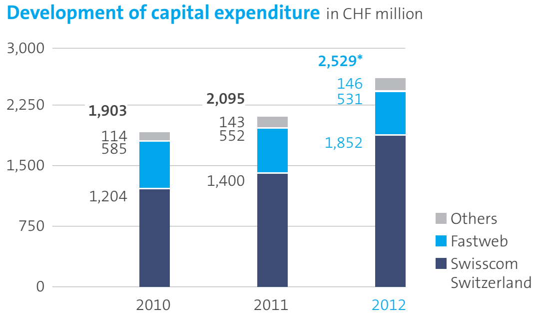
Development of revenue from external customers in CHF million



Development of EBITDA in CHF million

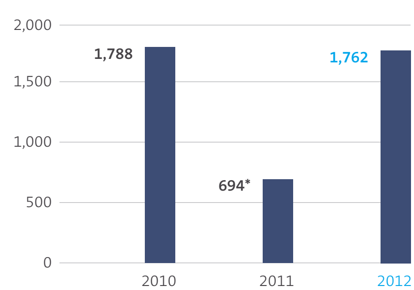


Development of capital expenditure in CHF million



* Including expenses of CHF 360 million for mobile frequency.

Development of net income in CHF million



* Including goodwill impairment of CHF 1,189 million less taxes.

Summary

Swisscom's net revenue fell by CHF 83 million or 0.7% to CHF 11,384 million, while operating income before depreciation and amortisation (EBITDA) was CHF 203 million or 4.4% lower at CHF 4,381 million. On a like-for-like basis and at constant exchange rates, revenue was up 0.3% and EBITDA down 0.6% year-on-year. The CHF 1,068 million increase in net income to CHF 1,762 million is largely attributable to the one-off impairment loss on the carrying amount of Fastweb in the previous year, which reduced net income in 2011 by around CHF 1.2 billion. An unchanged dividend of CHF 22 per share is to be proposed at the forthcoming Annual General Meeting. This equates a total dividend of CHF 1,140 million and a dividend yield of 5.6% based on the year-end share price of 2012.

Net revenue generated by Swiss business increased by CHF 25 million or 0.3% to CHF 9,268 million, while EBITDA was CHF 177 million or 4.5% lower at CHF 3,768 million. Price erosion in Swiss business of around CHF 400 million was offset by customer and volume growth. After adjustment for one-off additional restructuring costs and pension costs not affecting cash flow, EBITDA generated by Swiss business declined by 2.1%. Excluding wholesale revenue from interconnection services (hubbing), Fastweb's net revenue increased in local currency by EUR 8 million or 0.5% to EUR 1,613 million while its low-margin hubbing revenue fell as planned by EUR 54 million to EUR 87 million. Excluding non-recurring income from the previous year of EUR 56 million, Fastweb increased EBITDA by EUR 50 million or 11.1% to EUR 500 million.

Capital expenditure and operating free cash flow for 2012 include expenses of CHF 360 million for the mobile frequencies auctioned in Switzerland in the first quarter of 2012. This led to a corresponding increase in capital expenditure of CHF 434 million or 20.7% to CHF 2,529 million and to a decline in operating free cash flow of CHF 186 million or 9.0% to CHF 1,882 million. Capital expenditure in Switzerland was CHF 457 million or 29.7% higher at CHF 1,994 million due to expansion of the broadband network and the mobile frequencies acquired by auction. Net debt fell by CHF 238 million or 2.9% to CHF 8,071 million compared to the end of 2011. The ratio of net debt to EBITDA remained unchanged at 1.8.

Headcount dropped by 547 FTEs or 2.7% to 19,514 FTEs year-on-year due to efficiency improvements and the outsourcing of network maintenance jobs at Fastweb. In Switzerland headcount fell by 359 FTEs or 2.2% to 16,269, mainly as a result of efficiency improvements at Swisscom Switzerland.

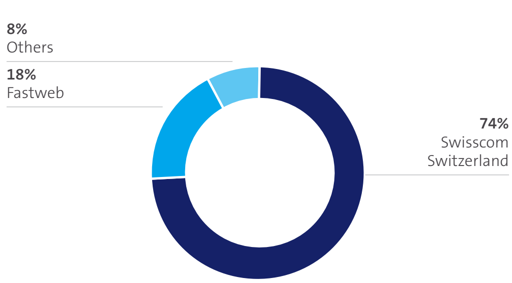
Swisscom expects to close 2013 with net revenue of around CHF 11.3 billion, EBITDA of at least CHF 4.25 billion and capital expenditure of around CHF 2.4 billion. Assuming all 2013 targets are met, Swisscom plans again to propose a dividend of CHF 22 per share at the 2014 Annual General Meeting.

Results of operations

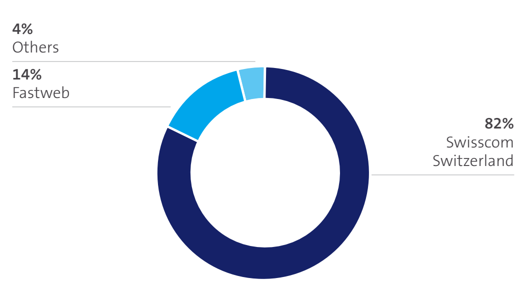
Income statement

In CHF million, except where indicated	2012	2011	Change
Swisscom Switzerland	8,407	8,396	0.1%
Fastweb	2,040	2,141	–4.7%
Other operating segments	936	929	0.8%
Group Headquarters	1	1	–
Revenue from external customers	**11,384**	**11,467**	**–0.7%**
Swisscom Switzerland	3,612	3,778	–4.4%
Fastweb	602	623	–3.4%
Other operating segments	277	334	–17.1%
Group Headquarters and elimination	(110)	(151)	–27.2%
Operating income before depreciation and amortisation (EBITDA)	**4,381**	**4,584**	**–4.4%**
Net revenue	**11,384**	**11,467**	**–0.7%**
Goods and services purchased	(2,399)	(2,402)	–0.1%
Personnel expense	(2,581)	(2,513)	2.7%
Other operating expense	(2,396)	(2,388)	0.3%
Capitalised self-constructed assets and other income	373	420	–11.2%
Operating expenses	**(7,003)**	**(6,883)**	**1.7%**
Operating income before depreciation and amortisation (EBITDA)	**4,381**	**4,584**	**–4.4%**
Depreciation and amortisation	(1,950)	(1,903)	2.5%
Operating income (EBIT) before impairment losses on goodwill	**2,431**	**2,681**	**–9.3%**
Impairment losses on goodwill	–	(1,555)	–
Operating income (EBIT)	**2,431**	**1,126**	**115.9%**
Financial income and financial expense, net	(296)	(311)	–4.8%
Share of results of associates	32	30	6.7%
Income before income taxes	**2,167**	**845**	**156.4%**
Income tax expense	(405)	(151)	168.2%
Net income	**1,762**	**694**	**153.9%**
Share of net income attributable to equity holders of Swisscom Ltd	1,755	683	157.0%
Share of net income attributable to non-controlling interests	7	11	–
Average number of shares outstanding (in millions of shares)	51.801	51.801	–
Earnings per share (in CHF)	33.88	13.19	157.0%

Share of operating segments in net revenue in %



Share of operating segments in EBITDA in %



Net revenue

Swisscom's net revenue fell by CHF 83 million or 0.7% to CHF 11,384 million. On a like-for-like basis and at constant exchange rates, net revenue increased by 0.3%. At Swisscom Switzerland revenue generated from external customers increased by CHF 11 million or 0.1% to CHF 8,407 million. Price erosion of around CHF 400 million was offset by customer and volume growth. Fastweb's net revenue contracted by 2.6% in local currency to EUR 1,700 million, and by 4.7% in Swiss francs. Excluding wholesale revenue from interconnection services (hubbing), net revenue at Fastweb was up by EUR 8 million or 0.5% to EUR 1,613 million. Lower revenue in the residential customer segment was more than compensated by higher revenue from business customers and wholesale (excluding hubbing). Net revenue generated by other operating segments increased by CHF 7 million or 0.8% to CHF 936 million, mainly due to higher revenue from construction services performed by cablex and acquisition of subsidiaries.

Goods and services purchased

Goods and services purchased remained virtually unchanged, dropping by CHF 3 million or 0.1% to CHF 2,399 million. At constant exchange rates this represents a rise of 0.5%. A decline in purchases at Fastweb, mainly due to the planned reduction in hubbing business and lower termination rates, was more than compensated by an increase in goods and services purchased by Swisscom Switzerland on account of a higher number of mobile handsets sold.

Personnel expense

Personnel expense increased by CHF 68 million or 2.7% to CHF 2,581 million due to higher restructuring costs and pension costs totalling CHF 85 million. Adjusted for these effects and at constant exchange rates, this resulted in a 0.5% decline in personnel expense. Headcount decreased year-on-year by 547 FTEs or 2.7% to 19,514. The reduction was attributable to efficiency improvements and the outsourcing of network maintenance jobs at Fastweb.

Other operating expense

Other operating expense increased by CHF 8 million or 0.3% year-on-year to CHF 2,396 million. At constant exchange rates this represents an increase of 0.9%. Higher expenditure on network maintenance and operation at Swisscom Switzerland was offset by lower bad debt losses at Fastweb.

Capitalised self-constructed assets and other income

At CHF 373 million, capitalised self-constructed assets and other income in 2012 were CHF 47 million or 11.2% lower year-on-year. This includes non-recurring income of EUR 56 million (CHF 69 million) recognised in the previous year under other income in connection with the settlement of a legal dispute between Fastweb and another telecoms provider. Adjusted for this one-off item, capitalised self-constructed assets and other income were up 6.3% year-on-year.

Operating income before depreciation and amortisation (EBITDA)

Operating income before depreciation and amortisation (EBITDA) fell by CHF 203 million or 4.4% to CHF 4,381 million. The 2012 result was impacted by higher restructuring costs and pension costs not affecting cash flow totalling CHF 95 million. In addition, non-recurring income of EUR 56 million (CHF 69 million) at Fastweb was recognised in the previous year in connection with the settlement of a legal dispute with another telecoms provider. Adjusted for non-recurring effects and at constant exchange rates, the decline was 0.6% and was mainly attributable to lower operating income generated by Swisscom Switzerland and Other operating segments. The adjusted EBITDA at Fastweb increased year-on-year by EUR 50 million or 11.1% to EUR 500 million.

Depreciation and amortisation

Depreciation and amortisation rose by CHF 47 million or 2.5% to CHF 1,950 million, mainly reflecting a change in the useful life of Swisscom Switzerland's mobile network and increased investment in the telecoms infrastructure in Switzerland. The mobile network of Swisscom Switzerland is currently undergoing a comprehensive renewal, which involves replacing all existing base stations, constructing new stations or expanding those planned and deploying microcells to increase network density. The useful lives of existing assets will be shortened due to the replacement of all network equipment. The impact on depreciation and amortisation in 2012 is CHF 25 million. Depreciation and amortisation includes scheduled amortisation related to business combinations in the amount of CHF 134 million (prior year: CHF 137 million), which have been capitalised as intangible assets (customer relationships and brands) for purchase price allocation purposes.

Impairment of goodwill

Under IFRS, goodwill must be tested every year for impairment. The test is based on the business plan, long-term growth rates and the interest rate for projected cash flows. In the previous year the carrying amount of the Italian subsidiary Fastweb was adjusted downwards by EUR 1,276 million (CHF 1,555 million). The carrying amount of Fastweb's net assets was confirmed in the impairment test conducted in 2012. At 31 December 2012 the carrying amount of Fastweb's net assets (including goodwill) amounted to EUR 2.9 billion (CHF 3.5 billion).

Net financial result

The net financial result improved by CHF 15 million year-on-year to CHF 296 million. Net interest expense in 2012 amounted to CHF 253 million (prior year: CHF 274 million), and includes interest rate hedging losses of CHF 4 million (prior year: losses of CHF 38 million).

Investments in associates

Associates mainly covers the share of results of investments in Belgacom International Carrier Services, Cinetrade, LTV Yellow Pages and Metroweb. The share of results of associates rose year-on-year by CHF 2 million to CHF 32 million. Dividends received, amounting to CHF 38 million (prior year: CHF 34 million), largely concern dividends paid by LTV Yellow Pages, Cinetrade and Belgacom International Carrier Services.

Excluding non-recurring items, net revenue increased by 0.3% year-on-year.
Net revenue in 2012 totalled

11.4 billion CHF

Excluding non-recurring items, EBITDA declined by 0.6% year-on-year.
EBITDA in 2012 totalled

4.4 billion CHF

Income tax expense

Income tax expense amounted to CHF 405 million (prior year: CHF 151 million), corresponding to an effective income tax rate of 18.7% (prior year: 17.9%). In the previous year the effective income tax rate was impacted by the one-off impairment loss in the carrying amount of Fastweb. Excluding non-recurring items, an income tax rate of around 21% is expected in future. Income taxes paid were CHF 8 million higher than a year earlier at CHF 190 million.

Net income and earnings per share

Net income increased year-on-year by CHF 1,068 million or 153.9% to CHF 1,762 million. In the previous year net income was reduced by CHF 1,189 million due to the one-off impairment loss in the carrying amount of Fastweb. Adjusted for this impairment loss, net income declined by CHF 121 million or 6.4%, primarily due to additional restructuring costs and pension costs not affecting cash flow, as well as to non-recurring income recognised for Fastweb in the previous year. Earnings per share is calculated based on net income attributable to equity holders of Swisscom Ltd and the average number of shares outstanding. The share of net income attributable to equity holders of Swisscom Ltd increased year-on-year by 157.0% to CHF 1,755 million. Earnings per share grew accordingly from CHF 13.19 to CHF 33.88.

Impact of exchange rate fluctuations

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

Currency	2012	2011	Change
1 EUR	1.204	1.232	–2.2%
1 USD	0.932	0.881	5.8%

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:

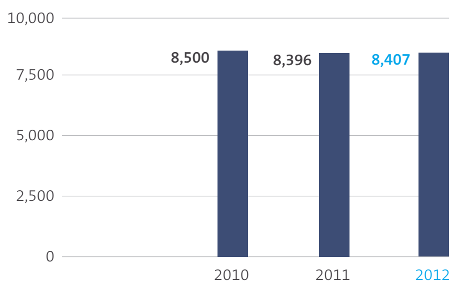
Development in %	Change in CHF	Change in local currency
Net revenue	–0.7%	–0.3%
Operating income before depreciation and amortisation (EBITDA)	–4.4%	–4.0%
Operating free cash flow	–9.0%	–9.0%

At the end of 2012 cumulative currency translation adjustments not affecting income and recognised directly in equity amounted to CHF 1,995 million. This corresponds to a year-on-year increase of CHF 26 million. Cumulative tax effects of CHF 387 million were incurred in connection with foreign currency translation adjustments (prior year: CHF 381 million). Foreign currency translation adjustments are presented in the consolidated balance sheet after deducting tax effects.

Operating segment results

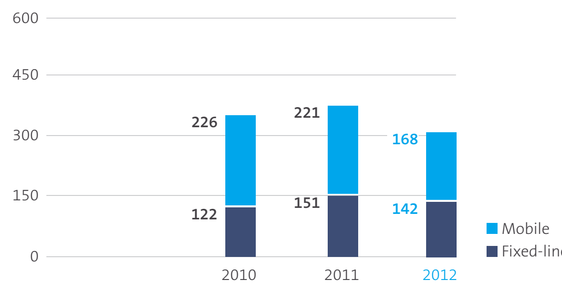
Reporting is broken down into the segments Swisscom Switzerland, Fastweb and Other operating segments. Swisscom Switzerland includes the segments Residential Customers, Small and Medium-Sized Enterprises, Corporate Business, Wholesale and Network & IT. Group Headquarters is disclosed separately.

Development of revenue from external customers Swisscom Switzerland in CHF million



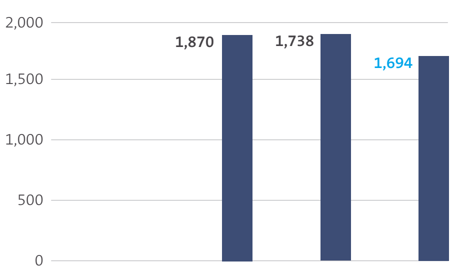
	2010	2011	2012
Revenue mobile single subscriptions	3'086	3'104	2,932
Revenue fixnet single subscriptions	3'153	2'695	2,470
Revenue bundle subscriptions	341	792	1,172
Revenue others	1'920	1'805	1,833
Total	**8,500**	**8,396**	**8,407**

Changes in customer contracts retail Swisscom Switzerland in thousand



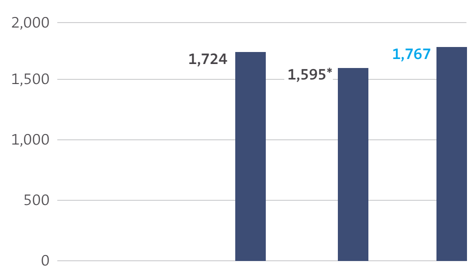
	2010	2011	2012
Fixed-line	–173	–113	–107
Broadband	106	77	66
Swisscom TV	189	187	183
Contracts in fixed-line	**122**	**151**	**142**
Contracts in mobile	**226**	**221**	**168**

Development of revenue from external customers Fastweb in EUR million



	2010	2011	2012
Residential Customers	858	758	724
Small and Medium-Sized Enterprises	765	760	791
Wholesale hubbing	171	141	87
Wholesale others	76	79	92
External revenue	**1,870**	**1,738**	**1,694**

Development of broadband access lines Fastweb in thousand



* Adjusted by 197,000 as a result of the settlement of litigations.

Segment revenue and results

Swisscom Switzerland

In CHF million, except where indicated	2012	2011	Change
Net revenue and results			
Residential Customers	5,113	5,082	0.6%
Small and Medium-Sized Enterprises	1,161	1,154	0.6%
Corporate Business	1,835	1,849	–0.8%
Wholesale	966	997	–3.1%
Elimination	(614)	(633)	–3.0%
Net revenue	**8,461**	**8,449**	**0.1%**
Residential Customers	2,864	2,891	–0.9%
Small and Medium-Sized Enterprises	867	880	–1.5%
Corporate Business	951	971	–2.1%
Wholesale	368	391	–5.9%
Network & IT	(1,439)	(1,355)	6.2%
Elimination	1	–	–
Segment result before depreciation and amortisation (EBITDA)	**3,612**	**3,778**	**–4.4%**
Margin as % of net revenue	42.7	44.7	
Depreciation, amortisation and impairment losses	(1,053)	(988)	6.6%
Segment result	**2,559**	**2,790**	**–8.3%**
Capital expenditure and headcount			
Capital expenditure in property, plant and equipment and other intangible assets	1,852	1,400	32.3%
Full-time equivalent employees at end of year	11,827	12,096	–2.2%

Swisscom Switzerland's net revenue increased by CHF 12 million or 0.1% to CHF 8,461 million. Operating income before depreciation and amortisation (EBITDA) fell by CHF 166 million or 4.4% to CHF 3,612 million. Adjusted for additional restructuring costs and pension costs not affecting cash flow, EBITDA declined by 2.0%. Capital expenditure was CHF 452 million or 32.3% higher at CHF 1,852 million. The increase was attributable to expenditure of CHF 360 million in connection with the mobile frequency auction in early 2012 and spending on broadband expansion. Efficiency improvements resulted in a fall in headcount year-on-year of 269 FTEs or 2.2% to 11,827.

The trend towards bundled offerings and new pricing models such as flat-rate tariffs continued unabated. By the end of 2012 788,000 customers were subscribing to packages such as Vivo Casa, which combines fixed-line access with telephony, Internet and TV, or Vivo Tutto, which also includes a mobile line. The year saw the customer base grow by 174,000 customers or 28.3%. The new NATEL infinity mobile subscriptions launched in June 2012, which offer unlimited phoning, texting and Internet surfing, proved highly popular and by the end of 2012 were being used by 889,000 customers.

Swisscom Switzerland/net revenue

In CHF million or in thousand	2012	2011	Change
Revenue by services			
Revenue mobile single subscriptions	2,932	3,104	–5.5%
Revenue fixed-line single subscriptions	2,470	2,695	–8.3%
Revenue bundles	1,172	792	48.0%
Revenue wholesale	594	609	–2.5%
Other net revenue	1,239	1,196	3.6%
Revenue from external customers	**8,407**	**8,396**	**0.1%**
Operational data at end of period in thousands			
Fixed access lines	3,013	3,120	–3.4%
Broadband access lines retail	1,727	1,661	4.0%
Swisscom TV access lines	791	608	30.1%
Mobile access lines	6,217	6,049	2.8%
Bundles	788	614	28.3%
Unbundled fixed access lines	300	306	–2.0%
Broadband access lines wholesale in thousand	186	181	2.8%

Revenue from external customers increased year-on-year by CHF 11 million or 0.1% to CHF 8,407 million. Price erosion of around CHF 400 million was offset by customer and volume growth. On 25 June 2012 Swisscom launched new mobile subscriptions under the name infinity. These subscriptions allow Swisscom customers unlimited phoning and text messaging to any network in Switzerland as well as unlimited Internet browsing, all for a fixed monthly fee which varies depending on the data transmission rate. Frequent users in particular benefit from the much more attractive terms. By the end of 2012, 889,000 customers were taking advantage of the new infinity subscriptions, enjoying the freedom of no longer being billed by volume. Customers switching to a flat-rate subscription typically increase their call volume and data volume by more than 20% and 100% respectively. By the end of 2012 the average monthly revenue (ARPU) from customers who switched to these new subscriptions had dropped by CHF 9. The number of mobile access lines grew year-on-year by 168,000 or 2.8% to 6.2 million. In 2012 Swisscom sold a total of 1.55 million mobile handsets (+6.7%), of which around 68% were smartphones. Swisscom further reduced its roaming charges on 1 July 2012. Calls within zone A (European Union and Western Europe) are now 6% cheaper at CHF 0.75 per minute.

Demand remains high for bundled offerings such as Vivo Casa (which combines fixed-line access with telephony, Internet and TV) and Vivo Tutto (which also includes a mobile line). The number of customers using bundled offerings rose year-on year by 174,000 or 28.3% to 788,000. Revenue from contracts for bundled offerings rose accordingly by CHF 380 million or 48.0% to CHF 1,172 million. The number of Swisscom TV connections increased by 183,000 or 30.1% to 791,000. 2012 saw the number of fixed lines decline by 107,000 or 3.4% to 3.0 million, due primarily to the number of customers migrating to cable network operators. Retail broadband access lines grew year-on-year by 66,000 or 4.0% to 1.73 million, while the number of unbundled subscriber access lines fell by 6,000 or 2.0% to 300,000.

Swisscom Switzerland/operating expenses and segment result

In CHF million, except where indicated	2012	2011	Change
Segment expenses by nature of cost			
Traffic fees	(457)	(459)	–0.4%
Subscriber acquisition and retention costs	(474)	(488)	–2.9%
Other direct costs	(889)	(825)	7.8%
Direct costs	**(1,820)**	**(1,772)**	**2.7%**
Personnel expense	(1,677)	(1,572)	6.7%
Other indirect costs	(1,520)	(1,485)	2.4%
Capitalised self-constructed assets and other income	168	158	6.3%
Indirect costs	**(3,029)**	**(2,899)**	**4.5%**
Segment expenses	**(4,849)**	**(4,671)**	**3.8%**
Segment result			
Segment result before depreciation and amortisation (EBITDA)	**3,612**	**3,778**	**–4.4%**
Margin as % of net revenue	42.7	44.7	
Depreciation, amortisation and impairment losses	(1,053)	(988)	6.6%
Segment result	**2,559**	**2,790**	**–8.3%**
Capital expenditure and headcount			
Capital expenditure in property, plant and equipment and other intangible assets	1,852	1,400	32.3%
Full-time equivalent employees at end of year	11,827	12,096	–2.2%

Segment expense rose by CHF 178 million or 3.8% to CHF 4,849 million. The 4.5% rise in indirect costs to CHF 3,029 million was due to higher personnel expense and an increase in other operating expenses. Personnel expense increased by CHF 105 million or 6.7% to CHF 1,677 million due primarily to higher restructuring costs and pension costs of CHF 91 million. At CHF 1,820 million, direct costs were CHF 48 million or 2.7% higher year-on-year due to higher costs for goods and services purchased, while subscriber acquisition costs were CHF 14 million or 2.9% lower at CHF 474 million. The segment result before depreciation and amortisation fell by CHF 166 million or 4.4% to CHF 3,612 million, narrowing the profit margin accordingly by 2.0 percentage points to 42.7%. Adjusted for the additional restructuring costs and pension costs not affecting cash flow, EBITDA declined by 2.0%, resulting in an EBITDA margin of 43.8%. Depreciation and amortisation increased year-on-year by CHF 65 million or 6.6% to CHF 1,053 million. The increase was attributable to a change in useful lives due to the replacement of all mobile network installations and to increased investment activity. The segment result ended the year CHF 231 million or 8.3% lower at CHF 2,559 million. Capital expenditure was CHF 452 million or 32.3% higher year-on-year at CHF 1,852 million, and includes expenditure of CHF 360 million on mobile frequencies. Excluding these expenses, capital expenditure increased by CHF 92 million or 6.6% due to broadband network expansion. Efficiency improvements resulted in a fall in headcount year-on-year of 269 FTEs or 2.2% to 11,827 FTEs.

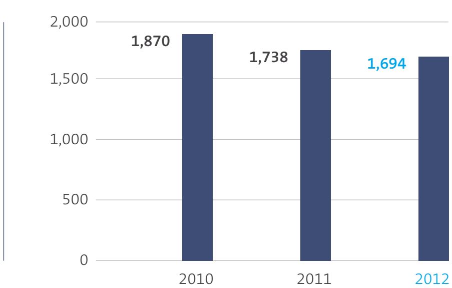
By the end of 2012
the new flat-rate subscriptions had attracted

889,000 customers

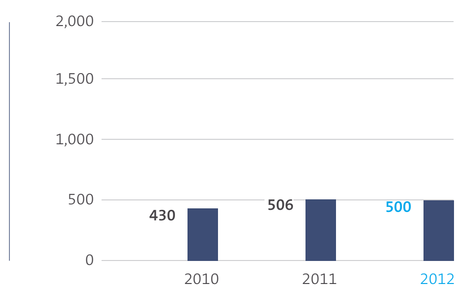
Fastweb

In EUR million, except where indicated	2012	2011	Change
Residential Customers	724	758	–4.5%
Corporate Business	791	760	4.1%
Wholesale hubbing	87	141	–38.3%
Wholesale other	92	79	16.5%
Revenue from external customers	**1,694**	**1,738**	**–2.5%**
Intersegment revenue	6	8	–
Net revenue	**1,700**	**1,746**	**–2.6%**
Segment expenses	(1,200)	(1,240)	–3.2%
Segment result before depreciation and amortisation	**500**	**506**	**–1.2%**
Margin as % of net revenue	29.4	29.0	
Capital expenditure in property, plant and equipment and other intangible assets	441	448	–1.6%
Full-time equivalent employees at end of year	2,893	3,081	–6.1%
Broadband access lines at end of year in thousand	1,767	1,595	10.8%

Development of revenue from external customers in EUR million



Development of EBITDA in EUR million



Fastweb's net revenue contracted year-on-year by EUR 46 million or 2.6% to EUR 1,700 million as a consequence of the planned reduction in wholesale revenue from low-margin interconnection services (hubbing), which fell by EUR 54 million year-on-year. Excluding hubbing, revenue grew by EUR 8 million or 0.5% to EUR 1,613 million. Broadband customers grew by 172,000 or 10.8% to 1.77 million year-on-year. In 2012, 87,000 customers signed up for Fastweb's bundled TV and broadband offering in partnership with Sky Italia, bringing the total number of customers to 151,000 since the service was launched in 2011. Intense competition reduced average revenue per residential broadband customer by around 11%, lowering revenue from residential customers by EUR 34 million or 4.5% to EUR 724 million. By contrast, revenue from corporate business increased by EUR 31 million or 4.1% to EUR 791 million, while wholesale revenue (excluding hubbing) grew by EUR 13 million or 16.5% to EUR 92 million year-on-year.
The segment result before depreciation and amortisation totalled EUR 500 million, corresponding to a year-on-year fall of EUR 6 million or 1.2%. The segment result of the previous year contains non-recurring income of EUR 56 million relating to a legal settlement with another telecoms provider. Adjusted for this one-off item, the segment result before depreciation and amortisation improved by EUR 50 million or 11.1% to EUR 500 million. The improvement was largely attributable to lower bad debt losses. Adjusted for the aforementioned non-recurring income, the profit margin increased by 3.6 percentage points to 29.4%.
Headcount at the end of 2012 totalled 2,893 FTEs, a year-on-year reduction of 188 FTEs or 6.1%. The fall was mainly due to the outsourcing of network maintenance jobs. Capital expenditure declined by EUR 7 million or 1.6% to EUR 441 million, resulting in a ratio of capital expenditure to net revenue of 25.9% (prior year: 25.7%). Around 39% of investment spending was directly related to customer growth.
In the third quarter of 2012 Fastweb reached an agreement with the Italian authorities concerning a VAT lawsuit and tax investigations. Following payment of EUR 74 million, all claims have been settled. Provisions and liabilities recognised in the past for income taxes cover the settlement costs. Following closure of the case, VAT and income tax assets of EUR 117 million blocked by the Italian

authorities were released for repayment to Fastweb. By the end of 2012 Fastweb had received EUR 57 million in tax credit repayments.
In the consolidated financial statements of Swisscom, the weaker euro negatively impacted revenue and the segment result before depreciation and amortisation. The average CHF/EUR exchange rate fell by 2.2% year-on-year. In Swiss franc terms, net revenue declined by 4.7%, versus 2.6% in local currency. The segment result before depreciation and amortisation was 3.4% lower in Swiss francs and 1.2% lower in local currency.

Net revenue (excluding revenue from hubbing)
rose by 0.5% to

1.6 billion EUR

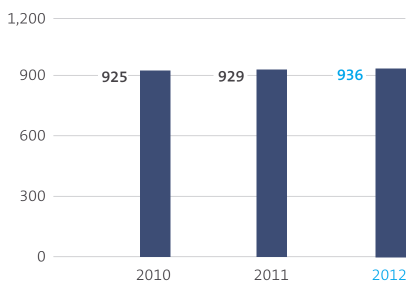
Customer base 10.8% higher year-on-year at 1.77 million.
In 2012 customer base grew by

172 thousand

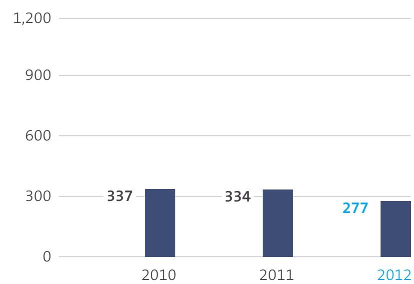
Other operating segments

In CHF million, except where indicated	2012	2011	Change
Revenue from external customers	936	929	0.8%
Intersegment revenue	792	779	1.7%
Net revenue	**1,728**	**1,708**	**1.2%**
Segment expenses	(1,451)	(1,374)	5.6%
Segment result before depreciation and amortisation	**277**	**334**	**–17.1%**
Margin as % of net revenue	16.0	19.6	
Capital expenditure in property, plant and equipment and other intangible assets	167	169	–1.2%
Full-time equivalent employees at end of year	4,454	4,515	–1.4%

Development of revenue from external customers in CHF million



Development of EBITDA in CHF million



Revenue from external customers increased year-on-year by CHF 7 million or 0.8% to CHF 936 million, driven mainly by higher revenues generated by cablex from construction services, as well as from the acquisition of subsidiaries. Revenue from external customers generated by Swisscom IT Services dropped by CHF 10 million or 1.9% to CHF 521 million, mainly due to lower revenue from project business as a result of the difficult market environment. Intersegment revenue was CHF 13 million or 1.7% higher year-on-year at CHF 792 million. The increase was mainly attributable to the higher volume of services procured from Swisscom IT Services by other segments. Segment expense rose by CHF 77 million or 5.6% year-on-year to CHF 1,451 million, mainly due to higher restructuring and pension costs as well as higher costs incurred by Swisscom Real Estate, and higher costs at cablex in connection with revenue growth as well as higher costs resulting from acquisition of subsidiaries. The segment result before depreciation and amortisation was CHF 57 million or 17.1% lower at CHF 277 million. Adjusted for non-recurring costs, the segment result before depreciation and amortisation declined by 5.7%. Headcount at the end of 2012 was 61 FTEs or 1.4% lower than a year earlier, at 4,454 FTEs. The reduction was primarily due to the lower headcount at Swisscom IT Services as a result of efficiency improvements, and was partly offset by additional resource requirements at cablex and acquisition of subsidiaries. At CHF 167 million, capital expenditure was CHF 2 million or 1.2% lower year-on-year. Reduced investments by Swisscom IT Services in IT infrastructure were almost fully offset by higher investment activities at Swisscom Real Estate due to ongoing construction projects.

Group Headquarters

The segment result before depreciation and amortisation improved by CHF 44 million or 34.1% to CHF –85 million, largely on account of a one-off adjustment in pension cost of CHF 38 million due to amendments to the pension plan in December 2012.

Quarterly review 2011 and 2012

In CHF million, except where indicated	1. quarter	2. quarter	3. quarter	4. quarter	2011	1. quarter	2. quarter	3. quarter	4. quarter	2012
Income statement										
Net revenue	**2,862**	**2,860**	**2,816**	**2,929**	**11,467**	**2,802**	**2,819**	**2,806**	**2,957**	**11,384**
Goods and services purchased	(599)	(578)	(552)	(673)	(2,402)	(555)	(566)	(566)	(712)	(2,399)
Personnel expense	(635)	(638)	(588)	(652)	(2,513)	(670)	(653)	(601)	(657)	(2,581)
Other operating expenses	(577)	(578)	(574)	(659)	(2,388)	(564)	(551)	(590)	(691)	(2,396)
Capitalised costs and other income	75	78	148	119	420	91	83	78	121	373
Operating income (EBITDA)	**1,126**	**1,144**	**1,250**	**1,064**	**4,584**	**1,104**	**1,132**	**1,127**	**1,018**	**4,381**
Depreciation and amortisation	(478)	(466)	(469)	(490)	(1,903)	(481)	(482)	(491)	(496)	(1,950)
Impairment losses on goodwill	–	–	–	(1,555)	(1,555)	–	–	–	–	–
Operating income (EBIT)	**648**	**678**	**781**	**(981)**	**1,126**	**623**	**650**	**636**	**522**	**2,431**
Net interest expense	(46)	(63)	(89)	(76)	(274)	(58)	(66)	(67)	(62)	(253)
Other financial result	4	(31)	10	(20)	(37)	(11)	(2)	(3)	(27)	(43)
Result of associates	4	5	9	12	30	6	8	11	7	32
Income before income taxes	**610**	**589**	**711**	**(1,065)**	**845**	**560**	**590**	**577**	**440**	**2,167**
Income tax expense	(136)	(101)	(145)	231	(151)	(104)	(118)	(118)	(65)	(405)
Net income	**474**	**488**	**566**	**(834)**	**694**	**456**	**472**	**459**	**375**	**1,762**
Share attributable to equity holders of Swisscom Ltd	469	485	564	(835)	683	453	468	458	376	1,755
Share attributable to non-controlling interests	5	3	2	1	11	3	4	1	(1)	7
Earnings per share (in CHF)	9.05	9.36	10.89	(16.11)	13.19	8.75	9.03	8.84	7.26	33.88
Net revenue										
Swisscom Switzerland	2,081	2,101	2,114	2,153	8,449	2,079	2,086	2,108	2,188	8,461
Fastweb	562	546	492	551	2,151	510	516	492	530	2,048
Other operating segments	414	423	425	446	1,708	427	425	415	461	1,728
Group Headquarters	2	1	2	2	7	–	1	–	1	2
Intersegment elimination	(197)	(211)	(217)	(223)	(848)	(214)	(209)	(209)	(223)	(855)
Total net revenue	**2,862**	**2,860**	**2,816**	**2,929**	**11,467**	**2,802**	**2,819**	**2,806**	**2,957**	**11,384**
Segment result before depreciation and amortisation										
Swisscom Switzerland	948	948	986	896	3,778	940	944	947	781	3,612
Fastweb	139	152	212	120	623	131	149	148	174	602
Other operating segments	69	78	88	99	334	71	75	70	61	277
Group Headquarters	(25)	(30)	(30)	(44)	(129)	(33)	(30)	(34)	12	(85)
Intersegment elimination	(5)	(4)	(6)	(7)	(22)	(5)	(6)	(4)	(10)	(25)
Total segment result (EBITDA)	**1,126**	**1,144**	**1,250**	**1,064**	**4,584**	**1,104**	**1,132**	**1,127**	**1,018**	**4,381**
Capital expenditure in property, plant and equipment and other intangible assets										
Swisscom Switzerland	270	333	378	419	1,400	337	329	679	507	1,852
Fastweb	126	123	141	162	552	135	140	118	138	531
Other operating segments	32	36	45	56	169	36	49	45	37	167
Group Headquarters	–	–	–	1	1	–	–	–	1	1
Intersegment elimination	(6)	(5)	(8)	(8)	(27)	(6)	(3)	(6)	(7)	(22)
Total capital expenditure	**422**	**487**	**556**	**630**	**2,095**	**502**	**515**	**836**	**676**	**2,529**
Full-time equivalent employees at end of year										
Swisscom Switzerland	11,814	11,942	12,131	12,096	12,096	11,966	11,880	11,850	11,827	11,827
Fastweb	3,103	3,101	3,106	3,081	3,081	3,064	3,032	2,911	2,893	2,893
Other operating segments	4,394	4,431	4,428	4,515	4,515	4,537	4,546	4,492	4,454	4,454
Group Headquarters	353	355	367	369	369	347	347	342	340	340
Total headcount	**19,664**	**19,829**	**20,032**	**20,061**	**20,061**	**19,914**	**19,805**	**19,595**	**19,514**	**19,514**
Operating free cash flow	463	548	522	535	2,068	483	496	279	624	1,882
Net debt	8,559	9,356	8,789	8,309	8,309	8,390	9,144	8,622	8,071	8,071

Quarterly review 2011 and 2012

In CHF million, except where indicated	1. quarter	2. quarter	3. quarter	4. quarter	2011	1. quarter	2. quarter	3. quarter	4. quarter	2012
Swisscom Switzerland										
Revenue and results										
Residential Customers	491	513	531	490	2,025	465	476	474	443	1,858
Small and Medium-Sized Enterprises	116	123	127	122	488	119	125	118	110	472
Corporate Business	142	153	152	144	591	147	155	152	148	602
Revenue mobile single subscriptions	**749**	**789**	**810**	**756**	**3,104**	**731**	**756**	**744**	**701**	**2,932**
Residential Customers	405	384	369	361	1,519	354	336	328	320	1,338
Small and Medium-Sized Enterprises	141	138	138	135	552	136	132	128	127	523
Corporate Business	157	156	154	157	624	153	152	151	153	609
Revenue fixed-line single subscriptions	**703**	**678**	**661**	**653**	**2,695**	**643**	**620**	**607**	**600**	**2,470**
Residential Customers	151	172	196	218	737	233	250	281	296	1,060
Small and Medium-Sized Enterprises	11	13	14	17	55	20	22	32	38	112
Revenue bundles	**162**	**185**	**210**	**235**	**792**	**253**	**272**	**313**	**334**	**1,172**
Total revenue single subscriptions and bundles	**1,614**	**1,652**	**1,681**	**1,644**	**6,591**	**1,627**	**1,648**	**1,664**	**1,635**	**6,574**
Solution business	82	91	87	103	363	85	87	88	100	360
Hardware sales	140	129	115	148	532	137	136	122	166	561
Wholesale	163	151	151	144	609	153	147	151	143	594
Revenue other	68	65	67	101	301	63	55	68	132	318
Total revenue from external customers	**2,067**	**2,088**	**2,101**	**2,140**	**8,396**	**2,065**	**2,073**	**2,093**	**2,176**	**8,407**
Residential Customers	1,201	1,213	1,232	1,260	4,906	1,208	1,204	1,227	1,300	4,939
Small and Medium-Sized Enterprises	276	282	287	282	1,127	281	287	284	283	1,135
Corporate Business	427	442	431	454	1,754	423	435	431	450	1,739
Wholesale	163	151	151	144	609	153	147	151	143	594
Revenue from external customers	**2,067**	**2,088**	**2,101**	**2,140**	**8,396**	**2,065**	**2,073**	**2,093**	**2,176**	**8,407**
Segment result before depreciation and amortisation										
Residential Customers	737	730	744	680	2,891	745	740	728	651	2,864
Small and Medium-Sized Enterprises	215	222	225	218	880	219	222	219	207	867
Corporate Business	229	246	250	246	971	231	237	244	239	951
Wholesale	106	93	100	92	391	95	89	93	91	368
Network & IT	(339)	(344)	(332)	(340)	(1,355)	(349)	(345)	(336)	(409)	(1,439)
Intersegment elimination	–	1	(1)	–	–	(1)	1	(1)	2	1
Total segment result (EBITDA)	**948**	**948**	**986**	**896**	**3,778**	**940**	**944**	**947**	**781**	**3,612**
Margin as % of net revenue	45.6	45.1	46.6	41.6	44.7	45.2	45.3	44.9	35.7	42.7
Fastweb, in EUR million										
Residential Customers	191	194	186	187	758	182	182	179	181	724
Corporate Business	183	186	182	209	760	183	196	193	219	791
Wholesale hubbing	39	39	31	32	141	27	28	16	16	87
Wholesale other	20	19	18	22	79	29	22	19	22	92
Revenue from external customers	**433**	**438**	**417**	**450**	**1,738**	**421**	**428**	**407**	**438**	**1,694**
Segment result (EBITDA)	107	123	177	99	506	109	124	121	146	500
Margin as % of net revenue	24.7	28.1	42.4	22.0	29.0	25.8	28.8	29.7	33.3	29.4
Capital expenditure in property, plant and equipment and other intangible assets	98	99	119	132	448	112	116	98	115	441
Broadband access lines in thousand [1]	1,733	1,741	1,560	1,595	1,595	1,654	1,673	1,704	1,767	1,767

[1] As a result of the settlement of litigations, Fastweb reduced the number of access lines by 197,000 in the third quarter of 2011.

Quarterly review 2011 and 2012

In thousand, except where indicated	1. quarter	2. quarter	3. quarter	4. quarter	2011	1. quarter	2. quarter	3. quarter	4. quarter	2012
Swisscom Switzerland operational data										
Access lines										
Single subscriptions	2,822	2,744	2,672	2,604	2,604	2,536	2,465	2,407	2,350	2,350
Bundles	380	425	471	516	516	557	593	627	663	663
Fixed access lines	**3,202**	**3,169**	**3,143**	**3,120**	**3,120**	**3,093**	**3,058**	**3,034**	**3,013**	**3,013**
Single subscriptions	1,141	1,106	1,072	1,047	1,047	1,023	995	969	939	939
Bundles	464	512	563	614	614	659	699	739	788	788
Broadband access lines retail	**1,605**	**1,618**	**1,635**	**1,661**	**1,661**	**1,682**	**1,694**	**1,708**	**1,727**	**1,727**
Single subscriptions	214	216	214	225	225	236	245	248	270	270
Bundles	255	296	342	383	383	419	449	480	521	521
Swisscom TV access lines	**469**	**512**	**556**	**608**	**608**	**655**	**694**	**728**	**791**	**791**
Prepaid single subscriptions	2,222	2,230	2,244	2,249	2,249	2,243	2,231	2,210	2,199	2,199
Postpaid single subscriptions	3,555	3,596	3,612	3,646	3,646	3,657	3,654	3,672	3,702	3,702
Mobile access lines single subscriptions	**5,777**	**5,826**	**5,856**	**5,895**	**5,895**	**5,900**	**5,885**	**5,882**	**5,901**	**5,901**
Bundles	84	87	124	154	154	182	229	271	316	316
Mobile access lines	**5,861**	**5,913**	**5,980**	**6,049**	**6,049**	**6,082**	**6,114**	**6,153**	**6,217**	**6,217**
Broadband access lines wholesale	214	202	192	181	181	179	176	181	186	186
Unbundled fixed access lines	270	285	297	306	306	312	317	310	300	300
Bundles										
2play bundles	209	216	221	231	231	240	237	239	248	248
3play bundles	255	296	309	330	330	347	374	387	403	403
4play bundles	–	–	33	53	53	72	88	113	137	137
Total bundles	**464**	**512**	**563**	**614**	**614**	**659**	**699**	**739**	**788**	**788**
Data traffic in million										
Fixed-line traffic in minutes	2,243	2,061	2,003	2,118	8,425	2,158	1,989	1,847	1,961	7,955
Mobile traffic in minutes	1,669	1,675	1,642	1,677	6,663	1,654	1,633	1,612	1,683	6,582
Data SMS mobile	724	730	747	739	2,940	691	694	694	677	2,756
Swisscom Group Information by geographical regions										
Net revenue in Switzerland	2,283	2,297	2,307	2,356	9,243	2,278	2,285	2,299	2,406	9,268
Net revenue in other countries	579	563	509	573	2,224	524	534	507	551	2,116
Total net revenue	**2,862**	**2,860**	**2,816**	**2,929**	**11,467**	**2,802**	**2,819**	**2,806**	**2,957**	**11,384**
EBITDA Switzerland	984	989	1,035	937	3,945	972	986	984	826	3,768
EBITDA other countries	142	155	215	127	639	132	146	143	192	613
Total EBITDA	**1,126**	**1,144**	**1,250**	**1,064**	**4,584**	**1,104**	**1,132**	**1,127**	**1,018**	**4,381**
Capital expenditure in Switzerland	312	373	427	425	1,537	366	374	718	536	1,994
Capital expenditure in other countries	110	114	129	205	558	136	141	118	140	535
Total capital expenditure	**422**	**487**	**556**	**630**	**2,095**	**502**	**515**	**836**	**676**	**2,529**
Full-time equivalent employees in Switzerland	16,209	16,380	16,588	16,628	16,628	16,503	16,426	16,339	16,269	16,269
Full-time equivalent employees in other countries	3,455	3,449	3,444	3,433	3,433	3,411	3,379	3,256	3,245	3,245
Total headcount	**19,664**	**19,829**	**20,032**	**20,061**	**20,061**	**19,914**	**19,805**	**19,595**	**19,514**	**19,514**

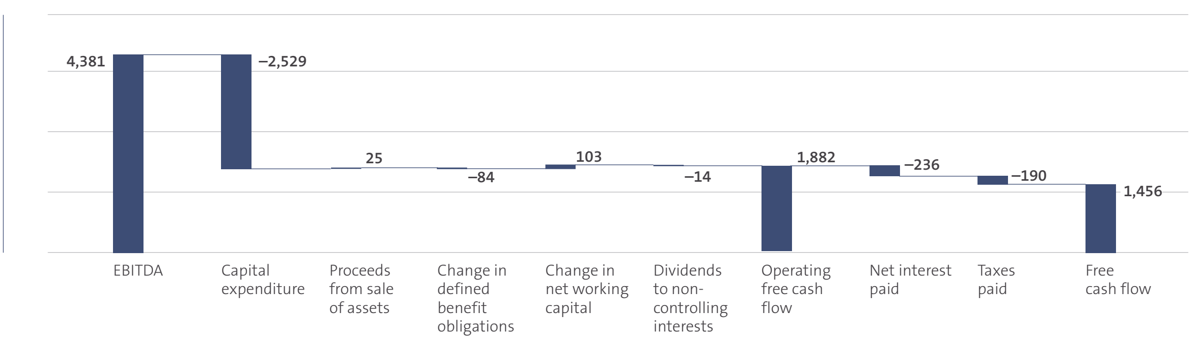
Group financial position

Financial position

Cash flows

In CHF million	2012	2011	Change
Operating income before depreciation and amortisation (EBITDA)	4,381	4,584	(203)
Capital expenditure in property, plant and equipment and other intangible assets	(2,529)	(2,095)	(434)
Proceeds from sale of tangible and other intangible assets	25	37	(12)
Change in defined benefit obligations	(84)	(91)	7
Change in net working capital and other cash flows from operating activities	103	(360)	463
Dividends paid to non-controlling interests	(14)	(7)	(7)
Operating free cash flow	**1,882**	**2,068**	**(186)**
Net interest paid	(236)	(251)	15
Income taxes paid	(190)	(182)	(8)
Free cash flow	**1,456**	**1,635**	**(179)**
Other cash flows from investing activities, net	1	113	(112)
Issuance and repayment of financial liabilities, net	(75)	(723)	648
Dividends paid to equity holders of Swisscom Ltd	(1,140)	(1,088)	(52)
Purchase of non-controlling interests of Fastweb	–	(92)	92
Other cash flows from financing activities	(18)	(11)	(7)
Net increase (Net decrease) in cash and cash equivalents	**224**	**(166)**	**390**

Free cash flow in CHF million



Operating free cash flow declined by CHF 186 million or 9.0% to CHF 1,882 million, mainly due to increased capital expenditure and, in particular, expenses of CHF 360 million for the mobile frequencies auctioned in Switzerland in 2012. Excluding these expenses, operating free cash flow would have been 8.4% higher. The CHF 84 million change in defined benefit obligations is attributable to the higher figure for contribution payments versus pension costs. The change in net working capital and other operating cash flows improved by CHF 463 million to CHF 103 million, chiefly due to lower trade receivables. Income tax payments increased from CHF 182 million to CHF 190 million. Dividend payments paid by Swisscom to shareholders in 2012 amounted to CHF 1,140 million (prior year: CHF 1,088 million).

Net asset position

Balance sheet

In CHF million	31.12.2012	31.12.2011	Change
Assets			
Cash and cash equivalents and current financial assets	578	387	49.4%
Trade and other receivables	2,824	2,978	–5.2%
Property, plant and equipment	8,549	8,222	4.0%
Goodwill	4,662	4,664	–0.0%
Other intangible assets	2,121	1,879	12.9%
Associates and non-current financial assets	465	429	8.4%
Income tax assets	472	356	32.6%
Other current and non-current assets	423	535	–20.9%
Total assets	**20,094**	**19,450**	**3.3%**
Liabilities and equity			
Financial liabilities	8,783	8,831	–0.5%
Trade and other payables	2,159	2,190	–1.4%
Defined benefit obligations	2,801	1,977	41.7%
Accrued liabilities	840	903	–7.0%
Income tax liabilities	425	281	51.2%
Other current and non-current liabilities	930	972	–4.3%
Total liabilities	**15,938**	**15,154**	**5.2%**
Share of equity attributable to equity holders of Swisscom Ltd	4,132	4,272	–3.3%
Share of equity attributable to non-controlling interests	24	24	–
Total equity	**4,156**	**4,296**	**–3.3%**
Total liabilities and equity	**20,094**	**19,450**	**3.3%**
Equity ratio at end of year	20.7%	22.1%	

Total assets rose by CHF 0.6 billion or 3.3% to CHF 20.1 billion, driven primarily by higher expenditure on auctioned mobile licences and investments in broadband networks in Switzerland.

In CHF million	31.12.2010	31.12.2011	31.12.2012	Change
Property, plant and equipment	7,899	8,222	8,549	327
Goodwill	6,261	4,664	4,662	(2)
Other intangible assets	2,023	1,879	2,121	242
Other operating assets, net	(817)	(552)	(682)	(130)
Other net operating assets	**15,366**	**14,213**	**14,650**	**437**
Net debt	(8,848)	(8,309)	(8,071)	238
Defined benefit obligations	(1,283)	(1,977)	(2,801)	(824)
Income tax assets and liabilities, net	(216)	75	47	(28)
Investments in associates	231	233	268	35
Other assets, net	100	61	63	2
Equity	**5,350**	**4,296**	**4,156**	**(140)**

Goodwill

The net carrying amount of goodwill is CHF 4,662 million, the bulk of which relates to Swisscom Switzerland (CHF 3,930 million) and arose primarily in 2007 in connection with the repurchase of the 25% stake in Swisscom Mobile Ltd sold to Vodafone in 2001. Following the repurchase, the mobile, fixed-network and solutions businesses were organisationally combined and merged to create the new company Swisscom (Switzerland) Ltd. The valuation risk of this goodwill item is extremely low. Adjusted for the impairment loss in the previous year, the net carrying amount of Fastweb goodwill is EUR 492 million (CHF 594 million). Goodwill in respect of other operating segments amounts to CHF 138 million.

Post-employment benefits

The defined benefit obligations disclosed in the consolidated financial statements are measured in accordance with International Financial Reporting Standards (IFRS). Net obligations recognised on the balance sheet amounted to CHF 2,801 million, an increase of CHF 824 million year-on-year. The increase is primarily due to a lower discount rate and a change in the principles underlying mortality assumptions (generation tables). A difference of some CHF 3.1 billion exists between the pension obligations measured in accordance with Swiss financial statements reporting provisions (Swiss GAAP ARR) and the measurement in accordance with IFRS standards relevant for the consolidated financial statements. The main reasons for this are the application of differing actuarial assumptions with regard to the discount rate (CHF 1.8 billion) and life expectancy (CHF 0.5 billion), and a different actuarial measurement method (CHF 0.8 billion). IFRS measurement takes into account future salary, contribution and pension increases as well as future cases of disability and early retirements.

Equity

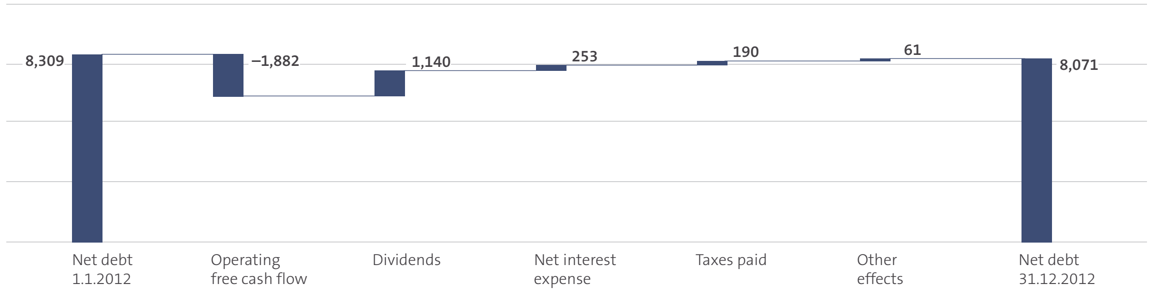
Equity declined by CHF 140 million or 3.3% to CHF 4.156 million. Net income of CHF 1,762 million was unable to compensate fully for dividend payments of CHF 1,154 million (including minority interests) and net losses of CHF 741 million recognised directly in equity. Net losses recognised directly in equity include non-cash actuarial losses from pension plans totalling CHF 908 million as well as unrealised losses of CHF 26 million resulting from currency translation of foreign Group companies. The CHF/EUR exchange rate fell from 1.216 at the end of 2011 to 1.207. At 31 December 2012, cumulative currency translation losses recognised in equity amounted to CHF 1,608 million (after tax).
Distributable reserves are calculated on the basis of equity reported in the separate financial statements of Swisscom Ltd in accordance with statutory accounting provisions, rather than on the basis of equity as disclosed in the consolidated balance sheet prepared in accordance with International Financial Reporting Standards (IFRS). At 31 December 2012, the equity of Swisscom Ltd amounted to CHF 5,144 million. The difference between this amount and equity disclosed in the consolidated balance sheet is essentially due to earnings retained by subsidiaries as well as different accounting and valuation methods. Under Swiss company law, share capital and that part of the general reserves representing 20% of the share capital may not be distributed. At 31 December 2012, Swisscom Ltd had distributable reserves of CHF 5,082 million.

Net debt

Net debt comprises financial liabilities less cash and cash equivalents, current financial assets and non-current, fixed-interest-bearing deposits. Swisscom's goal is to achieve a maximum net debt/EBITDA ratio of around 2. This value may be exceeded temporarily. Any figure below this represents financial room for manoeuvre.

In CHF million, except where indicated	31.12.2010	31.12.2011	31.12.2012	Change
Net debt	8,848	8,309	8,071	–2.9%
Ratio total liabilities/total assets	74.6%	77.9%	79.3%	
Ratio net debt/equity	1.7	1.9	1.9	–
Ratio net debt/EBITDA	1.9	1.8	1.8	–

Development of net debt in CHF million



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

Maturity profile of financial liabilities

Swisscom aims for a broadly diversified debt portfolio. This involves paying particular attention to balancing maturities and a diversification of financing instruments and markets. The following table shows the maturity profile of interest-bearing financial liabilities at nominal value as at 31 December 2012:

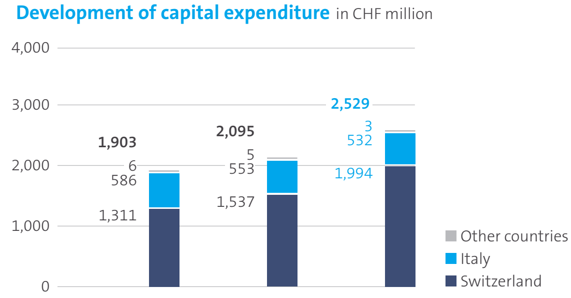
In CHF million	Due within 1 year	Due within 1 to 2 years	Due within 3 to 5 years	Due within 6 to 10 years	Due after 10 years	Total
Bank loans	187	–	852	–	86	1,125
Debenture bonds	550	1,250	1,100	2,000	500	5,400
Private placements	130	202	600	350	–	1,282
Finance lease liabilities	7	6	21	35	570	639
Other financial liabilities	8	3	–	–	–	11
Total	**882**	**1,461**	**2,573**	**2,385**	**1,156**	**8,457**

Capital expenditure

Introduction

Swisscom remains committed to maintaining the high quality of its network infrastructure in Switzerland, in particular by making targeted investments in 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 video conferencing 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 local distribution nodes and deploying DSL technology to enable coverage and bandwidth to be increased over the short and medium term. To keep pace with the growing volume of data transmitted over the mobile network, Swisscom is further expanding capacities based on current mobile standards such as HSPA/HSPA+. Swisscom has also equipped its first sites with the new LTE (Long Term Evolution) mobile technology which enables higher data speeds and supports higher data volumes. The LTE-enabled network is initially available in 26 Swiss locations, and will be comprehensively rolled out as from 2013. In the first quarter of 2012 Swisscom participated successfully in the mobile frequency auction, and acquired all of its preferred frequency blocks. This means Swisscom will have access to at least double the amount of frequency spectrum for its mobile network in future. The newly acquired frequencies will allow further expansion of the mobile network to meet current and future customer needs. The mobile licences newly issued by the Federal Communications Commission (ComCom) run until the end of 2028.
Fastweb operates Italy's second largest network and is a leader in multimedia and broadband service development. The company's network comprises a proprietary fibre-optic network with high-speed connections and copper-based broadband access infrastructures.

Development of capital expenditure in CHF million



Capital expenditure in the 2012 financial year

In CHF million, except where indicated	2010	2011	2012	Change
Fixed access	378	409	425	3.9%
Mobile access	163	151	226	49.7%
Expansion of the fibre-optic network	173	301	317	5.3%
Customer driven	146	172	162	–5.8%
Projects and others [1]	344	367	362	–1.4%
Mobile frequencies	–	–	360	–
Swisscom Switzerland	**1,204**	**1,400**	**1,852**	**32.3%**
Fastweb	585	552	531	–3.8%
Other operating segments	130	169	167	–1.2%
Group Headquarters and elimination	(16)	(26)	(21)	–19.2%
Total capital expenditure in tangible and other intangible assets	**1,903**	**2,095**	**2,529** [2]	**20.7%**
Total capital expenditure as % of net revenue	15.9	18.3	22.2	

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

Swisscom's capital expenditure increased in 2012 by 20.7% to CHF 2,529 million. This includes CHF 360 million for investments in existing and new mobile frequencies. Excluding these investments, capital expenditure was up by 3.5% and amounted to 19.1% of net revenue (prior year: 18.3%), with Swisscom Switzerland accounting for 73%, Fastweb for 21% and other operating segments for 6%. At constant exchange rates and excluding mobile frequency investments, this represents an increase of 4.1% and is mainly attributable to higher capital expenditure incurred by Swisscom Switzerland.

Swisscom Switzerland

Capital expenditure incurred by Swisscom Switzerland rose year-on-year by CHF 452 million or 32.3% to CHF 1,852 million. Excluding mobile frequency investments, capital expenditure was CHF 92 million or 6.6% higher, corresponding to 17.6% of net revenue (prior year: 16.6%). The increase was mainly attributable to expenditure on broadband network expansion.

Fastweb

Fastweb's capital expenditure fell year-on-year by CHF 21 million or 3.8% to CHF 531 million. In local currency terms, this represented a drop of EUR 7 million or 1.6%. Customer-driven investments in 2012 accounted for around 39% of total capital expenditure (prior year: 40%).

Other operating segments

At CHF 167 million, capital expenditure incurred by Other operating segments was CHF 2 million or 1.2% lower year-on-year. Reduced investments in IT infrastructure were practically offset by higher investment activities at Swisscom Real Estate due to ongoing construction projects.

Supplement and outlook

Events after the balance sheet date

The Swisscom Board of Directors approved the release of this Annual Report on 6 February 2013. No significant events occurred between the balance sheet date and this date.

Outlook

Financial outlook

In 2013, Swisscom anticipates stable revenue of CHF 9.34 billion, excluding Fastweb. EBITDA (excluding Fastweb) is expected to decline to CHF 3.64 billion. A new standard for pension fund accounting will lead to a CHF 110 million increase in costs not affecting cash flow. Furthermore, the steady growth in customers and volumes will bring about an increase in direct costs, mainly in the acquisition of new customers and the procurement of handsets. The maintenance and further expansion of the network infrastructure will also result in a temporary increase in indirect costs.
In 2013, Swisscom expects capital expenditure (excluding Fastweb) to rise to CHF 1.75 billion. Capital expenditure of CHF 1.65 billion in 2012 was CHF 50 million below the original forecast for the year. A slight acceleration in investment activity is anticipated in 2013, which should make up for the shortfall.
In 2013, Fastweb is forecast to enjoy stable growth in revenue in local currency, excluding hubbing, of EUR 1.6 billion. EBITDA at Fastweb is expected to stay at the previous year's level of EUR 500 million. Due to the expansion of the fibre-optic networks in Italy, investments are expected to rise to EUR 550 million.
Based on the current CHF/EUR exchange rate of 1.23, Swisscom therefore expects Group revenue of around CHF 11.3 billion, EBITDA of at least CHF 4.25 billion and capital expenditure of around CHF 2.4 billion.
If all targets are met, Swisscom will again propose a dividend of CHF 22 per share for the 2013 financial year to the Annual General Meeting of Shareholders.

Risks

> The aim of the risk management system is to assess risks in order to optimise business performance and enable calculated risks to be taken.

Risk management system

Swisscom's Group-wide enterprise risk management (ERM) system takes both internal and external events into account. Swisscom applies the standards laid down by COSO II (Committee of Sponsoring Organizations of the Treadway Commission) and ISO standard 31000. The ERM of Swisscom therefore complies with the various requirements of corporate governance of Swisscom as well as the requirements of Swiss law.

Objectives

The objectives of Swisscom's ERM system are to protect the company's enterprise value; to establish and operate an appropriate and recognised Group-wide risk management system; to ensure meaningful, comprehensive reporting at the relevant level; to provide appropriate documentation; and to uphold a corporate culture that fosters risk awareness and effective risk management. Risks denote the probability of occurrence of events or situations which negatively affect the company's ability to achieve its objectives.

Organisation

The Board of Directors delegates responsibility for implementing the ERM system to the CEO of the Swisscom Group. Central Risk Management reports directly to the CFO. It coordinates all organisational units charged with risk management tasks and oversees these insofar as this is required for reporting purposes. This ensures a comprehensive Group-wide ERM system as well as the corresponding risk reporting throughout Swisscom. As part of their remit, employees entrusted with risk management tasks have unrestricted right to information and the authority to access and view all relevant documents and records.
Swisscom employs special instruments in individual risk areas. In financial risk management, for example, quantitative tools (sensitivity analyses) are used to assess interest rate and currency risks. Reputation and brand risks are monitored and managed by Group Communications, while compliance risks or financial reporting risks (ICS) are overseen by specialist central organisational units which report to the central Risk Management organisational unit.

Process

The main risks to which Swisscom is exposed are identified in a comprehensive risk analysis. Each risk is assigned a risk owner. To enable the early identification, assessment and management of risks, including their inclusion in strategic planning, the central Risk Management organisational unit works closely with the Strategy department and other relevant departments. Risk management covers risks in the areas of strategy, operations, market, finance, compliance and financial reporting. The risks are assessed according to their probability of occurrence and their qualitative and quantitative effects, and managed on the basis of a risk strategy. The risks are evaluated in terms of their impact on the key performance indicators reported by Swisscom. The risk profile is reviewed and updated quarterly. The Board of Directors' Audit Committee and the Swisscom Group Executive Board are informed about significant risks, their potential effects and the status of measures on a quarterly basis, and the Board of Directors on an annual basis. The effectiveness of the risk strategies and measures taken is assessed quarterly. Information on the internal control system, compliance management and internal auditing is provided in Section 3.9 of the Corporate Governance Report, “Controlling instruments of the Board of Directors vis-à-vis the Group Executive Board”.

See Report **page 128**

General statement on the risk situation

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

Risk factors

Telecommunications market

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

Politics and regulation

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

Access network expansion

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

Human capital and transformation

Constant changes in framework conditions and markets necessitate a change in corporate culture. The key challenges in this context lie in maintaining employee motivation and high staff loyalty despite cost pressure, while managing growth and efficiency, increasing employees' ability to adapt their skills, and maintaining Swisscom's attractiveness as an employer. Swisscom is therefore implementing a transformation programme focused on corporate culture, human capital, structural and process organisation.

Market consolidation in Italy, regulation and recoverability of Fastweb's assets

A potential consolidation of the Italian market would have significant ramifications for Swisscom's subsidiary Fastweb. In addition, Italy's economic development and competitive dynamics carry risks which could have an adverse impact on Fastweb's strategy and jeopardise projected revenue growth. The impairment test for 2012 confirmed the recoverable value of Fastweb. The recoverability of Fastweb's net assets recognised in the consolidated financial statements is contingent above all on achievement of the financial targets projected in the business plan (revenue growth, improvement in EBITDA margin and reduction in capital expenditure rate). If future growth is lower than projected, there is a risk that this will result in a further impairment loss. Major uncertainty also surrounds the future interest rate trend. An increase in interest rates can also result in an impairment loss. Fastweb's business operations are influenced by European and Italian telecommunications legislation. Regulatory risks can jeopardise the achievement of targets and reduce the enterprise value.

Business interruption

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

Information technologies

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

Environment and health

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

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

See
www.cdproject.net/en-US

Swisscom attaches high importance to sustainability. The major challenges in this context lie in ensuring efficient use of resources (notably energy) while guaranteeing provision of appropriate communications services to consumers. Swisscom's situation as national infrastructure provider, coupled with the expectations of the relevant stakeholder groups, specifically customers and the federal government in its role as principal shareholder, place high demands on the company.

Economic instability

The debt crisis and high volatility in markets are causing instability and uncertainty about economic developments in Europe, in particular in the southern part of the euro zone, with a potential adverse effect on the state of domestic economies, consumer behaviour and hence on the sales of Swisscom products and services. This could jeopardise the performance targets of Swisscom, especially those of its Italian subsidiary Fastweb. Swisscom's pension fund, comPlan, experienced a phase of higher volatility. The Board of Trustees has adopted various measures aimed at ensuring the fund's long-term financial stability.

Corporate Responsibility

We have a responsibility.

Swisscom's four strategic priorities and other commitments.

Corporate responsibility strategy

Sustainable living and working

| Page 83–87

Sustainable use of resources

| Page 88–96

Telecommunications for all

| Page 97–102

Responsible employer

| Page 103–110

Corporate responsibility strategy

Swisscom takes responsibility seriously – now and in the future. To this end, it relies on the corporate responsibility strategy (CR strategy) with its four strategic priorities.
Swisscom pushed ahead in 2012 with dovetailing its CR and corporate business strategy.

Context and principles

Factors of long-term responsibility

- Awareness of business-critical needs of customers and stakeholders
- Integrity and holistic thinking

Positioning Swisscom as a leading company

- Ensure the long-term business success of the company
- Assume a pioneering role in ecology and support customers' efforts to be more climate friendly by providing them with the corresponding products and services
- Act in a socially responsible manner and take the lead in promoting media competency and protecting minors in the media
- Be an attractive, socially responsible employer

Strategic priorities

- Sustainable living and working
- Sustainable use of resources
- Telecommunications for all
- Responsible employer

Focus of implementation in 2013/2014

- Integration of corporate responsibility strategy with corporate business strategy and link to the Group's core business
- Differentiation on the market

Sustainable management and long-term responsibility are the core values to which Swisscom is committed. They are reflected in the corporate business strategy and defined in concrete terms in the CR strategy. In the year under review, Swisscom continued to work on firmly anchoring environmental and social aspects into its core business, in addition to economic aspects. This will help Swisscom to position itself as a leading company in the area of sustainability.

Strategic priorities

See Report
page 26

Swisscom's corporate responsibility activities focus on issues which have high relevance for stakeholders and at the same time are closely linked to the company's core business. Swisscom has the following four strategic priorities:

Sustainable living and working

Swisscom supports customers in their pursuit of a sustainable way of living and working.

Swisscom supports customers in their endeavours to conserve resources. Green ICT enables companies to massively reduce energy consumption and CO_2 emissions: video conferencing and home-office solutions generate savings in travel time and costs, and buildings and networks can be managed in an energy-efficient manner thanks to ICT solutions. Swisscom offers Green ICT Check, a simple tool that enables companies to assess their potential energy and CO_2 savings. Swisscom also provides residential customers with numerous ways to manage their carbon footprint, from online billing to a recycling service for mobile phones.

Main goal:
Swisscom aims to increase revenue generated from Green ICT services by 10% a year.

Sustainable use of resources

We work closely with our suppliers to ensure the highest standards of sustainability in terms of how we use natural resources.

Swisscom is among Switzerland's ten biggest purchasers of electricity. It meets its full electricity requirements from renewable domestic energy sources and is one of the biggest purchasers of wind and solar power in Switzerland. Since 1998, Swisscom has substantially cut CO_2 emissions from vehicles and buildings. Swisscom also requires that suppliers comply with high ecological and corporate social responsibility standards.

Main goal:
Swisscom aims to improve energy efficiency by 20% vis-à-vis the 2010 reference year.

Telecommunications for all

Swisscom is committed to ensuring that everyone in Switzerland knows how to use digital media safely and securely.

Swisscom enables everyone in Switzerland to access digital media and also helps them to use these media responsibly. To date, Swisscom has provided free Internet access to around 6,800 schools and introduced over 100,000 first-time users to the digital world through training courses. Swisscom also provides technical products and offerings aimed at protecting young people in the use of online media and promoting media skills.

Main goal:
Swisscom will hold 800 courses (15,000 pupils) in 2013 aimed at improving media skills of young people and adults.

Responsible employer

Swisscom is one of the most popular employers in Switzerland and acts in a socially responsible manner.

Swisscom offers employees the opportunity to develop their knowledge and skills and promotes work-life balance. Fair terms and conditions of employment are as important to Swisscom as an active social partnership and an above-average commitment to vocational training. Employees also have the chance to get involved in social and community projects, for example, by participating in the Corporate Volunteering Programme.

Main goal:
To ensure diversity, Swisscom aims to increase the percentage of women in management to 20% in the medium term.

Further commitment

In addition to the four strategic priorities, Swisscom is committed to a wide range of social and cultural areas. More information on this report and on Swisscom's commitment can be found in the appendix, which can be called up online. Numerous activities in research and development are also part of Swisscom's long-term responsibility. The innovation process and selected innovation projects are described in the last part of this section.

See Appendix
www.swisscom.ch/GRI-2012

Swisscom's responsibility towards the public

Commitments and participation

As a responsible corporate citizen, Swisscom actively participated in discussions on the following issues during the reporting year:

- Sustainable conduct in the ICT sector
- ICT in the education system
- Improvements in customer service (for example, consumer protection)
- Nationwide provision of the mobile and broadband infrastructure in Switzerland
- Improvement of customer information systems (for example, information on mobile phone services for customers abroad)
- ICT und energy reform

See
www.admin.ch/ documentation

During the year under review, Swisscom submitted statements as part of consultations at federal level on the proposed revision of the anti-trust law, as well as the revision of the Telecommunications and Radio and Television Act (RTVG). The statements can be viewed on the website of the authorities in question.
These statements are based on the following principle: promotion of self-regulation and competition in an open marketplace. Numerous attractive new customer offers and major investments made in the reporting year underscore this principle.

Common-interest associations

Swisscom is involved in various industry associations: economiesuisse, SwissHoldings, ICT Switzerland, Glasfasernetze Schweiz and asut. It has a seat on the Boards of economiesuisse, Glasfasernetze Schweiz and asut, where it seeks to promote stable, legal framework conditions as a prerequisite for continued investment in costly infrastructure expansion. Swisscom invested around CHF 1.6 billion in Switzerland's telecoms infrastructure in 2012.

Memberships and partnerships

Swisscom works as an association member or in projects with various partners on specific issues relating to the four strategic priorities.

- **Sustainable living and working:** the myclimate foundation; the Swiss Research Foundation on Mobile Communication (FSM)
- **Sustainable use of resources:** Energy Agency for Industry (EnAW); WWF Switzerland; Global e-Sustainability Initiative
- **Telecommunications for all:** Swiss Foundation for the Protection of Children; Federal Social Insurance Office – a national programme that promotes media skills and access for all.
- **Responsible employer:** Swiss Women's Network; the Swiss Employer's Association

See Appendix
www.swisscom.ch/GRI-2012

Further partnerships are listed in the appendix.

Swisscom's targets

See Report
pages 31–32

The following table shows the targets for each strategic priority and in CR governance, and how much progress has been made. The indicators below, which are in accordance with GRI, relate to reporting boundaries such as those described in the section Group structure and organisation.

The most important indicators

Priorities of the CR Strategy	Targets	Status/Measures The target is considered achieved if within a tolerance of 5%, not achieved or exceeded outside the tolerance
Management/Governance		
Reporting boundaries/Data collection Specification of reporting boundaries and expansion of data collection systems for sustainability reporting **KPI:** The extent to which management systems and indicators within the reporting boundary are covered	**2012:** **Consolidation of data collection** 2013: Integration in processes	**2012 target achieved** List of group companies continuously updated, integration of new companies in the data collection system Measure 2013: > Further integration in process Acquisition and Mutation
Anti-corruption (GRI-SO2) **KPI:** Implementation of training on anti-corruption directive	**2012:** **Training of divisions at risk** 2013: Training integrated in Compliance Process	**2012 target achieved** Hint: KPI was adjusted in 2012 (restriction to divisions at risk) Measure 2013: > Further development and establishment of training
Sustainable living and working		
Rise in net revenue in Green ICT portfolio (GRI-EN26) Eco-friendly products and services for corporate customers (B2B) **KPI:** Rise in net revenue in the defined Green ICT portfolio	**2012:** **+10% versus prior year** 2013: +10% versus prior year	**2012 target not achieved (8.8%)** Measures 2013: > Promote further eco-friendly offerings > Issue of further Green ICT certificates > Project partnerships with NGO
Expand the portfolio of eco-friendly offerings (GRI-EN26) **KPI:** Number of offerings certified by myclimate (NGO)	**2012:** **Residential customers: 3** **Corporate customers: 17** 2013: Residential customers: 3 Corporate customers: 19	**2012 target residential customers not achieved (1)** **2012 target corporate customers exceeded (18)** Measures 2013: > Evaluate suitable products or design suitable new products and services > Determine environmental benefits compared to standard products > Current portfolio at www.swisscom.ch/myclimate
Mobile phone take-back (GRI-EN26) Increase of the return rate **KPI:** Return rate (percentage of sold mobile phones returned for recycling)	**2012:** **12%** 2013: 14%	**2012 target achieved (11.4%)** Measures 2013: > Raise awareness among shop staff > Communication campaign
Reduction in paper consumption (GRI-EN26) **KPI:** Percentage of residential customers switching to online billing	2015: 30%	**Percentage reached in 2012: 15% (865,000 customers)** Hint: KPI was adjusted in 2012 Measures 2013: > New products with online billing as default payment method > Direct mailing for suitable customer segments > Joint action with the WWF (Switzerland)
Training of Touch Point (shop/call centre) staff (GRI-EN26) Shop and call centre staff trained in customer concerns/messages relating to environmental/social accountability **KPI 2012:** Number of trained Touch Point staff **KPI 2013:** Training on Corporate Responsibility (CR)	**2012:** **30%** 2013: Course set up and performed for the first time	**2012 achievement is not measured, but integrated CR stronger in basic training** Measure 2013: > Develop and rollout specific course
Sustainable use of resources		
Environmental management system (EMS) Applicability of individual EMS requirements extended to include Group companies in Switzerland **KPI:** Number of established and trained contacts at Group companies in Switzerland	**2012:** **17** 2013: Completed. No further target	**2012 target achieved (17)** > 14 contact points without an EMS > 3 contact points with an EMS
Renewable energy (GRI-EN4) **KPI:** Extent to which electricity requirements are covered by renewable energy	**2012:** **100%** 2013: 100%	**2012 target achieved (100%)** Measures 2013: > Purchase of renewable energies (electricity) > Compensation with certificates > Verification by WWF
Energy efficiency (electricity) (GRI-EN6) Continual increase in energy efficiency **KPI:** Increase in energy efficiency EE Basis 1.1.2010 > TEC = total energy consumption > AES = accumulated energy savings $EE = \frac{TEC + \sum AES}{TEC}$ Source: adapted from FOEN guidelines	2015: +20% compared to January 1st 2010	**Increase in efficiency 2010–2012: +15%** Measures 2013: Implementation of other cost-cutting and efficiency measures including > Use of Mistral cooling system (cooling with fresh air) > Decommissioning and technology improvements > Increased efficiency in data centres > Virtualisation of servers
Reduction in direct CO_2 emissions (GRI-EN18) Focus on direct emissions from fossil fuels (Scope 1) **KPI:** CO_2-emissions from fuel consumption	2015: –12% compared to January 1st 2010	**Reduction achieved 2010–2012: –6%** Measures 2013: > Implementation of further efficiency measures > Further implementation of the procurement roadmap (vehicles)

Priorities of the CR Strategy	Targets	Status/Measures The target is considered achieved if within a tolerance of 5%, not achieved or exceeded outside the tolerance
Optimised CO_2 emissions of vehicles fleet (GRI-EN29) Focus on direct emissions from fossil fuels (Scope 1) KPI: Average CO_2 emissions per car in gram CO_2/km according to manufacturer data	2012: **138 g CO_2/km** 2013: 128 g CO_2/km 2015: 110 g CO_2/km	**2012 target exceeded (131 g CO_2/km)** Measure 2013: > Further implementation of the procurement roadmap (vehicles)
Responsibility in the supply chain		
Risk evaluation of supply partners from high-risk product groups (GRI-HR2) KPI: Percentage of supply partners subjected to a risk evaluation (as % of total number of supply partners from high-risk product groups)	2012: **100%** 2013: Completed. No further target	**2012 target achieved (100%)**
Risk evaluation of supply partners from medium-risk product groups (800 supply partners) (GRI-HR2) KPI: Percentage of supply partners subjected to a risk evaluation (as % of total number of supply partners from medium-risk product groups)	2012: **25% (200)** 2013: 35% (280)	**2012 target exceeded (27.8%/223)** Measures 2013: > Delivery partners from product groups with medium risk profile are evaluated using an evaluation form and prioritised if necessary > Appropriate risk reduction measures can be defined, implemented and maintained
Review of supply partners from medium-risk product groups (GRI-HR2) KPI: a) Number of supply partners with a high-risk profile who have been audited (audits) b) Number of supply partners with a medium risk profile, which carried out a self declaration	2012: **a) 6** **b) 80** 2013: a) 4 b) 30	**2012 target** **a) achieved (6)** **b) not achieved (28),** due to adaptation of technical solution (E-TASC) Measures 2013: a) Perform audits within the framework of the Joint Audit Cooperation (JAC) of supply partners with a high-risk profile b) Number of delivery partners with a medium risk profile, which carried out a self-declaration
Implementation of CR agreements (GRI-HR2) KPI: Percentage of order volume generated with supply partners who have signed the Swisscom CR agreements	2012: **90%** 2013: 95%	**2012 target achieved (93%)** Measure 2013: > Expand CR specifications to include other supply partners
Telecommunications for all		
Promoting media skills: Media courses for parents and teachers (GRI-PR6) KPI: Number of external participants in the media courses on offer	2012: **5,000** 2013: 5,000	**2012 target exceeded (5,240)** Measures 2013: > Expanding the range of online platform > Further marketing of the offer
Promoting media skills: Courses for pupils (secondary school) (GRI-PR6) KPI 2012: Number of training courses KPI 2013: Number of pupils	2012: **600 (10,800 pupils)** 2013: 15,000 (ca. 800 training courses)	**2012 target exceeded (640/11,957 pupils)** Measures 2013: > Further development of the course program > Intensification of communication
Promoting media skills: User courses for senior citizens (GRI-PR6) KPI: Number of participants	2012: **16,000** 2013: 16,000	**2012 target not achieved (12,831)** Measures 2013: > Further development of the course program > Intensification of communication
Access for all (accessibility) (GRI-SO1) Improve barrier-free nature of Swisscom's online presence KPI: Achieve AA rating in accordance with Web Content Accessibility Guidelines	2012: **AA rating for online presence** 2013: AA rating for online presence	**2012 target not achieved** Measure 2013: > Implementation of recommendations in the current online accessibility projects
Responsible employer		
Diversity (GRI-LA1) Increase proportion of women in management to 20% KPI: Percentage of women in management (Group Executive Board and Management levels 1 to 5)	Medium term (3–5 years): 20%	**Starting point 2010: 9.9%** **Percentage 2012: 11.0%** Hint: KPI was extended in 2012 on entire management Measures 2013: > Special mentoring programmes > Transparent and targeted recruitment > Women's network > Talent Management
Occupational health management (GRI-LA7) Reduction in the staff absence rate KPI: Absences in days/target days (weighted by FTE) x 100; target days are based on the standard working hours	2015: 2.1%	**Starting point 2010: 3.0%** **Percentage 2012: 2.9%** Measures 2013: > Further professionalise case management > More professional application of the pro-presence method > Instil personal prevention culture – line managers and employees
Corporate Volunteering (GRI-LA) KPI: Number of volunteer days	2012: **600 days** 2013: 1,000 days	**2012 target exceeded (748 days)** Measures 2013: > Expansion of the use of corporate volunteering, etc. as a staff development tool

Corporate responsibility governance and implementation

Embedded in the strategy

The Board of Directors of Swisscom is committed to pursuing a strategy oriented on sustainability. The Board addresses economic, ecological and social issues in plenary sessions and in the various Board committees. Implementation of the strategy is delegated to the CEO of Swisscom Ltd. The CEO can transfer powers and responsibilities to subordinate units and is supported in operational management by the members of the Group Executive Board.
The Group Communications & Responsibility division is responsible for the implementation of the CR strategy.

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

Board of Directors' responsibility

The Board of Directors is responsible for approving the long-term CR strategy. It acknowledged the present governance report and targets for 2013 and approved the strategic priorities. The Board of Directors is informed in quarterly reports on the implementation status of the CR strategy and achievement of the targets.

Responsibility of the Group Executive Board

The Group Executive Board convenes twice a year to discuss further development of the CR strategy and four times a year to discuss its implementation. In November, it reviews the past year and approves the goals for the coming year.
The Group Executive Board has the following controlling instruments at its disposal, which were introduced in 2010:

- Weekly reports prepared by Group Communications & Responsibility, with information on measures and trends
- Quarterly reports, with information on the key performance indicators based on the strategic priorities
- Quarterly reports drawn up by Risk Management

In March 2011, Group Executive Board members and members of the Executive Board of Swisscom Switzerland were nominated as internal sponsors for the strategic priorities of the CR strategy. They are responsible for progress and performance within their respective priority areas. The areas of responsibility are aligned to the core tasks of the respective Group Executive Board members and defined as follows:

- **Overall management**: Head of Group Communications & Responsibility
- **Sustainable living and working:** Head of Residential Customers, Head of SME, Head of Corporate Business and the CEO of Swisscom IT Services Ltd
- **Sustainable use of resources:** Head of Network & IT and the CFO of Swisscom (Switzerland) Ltd
- **Telecommunications for all:** Head of Residential Customers
- **Responsible employer:** Head of Group Human Resources

This ensures that the priority areas are binding and firmly embedded in the company.

Role of the corporate responsibility team

The CR team is responsible for coordinating the implementation of the CR strategy, including leveraging synergies across all divisions. The team's specific tasks are:

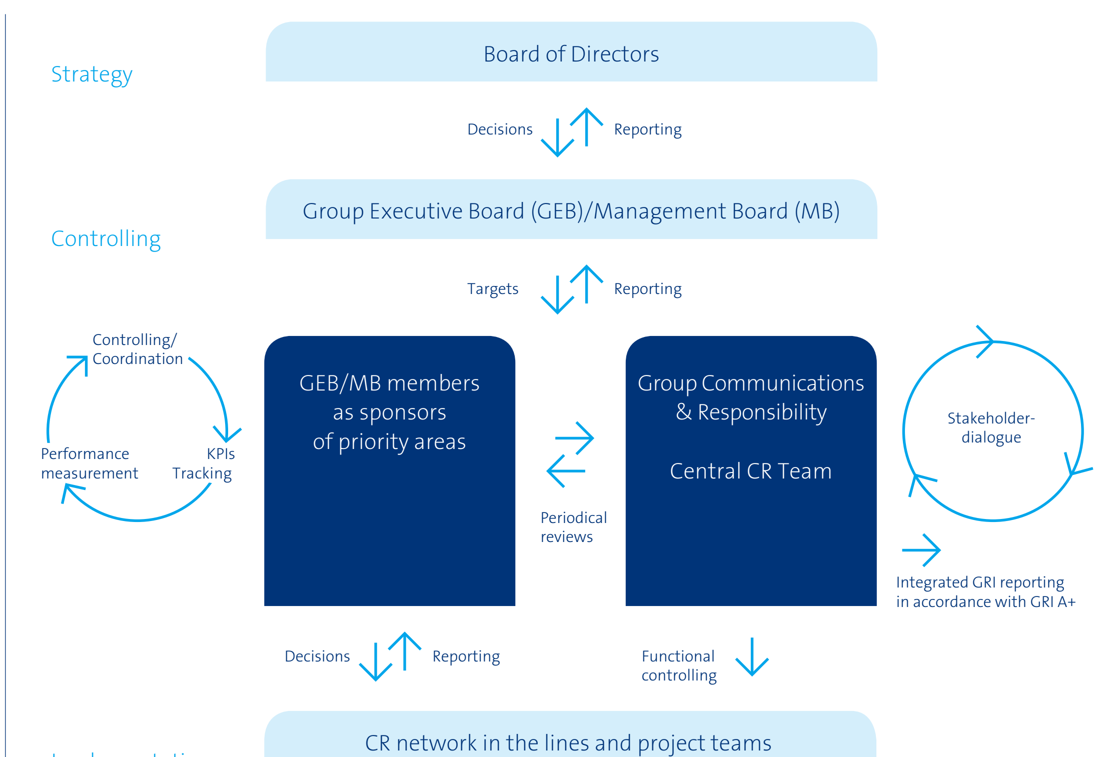
- Drawing up the CR strategy (goals/priorities) in conjunction with line and support units
- Supporting the sponsors from the Group Executive Board
- Coordinating implementation of the strategy and initiation of measures
- Formulating requirements for implementation of the CR strategy
- Engaging in dialogue with stakeholders
- Engaging in dialogue with strategic partners (including NGOs)
- Reporting to internal and external stakeholders
- Liaising with Group Finance & Controlling in the area of sustainability reporting, and drawing up the Annual Report

Line units and the corporate responsibility network

Depending on the strategic priority in question, measures are implemented in project teams or line units. Further management members are designated for each division and these persons are responsible for implementing the measures at operational level in close collaboration with the CR team.

Members of the Group Executive Board are responsible

GEB/MB members provide line units with support and advice.



Sustainable living and working

Swisscom supports customers in their pursuit of a sustainable way of living and working. Climate-friendly and low-radiation products and services to residential customers and Green ICT services to business customers belong to its portfolio.

Environment and objectives

See **www.swisscom.ch/greenict**

See **www.swisscom.ch/radiation**

A study by the Global e-Sustainability Initiative found that the ICT sector has the potential to cut global CO_2 emissions by some 15%, for example, by replacing business trips with videoconferencing or establishing communications solutions for home offices. Furthermore, the optimisation of vehicle fleets, the use of energy-efficient services from data centres and the intelligent control of buildings, equipment and power networks all contribute to lowering CO_2 emissions and saving energy using ICT technology.
Swisscom is aware of its responsibility in the ICT sector and undertakes a host of initiatives to structure its offerings in a more resource-friendly and energy-efficient manner, as well as offering products and services to help customer reduce their CO_2 emissions and save energy.

Ecological, socially acceptable product innovation

The CR strategy is an integral part of the product design process, during which information is gathered on the effects of new products on the four strategic priorities using a CR checklist. If the effects are shown to be substantial, the appropriate measures are taken.

Measures for increasing net revenue from Green ICT products:

› Expanding the portfolio to include eco-friendly products
› Issuing Green ICT certificates to customers
› Entering into project partnerships
› Communicating and marketing the Green ICT portfolio

Mobile phone recycling Swisscom Mobile Aid
Number of devices returned in 2012

170 thousand

Climate-friendly products and services for residential customers

Offering for residential customers

During the year under review, Swisscom Switzerland's Residential Customer segment consolidated its programme for sustainable living and working. The aim of the programme is to optimise products and services from an ecological point of view (for example in terms of radiation and energy efficiency) and ensure transparency in communication with residential customers.
Life-cycle assessments of Swisscom's networks and devices carried out in recent years have consistently identified the following three aspects as the main environmental impact factors:

- **Energy consumed by** devices through customer use
- **Energy consumed producing the devices**
- **Energy consumed by** network elements

Measurable successes of the programme in the reporting year:

- **1-W set-top box:** Swisscom launched new models of the set-top boxes in spring 2012 which feature a low power mode with an energy consumption of only 0.4 watt. Swisscom further developed the low power mode until November 2012 so it now also offers the programmed recording feature. This means that all new set-top boxes can now be supplied with the low power mode as the default setting. Aside from a slightly longer start-up time, customers experience no disadvantages whatsoever as a result of this change.
- **Ecomode plus:** cordless phones with Ecomode plus emit only minimal levels of radiation. Almost all of the cordless phones sold by Swisscom are now Ecomode plus models.

Swisscom is making existing customers aware of the following possibilities for saving energy:

- **Set-top boxes:** activation of the power-saving mode, if the customer has one of the new set-top boxes on which the low power mode is not the default setting, and the option of switching off the set-top box when they are not being used – provided that the customer has another set-top box.
- **Eco points:** mobile handsets of individual makers differ not only in terms of design and performance but also in terms of environmental compatibility. Information on the energy consumption or the raw materials used in the manufacture of the devices until now has not been readily available to customers. To create more transparency, Swisscom became the first provider to introduce eco points in Switzerland in 2011. All the devices in Swisscom's portfolio are rated according to three equally weighted criteria: low energy consumption, low energy consumption in manufacture and responsible choice of raw materials. Eco points are limited to ecological aspects. The more points a device receives, the greater the environmental compatibility. This means that in future customers will be able to factor environmental compatibility into their purchase decisions. In 2012, Swisscom began further developing the eco point rating system and applying it to fixed-line devices. As of the start of 2013, Swisscom customers will thus be able to benefit from the independent eco point rating provided by myclimate when purchasing fixed-line devices.

See www.swisscom.ch/ecopoints

- **Recycling:** Swisscom provides a two-year guarantee on all telecoms devices such as phones, modems, mobile phones and mobile unlimited USB modems and also offers repair services. In addition, any electronic devices from the Swisscom range can be returned to Swisscom for recycling, and equipment such as routers is reused where possible. This service is performed in cooperation with SWICO Recycling, the recycling commission of the Swiss Association for Information, Communication and Organisational Technology and is financed by a recycling fee charged in advance. Recycling statistics are available from SWICO.

See www.swico.ch

- **Swisscom Mobile Aid (formerly Solidarcomm):** in 2012, around 170,000 mobile handsets were returned for recycling and many of these were sold via a third-party company to countries where there is a demand for low-priced second-hand devices. All proceeds from the sales go to the réalise social organisation and the terre des hommes suisse and SOS Kinderdorf Schweiz relief organisations. Devices that can no longer be sold are professionally recycled. The return rate of used mobile handsets has increased in comparison to previous years. This is in large part due to a Swiss-wide collection drive launched in November 2012 in collaboration with Valora, SOS-Kinderdorf and the Ringier media enterprise. The Swiss population turned out in large numbers to donate their old mobile handsets. The response rate in 2012 amounted to 11.4% (prior year: 8.9%) and the target of 12% was thus met (tolerance threshold of 5%).

See www.swisscom.ch/SwisscomMobileAid

See www.swisscom.ch/billonline

- **Online billing:** online billing is increasingly seen as an attractive, environmentally friendly alternative to a paper bill. The number of customers who opted to receive their bill online rose from 723,000 in 2011 to 865,000. This represents an increase of 19.6% as of the end of 2012 compared with the previous year. Swisscom has taken a wide range of steps to further improve the appeal of online billing, primarily by showing the customer that online billing not only benefits the environment, but also saves the customer time and money thanks to the simplified procedure.

Green ICT for business customers

Green ICT programme

Swisscom's Green ICT programme features products and services that are designed to help business customers reduce their energy consumption and CO_2 emissions. The following categories apply to Green ICT services:

- **Reducing business travel:** virtual conferences, solutions for home offices and mobile working, solutions for optimising logistics
- **Saving energy:** outsourcing and virtualising servers in efficient data centres, solutions for efficient workplaces
- **Saving paper:** solutions for paper-saving printing and working without paper

See www.swisscom.ch/myclimate

The respective products and services are labelled as recommended by myclimate. The climate recommendation label indicates the energy and CO_2 savings compared with previous consumption behaviour.
In 2012, Swisscom once again implemented numerous measures to increase the utilisation of Green ICT services and thus reduce CO_2 emissions.
Swisscom expanded its offering of the Green ICT services bearing the myclimate label. These new services include, for example, the Conextrade electronic trading platform, which allows for paperless transactions and billing, and Printing Solutions, which helps save paper, toner and energy. The continued growth in revenue recorded in the year under review demonstrates the appeal of Green ICT services.
2012 also saw Swisscom issue more customers in Western and German-speaking Switzerland with Green ICT certificates. The certificates state the amount of emissions that the Swisscom customers have saved by using Green ICT products. 43 customers have so far received these Green ICT certificates. They save annually more than 10,000 tonnes of CO_2 and approximately 6,400 MWh.

CO_2 savings achieved thanks to Green ICT services:
In 2012, companies issued with Green ICT certificates achieved CO_2 savings of

10,000 tonnes

Energy savings achieved thanks to Green ICT services:
These companies also jointly saved energy in 2012 totalling

6.4 GWh

See www.swisscom.ch/green-ict

Swisscom and the University of St. Gallen jointly investigated the attitude of Swiss companies towards Green ICT. 758 companies took part in the survey. The results have been available since October 2012 and are published on the Swisscom Green ICT homepage.
The survey showed that Green ICT services are already being well utilised mainly by large businesses, while there is still substantial potential for more use among smaller companies. Especially services in the area of mobile working are subject to wide use while other applications for optimising logistics or buildings are less popular.
Other activities undertaken by Swisscom in the area of Green ICT include the following:

- **National Home Office Day:** Swisscom has supported the Home Office Day as a partner since its inception in 2010. Swisscom participated in the national Home Office Day for the third time and continued to raise awareness of the advantages of this working method for companies and employees.
- **New working methods:** Swisscom held a Green ICT event in November 2012 at which Swisscom customers and members of the Swiss Association for Environmentally Conscious Management (ÖBU) were informed as to how companies can save on costs and resources by implementing new working methods such as home offices and efficient workplaces – while at the same time boosting employee motivation and performance.
- **Relieving the pressure on transport routes thanks to new working methods:** at the end of 2012, Swisscom worked together with the SBB to initiate a study to investigate the extent to which new working methods may relieve the pressure placed on transport routes. As part of this study, several hundred SBB and Swisscom employees will test – until spring 2013 – the extent to which new working methods free up heavily utilised trains and roads in peak times. The results will be published in summer 2013.

Green ICT at Swisscom

Swisscom is not only encouraging its customers to use Green ICT, but is also using Green ICT solutions internally:

- 18 Swisscom sites are now equipped with the Telepresence virtual videoconferencing solution.
- Practically all employees are now able to set up videoconferencing and desktop sharing with other colleagues at the click of a mouse, enabling them to work part of the time from home. Swisscom's participation in Home Office Day has also served to further embed the topic of new ways of working in the company culture. Swisscom consequently issued guidelines for the first time on the internal utilisation of home offices.
- In the year under review, Swisscom schooled employees in the "Corporate Customers" and "Small and Mid-Sized Enterprises" segments on the subject of Green ICT and sustainability, using a "Hello Future Dialogue" communication package. The individual teams presented their contributions to sustainability. The best team contributions received an award at a joint event with divisional management.
- All Swisscom employees received the Virtual Meeting Reminder at the end of 2012. When scheduling meetings, this small IT tool reminds employees across various locations to conduct the meeting as an electronic meeting. In addition, the tool automatically calculates the potential savings in time and CO_2 emissions.

Low-radiation communications technologies

Advice and information on wireless technologies and the environment

Specially trained Swisscom employees advise persons involved in the construction and operation of mobile networks as well as stakeholder groups seeking general information on wireless technologies, the environment or health. During the reporting year Swisscom held over 600 discussions with key stakeholder groups on the subjects of mobile communications and the environment. In the majority of cases, it was local projects for expanding the mobile network that had given rise to such discussions.

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 its wireless networks entails, Swisscom follows scientific research by internal and external experts into the effects of non-ionising radiation on organisms. It also analyses the research findings and supports relevant scientific activities.
Based on current knowledge, scientists consider the current limits for electromagnetic fields as safe (see WHO Fact Sheets Nos.193 and 304).

See **www.swisscom.ch/radiation**

Certification of quality assurance system for compliance with ONIR limits

Swisscom is required to operate a quality assurance system (QAS) for the base stations of its mobile network to ensure that the antennae in operation comply with the statutory limits at all times. In 2005, Swisscom decided to have this quality assurance system certified to the ISO 15504 standard. The quality assurance system was audited in November 2012 by an external auditor mandated by SGS. Swisscom passed this audit of the quality assurance system, scoring a capability level of 4 (out of a maximum of 5), which means that the processes relevant for the QAS are “targeted and measureable”.
The legal obligation to limit emissions from mobile communication installations in Switzerland comes 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 Ordinance applies to the operation of fixed installations that emit electrical and magnetic fields with frequencies between O Hz and 300 GHz. Swisscom complies with the ONIR limits. The Swiss limits are 10 times lower than those in the European Union.

Duty to provide information on products offered at points of sale

Swisscom provides information on the radiation levels of the mobile handsets that it sells. Prices on all products on display and offered by Swisscom are clearly disclosed as prescribed by the Federal Ordinance on the Disclosure of Prices. This declaration is supplemented by relevant technical information on the products. Customers and other interested parties can also find information on levels of radiation emitted by mobile handsets (so-called SAR values) at Swisscom points of sale and on the Swisscom website. There is no legal obligation to provide this information. By doing so, Swisscom is responding to a need by customers for whom radiation levels are particularly important when it comes to choosing a mobile phone. It goes without saying that no mobile handsets offered exceed the limit of 2W/kg; half (48.7%) are below 0.8 W/g and 28.2% even have a SAR value below 0.6 W/kg (product portfolio as at December 2012).

Sustainable use of resources

Swisscom endeavours to meet the highest standards when it comes to the use of resources. Operating energy-efficient infrastructures and using and generating renewable energies is key for Swisscom – particularly in light of Switzerland's energy reform policy. Swisscom has also joined various international initiatives aimed at promoting accountability in the supply chain.

Environment and objectives

The energy turnaround, climate change and responsibility in the supply chain are key issues for Swisscom and its stakeholders. Swiss energy policy is on the verge of withdrawing from the nuclear energy programme and transitioning to renewable energies with low CO_2 emissions. Swisscom is thus placing an even greater focus on increasing its own energy efficiency.
Both the environmental and the purchasing policies provide a framework for Swisscom to use its resources sustainably. Management norms, standards and internal policies allow the planned saving and efficiency measures to be systematically implemented. Swisscom subsidiaries of significant environmental relevance are ISO 14001 certified. 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. The foreign subsidiary Fastweb S.p.A. is also ISO 14001 certified. Based on headcount, the management systems and processes certified to ISO 14001 cover more than 95% of the Group (including Fastweb).
Swisscom has set itself ambitious targets for the end of 2015: measures in the network infrastructure area are expected to achieve a further 20% improvement in energy efficiency compared with 1 January 2010. During the same period Swisscom aims to cut direct CO_2 emissions by a further 12%, chiefly through measures in the area of employee mobility and infrastructure. Overall, Swisscom is aiming for a 60% reduction in direct CO_2 emissions by the end of 2015 compared to the reference year 1990. Swisscom is currently using scenario calculations to determine how much energy will be consumed in 2020. Furthermore, Swisscom has extended its target agreement with the Energy Agency for Industry (EnAW) until 2020. The aim of this target agreement is to reduce CO_2 emissions and increase energy efficiency.

Energy-efficient infrastructure

Energy consumption as the principle environmental impact factor

The greatest impact Swisscom has on the environment is caused through its energy consumption. Swisscom is striving to boost energy efficiency and rely more on renewable energies in order to minimise its environmental impact. In addition to the network infrastructure described in the Management Commentary, Swisscom operates a substantial real estate portfolio itself. This comprises offices, commercial buildings, local exchanges and data centres. Swisscom does not control any warehouses or distribution centres, but does maintain a vehicle fleet of company and commercial vehicles.

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page 17

Energy management at Swisscom

The Swisscom energy management programme comprises the following processes:

- Determining energy consumption over a specific period of time
- Determining the electricity mix
- Generating electricity
- Rational use and increase of energy efficiency
- Reusing waste heat

Swisscom's energy consumption has been estimated up to 2015. The resulting catalogue of measures aims to reduce the increased electricity consumption by 85 gigawatt hours (GWh) by 2015 and increase efficiency by 20%. Additional measures are constantly being examined. Swisscom also determines the electricity mix and is increasing its sustainability by giving preference to electricity procurement from renewable energy sources. Swisscom started to generate its own electricity in 2005 and sees this as an important contribution towards a sustainable energy policy. For example, Swisscom builds solar installations wherever it makes economic sense. In addition, Swisscom also makes use of waste heat where possible.

Consumption of electricity from renewable sources and green electricity

Swisscom's energy consumption totalled 430 GWh in 2012 (prior year: 411 GWh). The increase is the result of expansion in activities and the network infrastructure. Over the medium term, the demand for electricity is expected to remain around the current level. For the electricity mix used for the network infrastructure and for consumption in buildings managed by Swisscom, compensation has been paid since 2010 for the share of nuclear power, electricity of unknown origin and electricity from fossil fuels. Thus, again in 2012 Swisscom relied fully on electricity from renewable sources. Swisscom's company claim "100% renewable energy" is verified externally by the WWF.
In 2012, Swisscom purchased 1.7 GWh of "naturemade star" energy from solar power (0.7 GWh) and wind power (1 GWh). This makes Swisscom one of Switzerland's largest purchasers of wind and solar power.

Saving and efficiency measures when using fossil fuel to generate heat

Swisscom measures monthly the consumption of heating oil, natural gas and district heating in its 61 biggest buildings which together make up over half of the total space. It extrapolates these figures to calculate the overall annual consumption using a new method introduced in 2011. Actual consumption figures will not be known until the bill for heating and operating costs is issued in the second quarter of 2013.
During the reporting year, Swisscom consumed 201 terajoules (55.8 GWh) of fuel to heat buildings (prior year: 49.3 GWh). The heating mix comprises 74% heating oil, 11% natural gas and 15% district heating.
Swisscom intends to further reduce the amount of energy it uses to heat its buildings. For this purpose, it has systematically pursued initiatives throughout 2012 which aim to reduce energy consumption and CO_2 emissions in buildings. A detailed energy monitoring system has improved the data set, thus ensuring a more in-depth energy analysis. Accurate energy analyses were carried out on eleven buildings in 2012, with five buildings successfully undergoing operational optimisations. A further ten energy analyses are scheduled for 2013. The "Pioneer" project – set up together with Johnson Controls – ensures that operating conditions that have been optimised maintain low energy consumption levels over the long term. Swisscom also carried out further structural renovations in 2012, for which an internal eco form was used indicating the CO_2 reduction levels achieved by the building projects. In 2012, Swisscom identified 25 eco-relevant building projects, as part of which 17 measures were implemented.

Saving and efficiency measures in fuel consumption and mobility policy

The ability to provide first-class customer service and expand the network infrastructure depends on the seamless mobility of staff. A total of 69.9 million kilometres were driven in 2012 in the service of customers, representing energy consumption of 168.3 terajoules (46.7 GWh). Fuel consumption fell by 1.4% year-on-year.
Thanks to a progressive replacement strategy, average CO_2 emissions per vehicle should be reduced from 150 g CO_2/km (2010) to 110 g CO_2 for each kilometre travelled in 2015. In accordance with the New European Driving Cycle (NEDC), CO_2 emissions from cars in the Swisscom fleet averaged 131 g CO_2 per km as of the end of 2012. 91% of the cars are in the A and B energy efficiency categories. Swisscom also operates a fleet of 230 (+43%) hybrid vehicles, 45 (+22%) vehicles powered by natural gas, 10 (+150%) electrically driven vehicles and 45 (+5%) e-bikes. All electrical vehicles are recharged in Swisscom buildings and garages using electricity from renewable energy sources. In 2012, Swisscom employees used 101,403 (–5.9%) rail tickets for business travel and were issued 12,858 (–5.8%) half-fare cards and 2,793 (+0.6%) GA travel cards. Since 2007, Swisscom has charged a separate CO_2 levy of 1.5 cents per air mile on international flights. The levy is used to finance internal sustainable environmental projects in the field of mobility (e-bikes, electric cars, etc.).

Electricity consumption savings and efficiency measures

Swisscom continued the "Mistral" energy saving project in 2012. Mistral is a cooling technology that relies exclusively on fresh air all year round. It replaces conventional energy-intensive cooling systems equipped with compressors and contributes to a massive improvement in energy efficiency. Mistral also eliminates the need for harmful refrigerants. Mistral was being used to cool 604 telecom systems in local exchanges at the end of 2012. This represents an increase of 11% compared with the previous year. In 2012, Swisscom Switzerland also retrofitted mobile base stations and Swisscom Broadcast transmitter stations with Mistral.
Fresh air is also an attractive alternative for cooling data centres and could significantly reduce the electricity required for this purpose in the centres. An internal plan envisages using fresh air for all-year cooling of data centres with heat loads of up to several kW/m^2. A one-year pilot trial from November 2011 to October 2012 successfully demonstrated the feasibility of deploying fresh air-cooling systems in data centres under specific conditions.
The systems installed in the Swisscom IT Services data centre in Zollikofen feature a particularly high level of energy efficiency and efficient cooling. The centre's average annual power usage effectiveness value (PUE value) is 1.3. This value represents the ratio of total power consumed by the data centre to the power consumed by the IT systems. This PUE value means that power consumption in Zollikofen is more than 33% lower than that of conventionally built data centres.

Mistral project:
Cooling telephone exchanges using fresh air
Mistral achieves savings equivalent to the energy consumption of 9,000 households or

45 GWh/a

Electricity requirements covered by renewable energy:
Swisscom buys certificates every year and offsets the amount of non-renewable electricity used.

100 %

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Generating electricity

In 2012, Swisscom Broadcast drew up plans for two solar facilities (2 times 60 kWp) on the Niederhorn and Valzeina transmitter stations, while Swisscom (Switzerland) installed and commissioned a solar facility in Zurich-Herdern with a peak power of 113 kWp. The total cumulative peak power of all the solar facilities installed by Swisscom amounts to 340 kWp. Over the coming years, Swisscom wants to significantly increase the number of facilities it has in operation for the generation of electricity.

Utilising waste heat

Swisscom has entered into two agreements in Zurich governing the supply of waste heat from its own commercial buildings. The agreements cover a volume of more than 20 GWh of thermal energy. Swisscom is currently examining another potential waste heat project in the Berne area.

Climate

Carbon footprint based on Scope 1, 2 and 3 of the Greenhouse Gas Protocol (GHG)

Energy use Swisscom in GWh

Direct CO_2-emissions Swisscom in tons thousand

Swisscom applies the internationally recognised definition of the Greenhouse Gas Protocol (GHG) and classifies its CO_2 emissions as Scope 1 (direct emissions resulting from burning fossil fuels for heating and mobility), Scope 2 (indirect emissions resulting from electricity consumption) and Scope 3 (all other indirect CO_2 emissions resulting from goods transportation, business trips, etc.). The direct consumption of fossil fuels accounts for 19.1% of Swisscom's total direct energy consumption. Swisscom's Scope 1 CO_2 emissions have fallen by 6% since 1 January 2010 to 24,662 tonnes in 2012, without adjustment for the number of heating days. Vehicle fuel accounts for 50.1% of this, and heating fuel accounts for 49.9%. Swisscom has therefore met and exceeded the CO_2 target (28,000 tonnes) agreed with EnAW in 2004 covering emissions resulting from the consumption of fossil fuels.
The electricity mix used in Switzerland is not generated from fossil fuels and so its production is free from CO_2 emissions. Swisscom therefore has no CO_2 emissions under Scope 2. Swisscom, however, calculates the indirect CO_2 emissions resulting from the provision of electricity which fall under Scope 3 and applies the conversion factor of 14.7 g CO_2 per kWh. Scope 3 emissions are not part of the current target agreement with EnAW.
Swisscom calculated various Scope 3 emissions in 2012, thereby taking its ecological responsibility beyond the company's own vehicle fuel, heating fuel, and electricity consumption. An initial area

of the Scope 3 emissions was already recorded in the year before, namely those associated with business trips, employee commuter traffic and the provision of energy.
In 2012, Swisscom also compiled statistics (using the "Escher method") on emissions resulting from the manufacture of products and the provision of services that Swisscom procures in order to provide its own services. This area is currently the largest source of Scope 3 emissions. Swisscom will publish the results in a supplementary report in spring 2013 along with statistics on product-related emissions. Swisscom is also involved on an annual basis in the Carbon Disclosure Project (CDP).
In addition, Swisscom calculated for the first time CO_2 emissions that can be avoided by businesses and residential customers using myclimate-certified ecologically friendly ITC services. The following services contribute to a reduction in CO_2 emissions:
- Virtual conferences
- Home offices
- Machine-to-machine communication (logistics optimisation)
- Energy-efficient services from data centres (cloud, hosting, housing, thin clients)
- Services that replace the use of paper
- Recycling of mobile phones

Other air emissions

Besides CO_2 emissions, burning fossil fuels for heating and transport also produces NO_x and SO_x. These emissions are calculated using the relevant conversion factors and depend on the amount of vehicle fuel and heating fuel consumed. Swisscom is reducing these emissions by continually optimising heating boilers and drive motors.

Other environmental aspects in the company

See Appendix
www.swisscom.ch/GRI-2012
See Report
page 93

Further details about the environmental aspects of Swisscom's operations such as paper consumption, waste disposal and water consumption can be found in the Appendix.

Reduction in direct CO_2 emissions between 1990 and 2015 using the following measures:
- Structural renovations
- Low-consumption vehicles
- Mobility management

60 %

Environmental key figures in Switzerland

	Unit	2010	2011	2012
Land/buildings				
Net floor space (NFS)	million of m^2	0.95	0.91	0.91
Paper for photocopying and printing				
Format A4 100% recycled (other formats converted)	million of sheets	41.0	37.0	34.0
Water/sewage				
Water consumption [1]	m^3	452,698	468,577	466,581
Energy, electricity				
Electrical energy consumption [2, 3]	terajoule	1,454	1,479	1,548
	GWh	404	411	430
Energy, heating				
Heating oil	terajoule	149.4	130.9	149.3
Natural gas	terajoule	31.5	18.9	22.4
District heating	terajoule	27.3	27.2	29.3
Heating, total	terajoule	208.2	177.6	201.0
Energy, fuel				
Petrol	terajoule	77.8	53.7	38.5
Diesel fuel	terajoule	93.0	114.8	127.1
Natural gas	terajoule	1.5	2.2	2.7
Total fuel	terajoule	172.3	170.7	168.3
Vehicles	number	3,102	3,332	3,372
Kilometers driven	million of km	66.1	67.7	69.9
Average carbon dioxide CO_2 emission	g per km	150.0	140.0	131.0
Energy, total				
Energy consumption	terajoule	1,835	1,827	1,917
	GWh	510	507	532
Air emissions				
Carbon dioxide CO_2	tons	25,422	23,242	24,662
Nitrous gases NO_x	tons	22.5	23.2	24.9
Sulphur dioxide SO_2	tons	5.0	4.4	5.0
Waste				
Garbage	tons	175	170	155
Recycling	tons	761	834	1,660
Special waste	tons	10	11	20
Waste tonnage, total [4]	tons	946	1,015	1,834

[1] The water consumption is based on a forecast.
[2] Energy conversion: 1 terajoule (TJ) = 0.278 gigawatt hours (GWh).
[3] The energy consumption is based on a forecast. Since 2011 on a monthly measure of the consumption of 62 buildings (with a total floor space of over 50%).
[4] Based on data provided by the Swiss Waste Exchange and the Group companies; domestic waste not included.

Swisscom's responsibility in the supply chain

See www.swisscom.ch/suppliers

Swisscom takes responsibility within the supply chain and is committed to improving the working conditions of its suppliers' employees and to ensuring compliance in the supply chain with ecological standards. This also means that Swisscom therefore expects its direct suppliers and their sub-suppliers to commit to acting in a sustainable manner.

The principles Swisscom observes are stipulated in its purchasing policy, which is defined by an overarching committee, the Swisscom Purchasing Board. Swisscom's purchasing policy sets out the principles and procedures to be followed by the procurement organisations. The procurement organisations of Swisscom Switzerland, Swisscom IT Services and Swisscom Broadcast have to date acted in accordance with the Swisscom purchasing policy. Together, their total order volume accounts for more than 80% of the total procurement volume. The purchasing policy is continuously being expanded to include further purchasing organisations in the Swisscom Group and it stipulates the requirements that suppliers accept by signing the CR Contract Annex (CRCA). Swisscom uses a structured risk management system to audit suppliers' compliance with the requirements.

See Appendix www.swisscom.ch/GRI-2012

Supplier risk management

Risk management system

In 2012, Swisscom worked to further reduce environmental and social risks in the supply chain and in the second half of the year implemented a risk management system in the procurement area, the results of which are shown below.

The risk assessment carried out by Swisscom management in 2011 for the product groups was checked for accuracy and currency in spring 2012. They found the risk assessment to be correct and up to date and no changes were therefore necessary.

In 2012, Swisscom began assessing its current supply partners from medium-risk product groups, which involved approximately 800 supply partners. Plans have been made to assess all supply partners over the coming years. A milestone was reached in 2012, with 223 supply partners having been assessed. The results of the risk assessment showed that seven supply partners have a high-risk profile and 32 partners a medium-risk profile. After every assessment, any measures required were initiated and monitored (see Requirements diagram below) by management and the buyers concerned.

Overview and requirements of risk management in the supply chain

	Product groups with ... ... low risk	... medium risk	... high risk
Existing suppliers with ...	As long as the product group has a low risk profile, the supplier's risks are not assessed. Instead the risks of the product group will be reviewed annually	... high risk profile > Suppliers shall fill in a self-declaration within three months and/ or be audited within one year > Further measures if needed	... high risk profile > Suppliers shall be audited within six months > Further measures if needed
		... medium risk profile > Suppliers shall fill in a self-declaration within three months and/ or beaudited within one year > Further measures if needed	... medium risk profile > Suppliers shall fill in a self-declaration within three months and/ or be audited within one year > Further measures if needed
		... low risk profile > Supplier's risk shall be periodically assessed	... low risk profile > Supplier's risk shall be periodically assessed
Potential suppliers	> No risk assessment performed	> Risk assessment performed > The findings with measures proposed are included in the decision process	> Risk assessment performed > The findings with measures proposed are included in the decision process

Swisscom plans to assess 35% (280 out of a total of 800) supply partners from medium-risk product groups by the end of 2013.
The procedure, established in 2011, has proven successful with potential supply partners. All buyers at Swisscom Switzerland, Swisscom IT Services and Swisscom Broadcast were trained accordingly for the first time in 2012. The procedure was used in tendering processes and corresponding measures were defined and implemented where necessary.
A supply chain crisis management organisation is currently being set up and will be integrated into the already existing Swisscom Group structures in 2013.

Corporate Responsibility Contract Annex

In 2012, 93% of the total order volume came from suppliers that had accepted the Corporate Responsibility Contract Annex (CRCA), which meant that the goal set for 2012 was achieved. As of 2013 Swisscom will have a new measuring instrument at its disposal in the form of a contract management system, which will make it easier to identify supply partners that have not yet signed the CRCA.

Audit and self-declarations

A risk assessment of the suppliers from high-risk product groups was carried out in 2011. At the time, seven supply partners were found to have a high-risk profile and were audited in accordance with the Swisscom requirements (see diagram above). Due to unsatisfactory audit results, four supply partners had to be audited again in 2012. The other supply partners received excellent audit results. Their risk assessment was therefore taken down a level to a medium-risk profile.
In 2012, around 30 suppliers with the highest order volumes, whose products are manufactured in countries classified by Swisscom as critical, registered with E-TASC and completed the online questionnaire. 2013 will see further key and strategic suppliers as well as high-risk suppliers registered in the self-assessment tool. As required by Swisscom, a further six supply partners from medium-risk product groups were audited in 2012, while 28 completed a self-assessment. Swisscom's goals for 2012 of six audits and 80 self-assessments were therefore fully achieved in

the case of the audits, while the achievement rate for self-assessments was 35%. The low level of achievement in the latter case was due to technical problems with E-TASC.

See Report **page 80**

Swisscom wants to step up collaboration with the Joint Audit Corporation (JAC) and plans to carry out four audits in 2013.

Raw materials

The raw materials used in Swisscom's many and diverse products stem from a wide range of countries and regions. Questions on the origin of the raw materials and the associated ecological and sociological risks are increasingly being asked. At the start of 2011, Swisscom began intensively looking into the issue of raw materials. The following measures have since been taken:

- **March – June 2011:** Swisscom took up contact with the NGOs Bread for All and Benchmark Foundation of Southern Africa for Corporate Social Responsibility, the Swiss Federal Laboratories for Materials Science and Technology (EMPA) and all partners supplying mobile phones in order to gain an insight into the stance of these institutions and organisations on the question of accountability in raw materials procurement. It revealed widely varying levels of awareness among supply partners with regard to raw materials and the whole issue of procurement. Clearly, Swisscom cannot accomplish rapid improvements in the procurement area all on its own.
- **May 2011:** Swisscom joined the Global e-Sustainability Initiative and worked together with the GeSI "conflict-free smelters" programme. The aim of the programme is to identify and certify conflict-free smelters for purchasers of raw materials.
- **Mid-August 2011:** Swisscom started working with myclimate to launch eco points on all mobile phones in the Swisscom range. Points are awarded on the basis of the criteria: responsible choice of raw materials, low energy consumption in use and low energy consumption in manufacture.
- **January 2012:** through its GeSI membership Swisscom becomes a member of the World Resources Forum Association.
- **March 2012:** inaugural meeting of the World Resources Forum Association. Swisscom represents GeSI at WRFA gatherings.

See **www. world resourcesforum.org**

Swisscom also plans to add a section on raw materials to its purchasing policy and the CR Contract Annex in 2013.

Swisscom Supplier Award 2012

Maintaining a constant dialogue with suppliers, building a common future together and taking responsibility for the present and future, all play a key role at Swisscom. Internal procurement is also guided by these principles. In spring 2012, Swisscom gave Supplier Awards for the best success stories of over 6,500 suppliers in the three categories of Innovation, Cooperation and Sustainability.

Telecommunications for all

Swisscom enables and shapes Switzerland's information society by providing infrastructure and services that allow people in the public and private sector to communicate and interact in a sustainable manner. In so doing, Swisscom remains true to its goal of enabling everyone in Switzerland to be part of the information society. "Telecommunications for all" is Swisscom's guiding principle.

Environment and objectives

Swisscom wants everyone in Switzerland to be able to take advantage of the opportunities provided by new media and is thus making sure that reliable network access is present virtually everywhere in Switzerland. Swisscom focuses on promoting media skills, not only in its efforts in the area of youth media protection, but also through various initiatives which aim to reduce the digital divide.

Swisscom will continue to pursue these activities in 2013, championing for a healthy information society that adds value in line with the federal government's strategy, so that Switzerland as a business location, the Swiss education system and the entire population will continue to benefit from a progressive ICT landscape.

Basic service provision

	Unit	2010	2011	2012
Number of traffic minutes (national fixed-line traffic)	million min.	6,741	6,200	5,328
Number of public payphones [1]	number	7,663	6,700	5,800
Emergency calls	in thousand	3,092	3,050	3,053
Calls to the service for visually impaired/hard of hearing	in thousand	556	553	540

[1] Of which 3,514 (2012), 4,058 (2011), 4,437 (2010) within the scope of basic service provision.

Swisscom is responsible for providing basic telecoms services in Switzerland, and has been mandated to do so until 2017. It will forego requesting a fund for basic service provision. The aim of the mandate is the provision of analogue and digital network access throughout Switzerland. This includes voice telephony, fax, data transmission and broadband Internet access. In 2012, Swisscom increased the minimum transmission speed for broadband Internet connections from 600/100 kbps to 1000/100 kbps and at the same time reduced the price ceiling for this service from CHF 69 to CHF 55 per month (excluding VAT).

Another part of basic service provision for which Swisscom has long been responsible is the maintenance and operation of the 5,800 public telephones and access to the emergency call service for the police, fire and ambulance services, as well as special services for the disabled.

Data protection

As a result of its activities, Swisscom possesses customer data which is protected by the Data Protection Act and the Telecommunications Act. The protection of privacy, compliance with data protection laws and the observance of telecommunications secrecy are key concerns for Swisscom. The Data Protection Declaration explains how Swisscom handles personal data in the context of its website and e-mail activities. It also discloses that this data may be passed on to others within the Swisscom Group. Swisscom, however, is not responsible for information and data processing on third-party linked offerings.
As a trustworthy partner, Swisscom has set itself the goal of providing all employees who have access to customer data as part of their job with thorough instruction on legal compliance within their work. In addition, Swisscom sensitises and empowers employees to recognise the issues and requirements of data protection and to ensure they are properly implemented. All Swisscom Switzerland employees also have to regularly take part in data protection training sessions.
The persons responsible for security within the company also launched a comprehensive project in 2012 with the aim of improving data protection. During the course of this project, Swisscom is reviewing all access rights and critical customer data, and redefining these rights. For this purpose, Swisscom has set up a system that determines whether attempts to access critical customer data are linked to enquiries regarding the customers in question and if they are authorised.

Protecting minors in the media and promoting media skills

Protecting minors in the media and guidelines on media content

The use of new media provides us all with new opportunities and options. Although the pros usually outweigh the cons, new media can also entail a number of risks – particularly for children and young people. Swisscom is determined not to leave parents to shoulder this responsibility alone. The company supports parents and teachers by providing a wide range of information, resources and products.
Children and young people who disclose private or even intimate information on community platforms are often unaware of the repercussions this may have. Privacy therefore plays a prominent role in the documentation and information provided on media protection for minors.
Swisscom supports the High Principles on Child Protection. Together with the European Telecommunications Network Operators' Association (ETNO), Swisscom has reformulated its terms of use on youth platforms so that children and young people really understand them.
The legal obligations governing the protection of minors in the media were fully complied with in 2012. 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. Swisscom is rigorous in its interpretation of the regulations of the Ordinance on Telecommunications Services regarding the blocking of value-added services. For example, no adult content whatsoever has been offered on the Swisscom information portal since 2009.
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 youth media protection measures in addition to the legal requirements, which Swisscom has pledged to comply with. These include 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.

See
www.asut.ch
www.bluewin.ch

With the following measures, Swisscom goes beyond the statutory requirements in terms of youth media protection:

- Age limit for access to certain services voluntarily increased to 18
- No adult content whatsoever in the video-on-demand offerings on Swisscom TV and on the information portal
- Additional channel blocking via PIN on Swisscom TV
- Guaranteed youth media protection with the new additional "Start Over" function
- FSK age rating recommendation for all video-on-demand films
- Exceptionally stringent requirements for third-party providers of value-added services

See www.bluewin.ch

The Telecommunication Services Ordinance requires telecommunication service providers to disclose information on the existence of a barring set at least once a year. A barring set allows access to chargeable value-added services to be blocked on specific lines. Swisscom sends its customers a bill enclosure every year to inform them about this free service. The barring set is automatically activated for young subscribers under the age of 18.

Promoting media skills

In 2012, Swisscom took the following measures in order to raise awareness among parents and teachers of the potential dangers and risks posed by new media:

- **Media course as part of the Academy training programme (formerly Swisscom Help Point):** the course was held on parents' evenings and during further training sessions for teachers. Swisscom also expanded its course offering and is offering new courses for secondary school pupils (see below: media courses for parents, teaching staff and now also secondary school pupils). In total, Swisscom held almost 700 media skills events throughout Switzerland in 2012
- **The JAMES study** investigates the media usage behaviour of young people between the ages of 12 and 19. After an initial run in 2010, Swisscom carried out the JAMES study once again in 2012 in cooperation with Zurich University of Applied Sciences (ZHAW). The findings allowed science and politics to base their conclusions and measures on a reliable, scientific foundation. The recurring study will allow trends and changes in the media usage behaviour of young people to be identified as of 2014. With this study, Swisscom is bridging a gap in research that has existed for a long time, particularly as surveys into media usage among young people were not consistently carried out before 2010.

See www.swisscom.ch/james

National Programme for the promotion of media skills

In summer 2010, the Swiss federal government set up a programme aimed at improving the media skills of children and young people. The Federal Social Insurance Office (FSIO) is responsible for implementing the programme, which is set to run until 2015. As principal partner of the programme, Swisscom is confident that the public and private sectors together do significantly more to promote media skills. Swisscom supports the programme by providing both financial resources and communication services.

Promoting media skills:
Swisscom promotes responsible use of new media. Interest in Swisscom's course offerings

29,500 participants

Media courses for parents, teaching staff and secondary school pupils

Swisscom has been expanding its course offering since autumn 2011 in order to promote media skills. In addition to the information events for parents and teaching staff, it has since also offered a modular course for secondary school pupils (year 7 to year 9). Teachers can choose from a range of different modules dealing with general media usage behaviour, legal issues on the Internet, social networks, safe surfing and the new issue of cyber-bullying. Swisscom appoints a dedicated course instructor for the participating classes. There was great demand for this course in 2012 and the goals for the year have been achieved and exceeded. The experience and feedback gained from the events were extremely positive. An evaluation of the effectiveness of the courses will be carried out in 2013.

Swisscom Academy (formerly Swisscom Help Point)

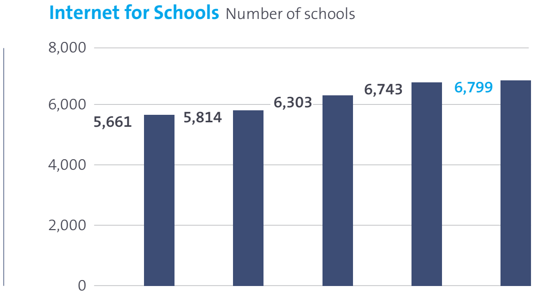
The Swisscom Academy has been teaching customers how to use mobile devices and the Internet since 2005. Weekly courses are offered at the training centres in Berne, Basel, Lausanne, Lucerne, Geneva and Zurich. Four training buses also visit around 70 towns and villages across Switzerland every year. In 2012, 12,831 people attended courses on how to use modern communications media. Since their launch, Swisscom's Help Points have served close to 220,000 people in Switzerland. The courses are aimed at the general population in Switzerland and are open to customers and non-customers alike. Through this campaign, Swisscom is playing an important role in continually reducing the digital generation gap.

Internet for Schools initiative

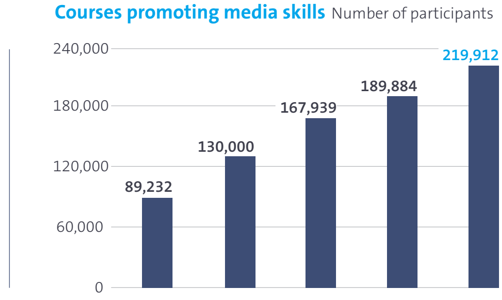
In 2012, Swisscom celebrated the ten-year anniversary of the "Internet for Schools" initiative. Under the initiative, almost every Swiss school benefitted from a free basic Internet offering or from a more advanced offering at heavily reduced prices. Swisscom continued the Internet for Schools initiative after the public-private partnership with the federal government officially expired in 2007, and the company works hard to continually tailor the infrastructure it offers to the day-to-day needs of schools. Swisscom extended its Internet for Schools initiative to kindergartens in 2009 in response to the needs of cantonal education departments. This means that the number of connections provided is set to increase almost three-fold over the coming years. At the end of 2012, well over 1,700 kindergartens were already online.
Schools that require high-performance bandwidths (large educational centres or schools which use the Internet particularly intensively) can now take advantage of connections providing free Internet access with an increased bandwidth of up to 50 Mbps. If the school also wishes to take advantage of Swisscom's professional security services, the company makes a contribution towards the associated expenses.
Schools are placing increasingly greater demands on their ICT solutions. Swisscom has identified their needs and has worked together with other partners from educational institutions since 2012 in an attempt to find useful and affordable ICT solutions.

See www.swisscom.ch/sai

Internet for Schools Number of schools



Courses promoting media skills Number of participants



Swisscom has added various educational institutions to its network over the past few years, enabling it to recognise the ICT integration needs of schools at an early point in time. Swisscom cultivates this network by means of meetings and events, in particular with the following institutions:

- Education server Educa and the Swiss education server educanet
- Swiss Conference of Cantonal Ministers of Education (EDK)
- SFIB conference
- Federal Office of Communications (OFCOM)
- Swiss Foundation for Audiovisual Teaching Media (SSAB)
- Swiss Association of Teachers (LCH)
- Intercantonal Conference of Public Education (CIIP)
- Worlddidac Association
- Various teacher training colleges and universities

Internet for Schools:
new media is used in the education system by

1 million pupils

Offerings for people with disabilities

Swisscom's most important goal is to provide everyone in Switzerland with barrier-free access to the latest communication tools. In this context, Swisscom plays a key role in ensuring that disadvantaged people can also participate in Switzerland's information society.

Swisscom's offerings for disabled people, the visually impaired and hard of hearing

Swisscom Shops comply with stringent requirements concerning wheelchair access. Swisscom Shop employees also have to be able to recognise what requirements a specific disability entails. In collaboration with the TerzStiftung, Swisscom has worked on ways of optimising its shops for people who are visually impaired and hard of hearing. The corresponding measures were implemented in 2012.
Swisscom endeavours to provide a portfolio of terminal devices that includes a choice of suitable equipment for customers with impaired hearing or vision. Swisscom renews and updates its service and device portfolio on an ongoing basis. One of the aims of doing so is to ensure its offerings satisfy the needs of those with special needs or requirements. Two examples of devices in this range are the Emporia mobile phone, a smartphone with on-screen voice support for blind or partially sighted people, and the multi-modal customer service contact option.
All those who are unable to use the current subscriber directory due to physical disabilities can be connected via the short number 1145 at no extra cost. Swisscom provides this service free of charge as part of the basic service provision.
Individuals who are hard of hearing can take advantage of a transcription service. This service makes telephone calls possible between the hard of hearing and those who can hear normally and is offered free of charge in association with the organisation procom. It is also part of the basic service provision.
Swisscom continues to be committed to ensuring its website offers barrier-free access to all. As part of the technical redesign, Swisscom has already implemented key guidelines for barrier-free website content (Web Content Accessibility Guidelines WCAG). In the following phases of the website redesign, Swisscom will take into consideration other guidelines and is aiming to receive "AA Access for all" certification by the end of 2013.

Offerings for people with limited financial resources

Swisscom offers special products and services to help people with limited financial resources. Young people under the age of 26 can take advantage of reduced tariff plans. Under these tariff plans, subscribers up to the age of 18 are assigned a credit limit. Older people continue to make less use of new communication technologies than younger people. Special subscriptions for older people offer price models with this in mind, featuring particularly low basic fees and services charged only on a pay-as-you-use basis.

Responsible employer

Swisscom offers employees a working environment that fosters their personal and professional development by setting them challenging tasks and allowing them to exercise responsibility. At the same time, Swisscom positions itself as a socially responsible employer.

Swisscom operates in a fast-moving and challenging market environment and has to continually adapt to technological innovations. Demographic and social trends are also increasingly influencing personnel resources. All these dynamic changes require progressive human resources management and a corporate culture and working environment that motivate employees to realise their potential in the context of the corporate strategy.
In a multimedia society, employees' flexibility, willingness to change and specialist knowledge play a vital role in the implementation of Swisscom's mission statement and the achievement of the objectives outlined in the corporate strategy. Customer trust is therefore key to staying competitive in the long-term and is the reason why Swisscom systematically aligns itself to customer needs. This calls for employees who can develop visions and work in mixed teams to put these into practice in a results-oriented manner.

Environment and objectives

Swisscom's Group Human Resources Division is responsible for implementing a uniform HR and social policy throughout the company and formulates and promulgates Group-wide standards, guidelines and principles. The HR departments within each of the operating segments are responsible for implementing these and carrying out all HR functions from hiring new staff to employee departures. The Group Human Resources Division supports the Group Executive Board and Board of Directors on HR policy matters, such as terms and conditions of employment, salary system and diversity. It also recruits senior managers and conducts management development and succession planning in collaboration with the operating units. Group Human Resources is also responsible for professional and vocational training throughout the Group, and as such plays a key role at the company's Swiss locations. In its dealings with the social partners and employee associations, Group Human Resources advocates the interests of the Group as a whole.
In order to meet future challenges, Group Human Resources plans its resource requirements from a quantitative and qualitative point of view, formulates key priorities in employees' professional development and cultivates a management culture characterised by trust, esteem and performance orientation.

Staff development

Swisscom's market environment is constantly changing. The company therefore makes targeted investments in professional training and development for employees and managers to improve their employability in the long term. Employees are supported in their development by a wide range of on- and off-the-job options as well as internal programmes and courses. Further training and development programmes on offer include professional, technical and management courses. Swisscom welcomes opportunities for further training and provides related financial support. In the year under review, staff spent 54,441 days on training and development in Switzerland.
In line with the results of the 2010 employee survey on "professional development", initial steps were taken by Swisscom in 2012. For example, the management compass, which among things charts an employee's development as a management task, is now mandatory Group wide. Also in 2012, the "You & your Boss" initiative rolled out throughout Switzerland to promote a development dialogue between management and employees so as to facilitate the agreement of medium-term development measures. Finally, Swisscom IT Services launched an integrated competence model coordinated with line management, as well as a suitable development tool to enable the company to more effectively address the projected shortage of ICT specialists.
Swisscom continues to develop its Performance Management System in line with requirements with a view to assessing and rewarding employee achievements. 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. Commensurate with its strategic positioning as a trustworthy partner in the digital world, Swisscom formulated concrete demands on all employees. In 2012, line managers conducted a performance dialogue with 98.8% of all Swisscom employees in Switzerland.
The management and people review processes have been extended to organisational units below Group division level. They support both succession planning for key functions as well as the placement of talents beyond individual divisions. A mentoring programme also encourages professional and personal discussions between the talents and the members of the Group Executive Board, while the Leadership Forum offers an important platform for management issues.

Employee training in general and in the area of corporate responsibility

Swisscom is constantly training its employees. In 2012, employees covered by the CEA attended an average of 3.2 days (25 hours) of training and/or further development. Swisscom also regularly trains employees on a wide range of corporate responsibility issues. For example, Swisscom raises awareness of ecological and social issues among new hires at its Welcome Days, and the issue of "Responsibility in the supply chain" is addressed with buyers as part of its Lead Buyer Circles. In the year under review, Swisscom also trained 40 project managers and 90 specialist groups on the environmental parameters for new projects.

Corporate volunteering

Corporate volunteering is the term used to describe voluntary work carried out by employees for charitable causes. Swisscom encourages this commitment by allowing its employees to do this during paid working hours and offering them the chance to help out with various projects in the fields of nature (Nature Days), social responsibility (Social Days) and economy (Economy Days). 2012 saw Swisscom expand and further develop the Corporate Volunteering Programme so that employees can now dedicate from a half-day to two days of their working time to voluntary work each year. A total of 748 volunteer days were clocked up in 2012.

Staff recruitment

Recruiting new staff

Swisscom seeks individuals who are motivated and passionate about helping customers and who want to help shape the future of the digital world. At all company locations in Switzerland, Swisscom endeavours to give priority to people from the surrounding regions. This is why the percentage of local employees in all areas and at all hierarchical levels is exceptionally high.
83.7% of Swisscom's workforce are Swiss nationals. The remaining 16.3% are made up of employees from 88 different countries, including 5.1% from Germany, 3.8% from Italy, 1.6% from France and 1% from Spain.

Student interns and trainees

In order to attract talented and highly motivated graduates to the company, Swisscom maintains a wide range of connections with universities and schools of applied sciences. Attending relevant recruitment fairs and engaging in more advanced forms of cooperation such as guest lectures and workshops is very important to Swisscom. Many students gain initial professional experience at Swisscom during their studies either by working as interns or during the practical part of their Bachelor's or Master's course. Over the last twelve months, almost 100 students have begun an internship at Swisscom, and a similar number of students has been coached through the practical part of their Bachelor's or Master's courses by Swisscom employees. Once they have successfully completed their studies, graduates can embark on the first step of the career ladder at Swisscom through internships, the trainee programme or a junior position.

Vocational training

Two hundred and eighty-five young people began their apprenticeships with Swisscom in August 2012, of which 118 were in ICT jobs in mediamatics and IT. Swisscom thus assumes the responsibility of being Switzerland's largest trainer of ICT professionals. In 2012, Swisscom trained a total of 823 apprentices in technical and commercial apprenticeships. Additionally, 84 apprentices completed their training at subsidiary cablex. The training for the new Specialist in Customer Dialogue apprenticeship, introduced in 2011, is being expanded from the customer contact centres in German-speaking Switzerland to include Western Switzerland and will also be offered to apprentices starting in 2013 in Ticino as well.
In order to make the application process quicker and easier for students, Swisscom introduced an online application system for the 2012 intake of apprenticeships.
The Swisscom training model is geared towards independence and personal accountability. The aim of this is to support the personal development of the apprentices. They take an active role in devising their training so that it fits their individual priorities, apply within the company for different practical placements and learn from experienced employees during such placements.

Health and safety in the workplace

Employee health

Having healthy and motivated employees is very important to Swisscom. In line with its strategy, Swisscom therefore makes targeted investments in initiatives and programmes for Occupational Health Management (OHM). The Board of Directors, Group Executive Board and management staff have all contributed to the success of OHM, which has resulted in the staff absence rate being reduced from 3.26% to 2.86% since 2009. Swisscom aims to continue to reduce it to 2.1% by 2015. Further details and performance indicators can be found in the table "Employees in figures".

See Report
Page 110

As a result of this positive trend, the premium rates for work-related accidents, non-work-related accidents and the insurance for sick pay allowance were reduced as of 1 January 2012.
Through its involvement in the ConCerto project in collaboration with the Federal Social Insurance Office, Swisscom makes an important contribution to ensuring collaboration with the social insurance agencies is coordinated as effectively as possible. ConCerto aims to simplify and accelerate the professional reintegration of individuals after suffering health problems. The ConCerto-pro association was set up in 2012 with the aim of organising all domestically active employers, Federal Disability Insurance offices, sick pay allowance and accident insurers, and SMEs to adopt and comply with the processes it specified. The association also supports and coordinates the further development of reintegration issues together with partners on a national level (FSIO, SECO, associations and institutions). Swisscom heads up the association steering committee.
The number of disability cases in 2012 fell by 23% in comparison to previous years. In addition, 16 trainee positions and internships were again filled in close cooperation with integration partners. These positions are available to employees with health problems. OHM and, if necessary, social insurance agencies such as the Federal Disability Insurance office (IV) provide assistance and support.
Swisscom aims to extend the focus of occupational health management to include prevention (Health Promoting Leadership) to promote and maintain employee health.

Occupational safety

As set out in the collective employment agreement (CEA), Swisscom undertakes to protect the personal integrity 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 and health care, prevention of work-related accidents and occupational illnesses, workplace safety), the CEA grants the employee associations the right of co-determination and the social partners the right of information. Various committees coordinate and organise training courses, initiatives and measures aimed at promoting 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 follows Guideline 6508 of the Federal Coordination Commission for Occupational Safety (FCOS), which covers the ten elements of the operational safety system and ensures the measures necessary for safeguarding the health and safety of employees involved in installing infrastructure.

Move! and the Swisscom Games

Move! is a programme which supports activities in the fields of health, sport and culture. Employees can become Move! coaches or take part in another activity. Activities are conducted during employee's free time. Move! aims to broaden employees' sporting and intellectual horizons and give staff the opportunity to meet their colleagues from other areas of the company.
The Swisscom Games is an event that is held every two years. Employees have the option of enrolling for a team or individual activity in the fields of sport, culture and society. The 2011 Swisscom Games saw four events held in various regions throughout Switzerland in which a total of around 6,000 employees took part. The Swisscom Games are a key networking opportunity for employees and have become an important part of the corporate culture. The next Games will take place in 2013.

Diversity

Living Diversity @ Swisscom

Diversity Management is a concept that is extremely important within an international working environment. The aim of the concept is to recognise the special knowledge and skills that each individual brings and use them for the benefit of the entire company.
Diversity champions an open working environment, in which employees are treated with respect and everyone is free to develop and reach their full potential. Swisscom sees diversity as something it must commit to internally within the company, as well as externally with its customers and partners. As regards diversity, Swisscom feels obliged to ensure the well-being of its employees, thus ensuring that they have sufficient motivation to deliver an outstanding performance.
Swisscom opens up new opportunities for all staff and views the various aspects of diversity in their entirety.
Swisscom considers an equal gender ratio to be fundamentally important for the brand and for ensuring the success of the company. Swisscom has thus set itself the goal of increasing the number of women at all management levels from 11% to 20% in the medium term. Swisscom therefore operates special programmes to foster the development of talented female employees and seeks promising female talents both internally and externally.
In addition, Swisscom is increasingly championing the use of solutions that support the compatibility of family and career, thus creating a good work-life balance. In terms of diversity, it finds it extremely important to have a wide range of cultures within the company. Thanks to the wide range of approaches, ideas and skills possessed by all of our employees, Swisscom is an innovative and creative company. Eighty-eight nations are represented among the staff at Swisscom.
The average age of the population and hence the average age of Swisscom's workforce is constantly increasing, which poses opportunities as well as risks. Swisscom is addressing this issue with its "Age Management" initiative (see below).
Swisscom considers sexual orientation to be an important aspect of diversity. The company's corporate culture is shaped by openness and tolerance.
Swisscom does not differentiate between employees with physical or mental impairments and those that are not impaired in relation to the opportunities offered to and the potential of individual employees. Swisscom would rather build on the individual strengths and skills offered by each individual employee. No cases of discrimination were reported in 2012.

See Appendix
www.swisscom.ch/GRI-2012

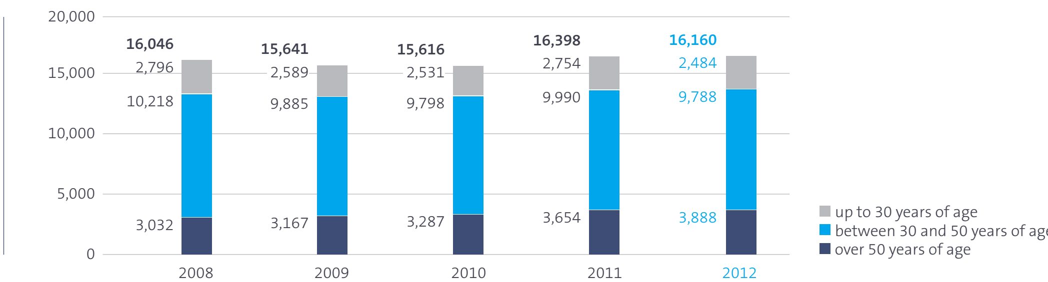
Diversity @ Swisscom:
Swisscom's workforce includes

88 different nationalities

Age management

Swisscom is using "age management" to address demographic trends in good time and find innovative ways of allowing older employees to continue in active employment. Because the average age of employees, the wider population and therefore also Swisscom's customers is increasing all the time, the company set what is called "BestAge projects". These projects focus on meeting the needs of older employees and older customers. The measures and programmes implemented in call centres and shops accommodate these needs. Older employees are serving and advising older customers. Further initiatives include in-house consulting, where older senior managers advise line management, provide coaching and allow others to benefit from their experience through involvement in projects. Older employees can also be used as quality assurance specialists in network construction projects.
Swisscom has been a member of the Swiss Demographics Forum since 2011. Currently comprising seven finance and service companies, the Swiss Demographics Forum is a platform whose aim is to compile and draw up basic principles for establishing sustainable and successful demographic management. In 2012, the members of the forum developed a variety of practical solutions that could be used by the participating companies.

Age structure of employees in full-time equivalent



Equal pay

Swisscom takes great care to ensure equal pay for men and women. The company's salary system is structured in such a way as to award equal pay for equivalent duties, responsibilities and performance. To this end, the individual functions are assigned to function levels according to their requirements and a salary band is defined for each function level. This stipulates the remuneration range for equivalent duties and responsibility. Pay is determined within this range based on the individual employee's performance and experience. As part of its salary review, Swisscom grants employees who have performed better and are lower down the salary band a pay rise beyond the usual salary adjustments. This allows any existing wage disparities to be evened out on an ongoing basis. When conducting the salary review, Swisscom also checks whether there are any pay inequalities between men and women within individual organisational units and corrects them in a targeted manner.
Swisscom also uses the federal government's equal pay tool (Logib) to conduct periodic reviews of its salary structures to ascertain whether disparities exist between men's and women's pay. Previous reviews have revealed only minor pay discrepancies, well under the tolerance threshold of 5%.
In 2011, Swisscom joined the Equal Pay Dialogue, an initiative set up by the employer and employee umbrella organisations in association with the federal government to review equal pay. The positive outcome of the Equal Pay Dialogue confirms that Swisscom salaries conform to the principle of equal pay.

See
www.lohngleichheitsdialog.ch

Employee satisfaction

In May 2012, Swisscom conducted an extensive survey to gauge the satisfaction of Swisscom staff. Around 80% of the workforce participated. The results show that there is a high level of job satisfaction and an extremely high level of employee commitment at Swisscom. The employees gave all of the areas under review a significantly better score than in the 2010 survey, and some of the scores were above-average when compared to other companies in the sector.
Below is a summary of the key findings:

- The level of commitment shown towards Swisscom has risen in comparison to the 2010 survey (87 out of 100 points in comparison to 86 out of 100 points in 2010). This is an above-average result in comparison to other companies.
- Job satisfaction has also improved, scoring two points more than in 2010 (73 out of 100 points).
- Employees are enjoying their work and being part of their respective team, and consider Swisscom an innovative company and an attractive employer.
- Employees were particularly critical of cost management and the opportunities for career progression.

In light of the employee survey results, the Group Executive Board has agreed upon the following course of action:

- As a result of the pleasing results and a clear upward trend in employee satisfaction versus the 2010 survey, the decision was taken to forego setting up a Group-wide taskforce.
- Instead, the Group Executive Board has decided to continue with all of the activities already initiated.

Employees in figures

	Unit	2010	2010 in %	2011	2011 in %	2012	2012 in %
Personnel structure in Switzerland							
Employees in FTE according to GRI scope	FTE/%	16,057	100.0%	16,628	100.0%	16,269	100.0%
Thereof employees included in the following analysis	FTE/%	**15,616**	**97.3%**	**16,398**	**98.6%**	**16,160**	**99.3%**
Employees with full-time employment	FTE/%	13,500	86.4%	14,208	86.6%	13,954	86.3%
Employees with part-time employment	FTE/%	2,116	13.6%	2,190	13.4%	2,206	13.7%
Employees with unlimited employment	FTE/%	15,478	99.1%	16,342	99.7%	16,100	99.6%
Employees with limited employment	FTE/%	138	0.9%	56	0.3%	60	0.4%
Female employees	FTE/%	4,357	27.9%	4,546	27.7%	4,330	26.8%
Male employees	FTE/%	11,259	72.1%	11,852	72.3%	11,830	73.2%
Employees up to 30 years of age	FTE/%	2,531	16.2%	2,754	16.8%	2,484	15.4%
Employees between 30 and 50 years of age	FTE/%	9,798	62.8%	9,990	60.9%	9,788	60.6%
Employees over 50 years of age	FTE/%	3,287	21.0%	3,654	22.3%	3,888	24.1%
Average age	Years	41.2	n/a	41.3	n/a	41.9	n/a
Female employees in top management	FTE/%	15	12.0%	15	11.8%	11	9.1%
Male employees in top management	FTE/%	110	88.0%	112	88.2%	110	90.9%
Female employees in middle management	FTE/%	212	9.7%	242	10.4%	269	11.1%
Male employees in middle management	FTE/%	1,968	90.3%	2,078	89.6%	2,150	88.9%
Temporary employees	FTE	1,415	9.1%	1,520	9.3%	1,636	10.1%
Apprenticeship positions	number of jobs	805	5.2%	800	4.9%	907	5.6%
Personnel structure in Switzerland							
Number of performance dialogues held	FTE	17,462	97.9%	18,779	98.8%	18,779	98.8%
Fluctuation in Switzerland							
Leavings/fluctuation women	FTE/%	551	12.6%	534	11.7%	510	11.8%
Leavings/fluctuation men	FTE/%	1,179	10.5%	1,421	12.0%	1,125	9.5%
Fluctuation rate total	FTE/%	1,730	11.1%	1,955	11.9%	1,635	10.1%
Leavings up to 30 years of age	FTE/%	419	24.2%	464	23.7%	387	23.7%
Leavings up to 50 years of age	FTE/%	905	52.3%	1,120	57.3%	932	57.0%
Leavings from 30 to 50 years of age	FTE/%	406	23.5%	371	19.0%	316	19.3%
Absences due to accidents and sickness in Switzerland							
Days lost due to work-related sickness	number of days	377	0.010%	5	–	2	–
Days lost due to sickness	number of days	97,856	2.46%	98,916	2.39%	99,942	2.42%
Days lost due to work-related accidents	number of days	2,752	0.07%	2,252	0.05%	2,846	0.07%
Days lost due to non-work-related accidents	number of days	17,199	0.42%	15,037	0.36%	15,086	0.37%
Days lost total	number of days	118,184	2.92%	116,210	2.80%	117,876	2.86%
Days lost per FTE	number of days/FTE	7.6	n/a	7.1	n/a	7.3	n/a

Innovation and development

In a dynamic environment in which the market situation and general conditions are constantly changing, innovation is key in ensuring long-term success. Swisscom is working on future-oriented issues that will sustainably strengthen Swisscom's position on the market.

In the field of innovation, Swisscom carries out research and development work as well as projects which ensure that new products are ready to be brought onto the market. Based on "megatrends" and "unknowns" the company develops future scenarios and analyses future customer requirements.

Innovation process

Research

Swisscom divides its research activities over the following long-term themes:

- **Development of services in the TV and entertainment segment:** the technical possibilities in the TV and entertainment segment are subject to rapid change, while new global and local service providers are entering the market. Swisscom follows all technological and economic trends and develops new solutions in order to ensure that its TV and entertainment offering continues to remain competitive. In addition to the TV offering, Swisscom is increasingly working on developing innovations in related services, such as video conferencing and gaming.
- **Future development of the Swisscom infrastructure:** the constant demand for bandwidth, the rapidly growing use of mobile infrastructure and customer demands to be online everywhere at all times all present Swisscom with new challenges. Swisscom is investing in the development of new technologies in order to ensure a better experience for the customer. Swisscom aims to promote Green ICT services in order to reduce costs and set itself apart from the competition. As a result, Swisscom launched a pilot project which involved data centres being cooled by fresh air rather than more traditional air-conditioning systems.
- **Future business models for the telecommunications industry:** thanks to its know-how and expertise as a telecoms company, Swisscom is keen to offer new support services and to establish itself as an important link in the Internet service value chain. Acting as an interface between Internet providers and end customers, Swisscom offers tools for identity, data and security management. Swisscom is also investing in the development of new skills in the area of real-time and data analysis. This investment should help Swisscom better customise its services and identify potential faults in the network in good time.

Incubation and implementation

Swisscom is keen to incorporate new ideas from research to tap new areas of business and optimise costs. It therefore reviews every promising idea in terms of profitability, feasibility and what it offers customers. If an idea fulfils the relevant requirements, it is quickly tested and brought to market. For example, Swisscom is currently pursuing new approaches to the digital home, new television experiences and energy saving in Swisscom data centres.

See
www.swisscom.ch/innovation

New ideas are generated within the company or are the result of open innovation from customers, start-ups and partners. Swisscom operates its own open innovation platform in the form of Swisscom Labs, which has several thousand registered users.

Green Touch project

Green Touch is a global initiative which aims to dramatically improve energy efficiency in ICT networks by a factor of 1,000. Green Touch was set up in 2010 and is already supported by 50 manufacturers, academic institutions and network operators. As a founding member, Swisscom played a key role in the launch of Green Touch and is involved in two research areas.

See
www.greentouch.org

In its third year, Green Touch presented a prototype to the public which was developed by several of the consortium's partners. The prototype significantly reduces the radiation generated by a system through the combination of several antennas.

Tapping into new growth areas

Changed consumer behaviour and technological developments present an opportunity to tap into new growth areas. Swisscom is investing in progressive solutions in the public health sector, the dynamic control of energy consumption and the intelligent networking and control of appliances in the home. These solutions will, for example, optimise energy consumption and provide people with more comfort, security and efficiency in their home.

Successes

Below are a number of examples of products that have been developed ready for market:

- **Solar Impulse:** around the world in a solar-powered plane. The Swisscom Innovation department developed the entire communication infrastructure for Solar Impulse, thus providing pilots with an extremely reliable connection to the team on the ground. The development of the infrastructure proved to be exceptionally challenging, as extremely strict requirements in terms of minimum weight, energy efficiency and resistance to fluctuations in temperature had to be met.
- **Mobile Payment:** make payments and collect loyalty points in future using a smartphone instead of a card. Swisscom has worked together with several partners from the financial and retail sectors to successfully carry out a field test for Mobile Payment. The test is based on Near Field Communication (NFC) technology and involves the cards commonly used today being virtualised in mobile phones.
- **Fibre to the Street:** fast broadband access available to all. As an alternative solution to FTTH (Fibre to the Home) in which the fibre-optic cable is routed into the house, FTTS (Fibre to the Street) has been developed so that the fibre-optic network is around 200 metres away from the building. From this distance, individual properties are connected to the fibre-optic network via the copper network already in place. Customers in Riggisberg were provided with extremely fast broadband access (up to 400 Mbps) as part of a test of the FTTS method. The next step in this process is to further develop this method and prepare it for deployment in a larger catchment area.

Long-term Swisscom investments

Insightful future scenarios

Future of entertainment
Entertainment has always been an important part of human life and will continue as such in the future. Scenarios describe how entertainment will influence human life and business areas in 2022.

Future of retail
Retail and consumerism may face major changes over the coming years. The sharp increase in the number of technologies available for online and mobile shopping may well mark the beginning of a new era in consumerism.

Future of transportation
The current concept of transport is undergoing a process of unavoidable change. A new age of transportation appears to be on the horizon, opening up a host of new opportunities for the Swisscom Green ICT programme.

Information security partnership with ETH Zurich
Swisscom is helping to establish a new professorship for Information Security at The Federal Institute of Technology in Zurich (ETH). The aim of this is to improve Switzerland's standing as a research centre, thus establishing it on a global level, and to create a platform for an exchange of expertise between the scientific and economic worlds.

SGS

CERTIFICATION

SGS CERTIFICATION of the Swisscom Ltd 2012 GRI Sustainability Report

SCOPE

SGS was commissioned by Swisscom to conduct an independent assurance of the GRI-based disclosure on sustainability in 2012. Our assurance scope included the GRI disclosure obligations and figures in accordance with the GRI Index published at www.swisscom.com/GRI-2012. The scope of the assurance, based on the SGS Sustainability Report Assurance methodology, included all texts and 2012 data in accompanying tables contained in the printed Annual Report 2012 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, Version 3.1 (2011) 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, Version 3.1 (2011). SGS also certified the environmental management systems of Swisscom (Switzerland) Ltd, Swisscom Broadcast Ltd and cablex Ltd, and SQS has certified the environmental management system of Swisscom IT Services 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 2012 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 2012. 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 consistent and comprehensive controlling of the instructions' implementation. They were added to the list of objectives.

We believe that the existing gaps are not significant and the sustainability report meets the requirements of level A+ of the GRI, Version 3.1 (2011) in accordance with the GRI Index.

SIGNED FOR AND ON BEHALF OF SGS

Jakob Koster, Lead Auditor

Elvira Bieri, Lead Auditor

Zurich, 25 January 2013

www.SGS.COM

Corporate Governance and Remuneration Report

Swisscom is committed to progressive corporate governance in every respect.

Company structure

Swisscom Switzerland

Fastweb

Swisscom IT Services

Swisscom Participations

Other operating segments

Group Head-quarters

Subsidiaries

Associates

Corporate Governance

Remuneration report

Corporate Governance

Corporate governance is a fundamental component of Swisscom's corporate policy and is based on transparency and clearly defined responsibilities. Swisscom complies with the guidelines of the SIX Swiss Exchange and the provisions of the Swiss Code of Obligations and takes account of the recommendations of economiesuisse contained in the Swiss Code of Best Practice for Corporate Governance.

Principles

Transparency in financial reporting, as well as clearly assigned responsibilities governing interactions with shareholders, the Board of Directors, the Group Executive Board and Group companies, are the cornerstones of Swisscom's corporate governance policy.
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 Articles 663b^{bis} and 663c Paragraph 3 of the Swiss Code of Obligations. Swisscom also complies with the recommendations of the Swiss Code of Best Practice for Corporate Governance issued by economiesuisse, the umbrella organisation representing Swiss business.

See www.swisscom.ch/basicprinciples

Swisscom's principles and rules on Corporate Governance are set out primarily in the company's Articles of Incorporation, Organisational Rules and the Rules of Procedure of the Board of Directors' committees. These documents are regularly reviewed and revised as and when necessary.
Of particular importance is the Code of Conduct approved by the Board of Directors. It contains a declaration by Swisscom of its commitment to absolute integrity as well as compliance with the law and all other external and internal rules and regulations. Swisscom expects its employees to take responsibility for their actions, show consideration for people, society and the environment, comply with applicable rules, demonstrate integrity and report any violations of the Code of Conduct. The latest version of these documents can be viewed online on the Swisscom website, and revised or superseded versions can be accessed in the "Download Archive"

See www.swisscom.ch/basicprinciples

1 Corporate structure and shareholders

1.1 Group structure

1.1.1 Operational Group structure

Swisscom Ltd is the holding company responsible for overall management of the Swisscom Group. It comprises four divisions: Group Finance & Controlling (from 2013 Group Business Steering), Group Strategy & Business Development (from 2013 Group Strategy & Innovation), Group Communications (from 2013 Group Communications & Responsibility) and Group Human Resources. Strategic and financial management of the autonomous Group companies, which are divided into three categories (strategic, important, other), is assured through the assignment of powers and responsibilities by the Board of Directors of Swisscom Ltd. Seats on the Board of Directors of the "strategic" company Fastweb S.p.A. are held by the CEO of Swisscom Ltd (as Chairman) together with the CFO (Chief Financial Officer) and CSO (Chief Strategy Officer) and other representatives of Swisscom Ltd. Seats on the Board of Directors of the "strategic" company Swisscom IT Services Ltd are held by the CFO of Swisscom Ltd (as Chairman) together with the CSO and other representatives of Swisscom; from 2013 the seats will be held by the CEO of Swisscom Ltd (as Chairman) together with the aforementioned persons and other representatives of Swisscom. In addition, the Boards of Directors of these two strategic companies are supplemented by external members. Until the end of 2012, the Board of Directors of the "strategic" company Swisscom (Switzerland) Ltd was identical to that of Swisscom Ltd. From 2013, Swisscom will be represented on the Board of Directors by the CEO (as Chairman) and the other Group Executive Board representatives, with the exception of the Head of Swisscom (Switzerland) Ltd. In the case of the "important" Group companies, the responsibilities of the Chairman of the Board 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.

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

A list of Group companies, including company name, registered office, percentage of shares held, share capital and segment affiliation, is given in Note 41 to the consolidated financial statements. For the purposes of segment reporting in the consolidated financial statements, reporting is divided into the segments "Residential Customers", "Small and Medium-Sized Enterprises", "Corporate Business", "Wholesale" and "Network & IT", which are grouped together as "Swisscom Switzerland", as well as "Fastweb" and "Other Operating Segments", notably Swisscom IT Services, Swisscom Participations and Swisscom Hospitality Services. "Group Headquarters", which includes inter alia the Group divisions Worklink AG and Swisscom Re Ltd, are reported separately.

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1.1.2 Listed companies

Swisscom Ltd, a company governed by Swiss law and headquartered in Ittigen (canton of Berne, Switzerland), is listed in the Main Standard of the SIX Swiss Exchange (Securities No. 874251; ISIN Code: CH0008742519; Ticker Symbol: SCMN). Trading in the United States is conducted over-the-counter (OTC) as a Level 1 programme (Symbol: SCMWY; ISIN No. CH008742519; CUSIP for ADR: 871013108). At 31 December 2012, Swisscom Ltd had a stock market capitalisation of CHF 20,400 million. The shares of Fastweb S.p.A, headquartered in Milan, Italy, were delisted from the Borsa Italiana following the full takeover by Swisscom on 22 March 2011.

1.2 Disclosure notifications of significant shareholders

Information on significant shareholders must be made available if any disclosure notifications pursuant to Article 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 reaches, exceeds or falls below 3, 5, 10, 15, 20, 25, $33^{1/3}$, 50 or $66^{2/3}$ per cent of the voting rights of Swisscom Ltd.

There were no disclosure notifications in the year under review. Information on significant shareholders can be found in Note 8 to the financial statements of Swisscom Ltd.

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1.3 Cross-shareholdings

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

2 Capital structure

2.1 Capital

At 31 December 2012, 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.

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 stand-alone financial statements under commercial law in the years 2010 to 2012:

In CHF million	Share capital	Capital surplus reserves	Reserve for treasury shares	Retained earnings	Total equity
Balance at 1 January 2010	**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**
Net income	–	–	–	474	474
Dividends paid	–	(234)	–	(854)	(1,088)
Proceeds from sale of treasury shares	–	–	(1)	1	–
Balance at 31 December 2011	**52**	**21**	**–**	**4,462**	**4,535**
Net income	–	–	–	1,749	1,749
Dividends paid	–	–	–	(1,140)	(1,140)
Balance at 31 December 2012	**52**	**21**	**–**	**5,071**	**5,144**

On 27 April 2010 the Annual General Meeting approved a dividend of CHF 20 per share. On 31 December 2010 capital contribution reserves of Swisscom Ltd amounted to CHF 487 million, of which CHF 255 million were reported under general reserves and CHF 232 million under retained earnings. On 20 April 2011 the Annual General Meeting approved the conversion of CHF 466 million of capital contribution reserves to free reserves and the payment of these together with other free reserves of CHF 622 million as a dividend. The dividend for the 2010 financial year was set at CHF 21 per share, with CHF 9 paid from capital contribution reserves and CHF 12 from free reserves. On 4 April 2012 the Annual General Meeting approved an ordinary dividend of CHF 22 per share.

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 with the exception of treasury shares held by Swisscom are eligible for a dividend. There are no preferential rights. For further details, see section 6 "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 their shareholdings. However, they have no right to request the printing and delivery of certificates for their 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 threshold of 5% by trustees, provided the trustees and nominees disclose their trustee capacity. In addition, they must be subject to supervision by a banking or financial market supervisory authority or otherwise provide the necessary assurance of acting 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 limit of 5%, to request entry as a shareholder with voting rights for the account of an individual beneficial owner for no 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 restriction were granted in the 2012 financial year.

2.7 Debenture bonds, convertible bonds and options

Swisscom placed debenture bonds on the Swiss capital market for the first time in 2007. Details of the bonds (amount, interest rate, due date, term to maturity) are shown in the table below.

In CHF million, except where indicated	Par value	Nominal interest rate	Payment	Expiring
Debenture bonds in CHF	550	3.50%	19 Juli 2007	19 Juli 2013
Debenture bonds in CHF	350	3.75%	19 Juli 2007	19 Juli 2017
Debenture bonds in CHF	350	3.25%	22 October 2007	22 October 2010
Debenture bonds in CHF	250 [1]	3.75%	22 October 2007	19 Juli 2017
Debenture bonds in CHF	500	4.00%	17 September 2008	17 September 2015
Debenture bonds in CHF	1,250	3.50%	8 April 2009	8 April 2014
Debenture bonds in CHF	1,500	3.25%	14 September 2009	14 September 2018
Debenture bonds in CHF	500	2.625%	31 August 2010	31 August 2022
Debenture bonds in CHF	250	0.75%	31 August 2010	31 August 2012
Debenture bonds in CHF	500	1.75%	10 July 2012	10 July 2014

[1] Increase

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 comparable level). Debenture bonds of CHF 350 million and 250 million were repaid on their due dates in 2010 and 2012 respectively.

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The Swisscom Ltd equity participation scheme is described in Note 11 to the consolidated financial statements.

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 Swiss Confederation, represented on the Board by Hans Werder, owns a majority stake in Swisscom. Customer and supplier relationships exist between the Swiss Confederation and Swisscom. Details of these are given in Note 37 to the consolidated financial statements.

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In the year under review, Barbara Frei was elected to the Board of Directors at the Annual General Meeting on 4 April 2012. At the same time, Othmar Vock retired from the Board.
An overview of the composition of the Board of Directors at 31 December 2012, 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
Hansueli Loosli [1, 2, 3, 4, 5]	1955	Chairman	2009	2013
Barbara Frei [1]	1970	Member	2012	2014
Hugo Gerber [2]	1955	Member, representative of the employees	2006	2014
Michel Gobet [1]	1954	Member, representative of the employees	2003	2013
Torsten G. Kreindl [3, 6]	1963	Member	2003	2013
Catherine Mühlemann [1]	1966	Member	2006	2014
Richard Roy [2, 7]	1955	Deputy Chairman	2003	2013
Theophil Schlatter [3, 8]	1951	Member	2011	2013
Hans Werder [1, 3, 9]	1946	Member, representative of the Confederation	2011	2013

[1] Member of the Finance Committee.
[2] Member of the Audit Committee.
[3] Member of the Compensation Committee (Hansueli Loosli without voting rights).
[4] Since 21 April 2009 Member, since 1 September 2011 Chairman.
[5] Chairman of Nomination Committee
[6] Chairman of Finance Committee
[7] Chairman of Remuneration Committee
[8] Chairman of Audit Committee
[9] Designated by the Swiss Confederation.

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.

Board of Directors
from left to right

Michel Gobet, Representative of the employees
Richard Roy, Deputy Chairman
Barbara Frei, Board of Directors
Hugo Gerber, Representative of the employees
Hansueli Loosli, Chairman
Torsten G. Kreindl, Board of Directors
Catherine Mühlemann, Board of Directors
Hans Werder, Representative of the Confederation
Theophil Schlatter, Board of Directors

Hansueli Loosli

Swiss citizen

Education: Commercial apprenticeship; Swiss Certified Accountant and Controller

Career history: 1982–1985 Controller, Deputy Director, Mövenpick Produktions AG, Adliswil; 1985–1992 latterly Managing Director, 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 Committee and Coop Group Executive Committee, Coop Switzerland, Basel; January 2001–August 2011 Chief Executive Officer and Chairman of the Executive Committee, Coop Genossenschaft, Basel

Other mandates: Member of the Executive Committee, economiesuisse; Chairman of the Board of Directors, Coop Genossenschaft, Basel; Chairman of the Board of Directors, Transgourmet Holding AG, Basel; Chairman of the Board of Directors, Bell AG, Basel; Chairman of the Board of Directors, Coop Mineraloel AG, Allschwil

Barbara Frei

Swiss citizen

Education: Degree in mechanical engineering, ETH; doctorate (Dr. sc. techn.), ETH; Master of Business Administration, IMD Lausanne

Career history: Since 1998 various managerial positions in the ABB Group; 2008–2010 Country Manager, ABB s.r.o., Prague; since 2010 Country Manager, ABB S.p.A., Sesto San Giovanni and Regional Manager Mediterranean

Other mandates: Vice-Chairman, ABB SA Greece; Chairman of the Board of Directors, ABB SA France; Chairman of the Board of Directors, ABB Holding SA Turkey; member of the Board of Directors, ASEA Brown Boveri S.A. Spain

Hugo Gerber

Swiss citizen

Education: Diploma in postal services; IMAKA management programme; diploma in personnel and 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; RUAG Pension Fund Board of Trustees; member of the Management Committee, Swiss Travel Fund (Reka) Cooperative; member of the Board of Directors, Worklink AG; member of the Board of Directors, KPT Versicherungen AG

Michel Gobet

Swiss citizen

Education: Degree in history

Career history: General Secretary and Deputy General Secretary, 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; member of the Board of Directors, 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, Broadband Cable Business, Deutsche Telekom, and CEO, MSG Media Services; 1999–2005 partner, Copan Inc.; since 2005 partner, Grazia Group Equity GmbH, Stuttgart, Germany

Other mandates: Consultant to Pictet Funds, Geneva; member of the Board of Directors, XConnect Networks, London, UK; since May 2012 member of the Board of Directors, Starboard Storage Systems Inc., Boulder, Colorado, USA

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, Andmann Media Holding GmbH, Baar
Other mandates: Member of the Supervisory Board, Messe Berlin; member of the Supervisory Board, Kabel Deutschland; member of the Board, Switzerland Tourism; member of the Advisory Board, Luxodo

Richard Roy

German citizen
Education: Degree in engineering (university of applied sciences)
Career history: 1991–1995 member of the Executive Board, Hewlett Packard GmbH; 1995–1997 member of the Management Board and Executive Vice-President, Siemens Nixdorf Informationssysteme AG; 1997–2001 CEO, Microsoft GmbH, Germany; 2001–2002 Senior Vice-President, Corporate Strategy, Microsoft EMEA, Paris, France; since 2002 independent management consultant
Other mandates: Member of the Supervisory Board, Update Software AG, Vienna; until October 2012 member of the Board of Directors, Qnamic AG, Hägendorf

Theophil Schlatter

Swiss citizen
Education: Degree in business administration (lic. oec. HSG); qualified Public Accountant
Career history: 1979–1985 public accountant, STG Coopers & Lybrand; 1985–1991 controller, Holcim Management und Beratung AG; 1991–1995 CFO and member of the Executive Committee, Sihl Papier AG; 1995–1997 Head of Finance/Administration and member of the Executive Committee, Holcim (Switzerland) Ltd; 1997–March 2011 CFO and member of the Group Executive Board, Holcim Ltd
Other mandates: Member of the Board of Directors, Implenia AG; Chairman of the Board of Directors, PEKAM AG; member of the Board of Directors, Schweizerische Cement-Industrie-Aktiengesellschaft

Hans Werder

Swiss citizen
Education: Dr. rer. soc.; lic. iur.
Career history: 1987–1996 General Secretary, Berne Directorate of Public Works, Transport and Energy (BVE); 1996–2010 General Secretary, Federal Department of the Environment, Transport, Energy and Communications (DETEC)
Other mandate: Member of the Board of Directors, BLS AG

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. It currently comprises nine members. However, under the terms of the Articles of Incorporation it may comprise between seven and nine members and, if necessary, the number can be increased temporarily. The members are elected individually for a term of two years. Members may retire or be discharged 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. Hans Werder is currently the sole representative. 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 2012 financial year it met every one to two months for a total of ten meetings lasting an average of seven hours. It also held one teleconference. The Board of Directors conducted a training course at the beginning of 2012. During the year various members attended selected lectures and seminars. Wherever possible, the Board of Directors also attends the Swisscom Group's annual management meeting. The Board of Directors and the Audit Committee also conduct self-assessments, usually once a year.
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 the meetings of the Board of Directors. The Chairman sets the agenda. 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 for the 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 particular events, on the general course of business and major business transactions, as well as on any corrective measures that have been implemented. On average 99% of members were present at the meetings of the Board of Directors.
The Board of Directors has three standing committees and one ad-hoc committee tasked with carrying out detailed examinations of matters of importance. The committees consist of between four and five members. Each member of the Board of Directors also sits on at least one of the standing committees. The Chairman is a member of all three standing committees; these are chaired by other Board members. The latter brief the Board of Directors ahead of the committee meetings. All members of the Board of Directors also receive copies of all Finance and Audit Committee meeting minutes. The duties and responsibilities of the Board of Directors are defined in the Organisational Regulations, those of the standing committees in the relevant committee regulations. The latest version of these documents can be viewed online on the Swisscom website, and revised or superseded versions can be accessed in the "Download Archive".

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

3.6 Committees of the Board of Directors

The composition, tasks and powers of the Board of Directors' committees as at 31 December 2012 are described below. Information is also provided on the frequency of the respective committee meetings, the usual duration of the meeting and the attendance quorum.

Finance Committee

This Committee is chaired by Torsten G. Kreindl; the other members are Barbara Frei, Michel Gobet, Hansueli Loosli, Catherine Mühlemann and Hans Werder. The CEO, CFO and the CSO usually attend meetings of the Finance Committee. Depending on the agenda, other members of the Group Executive Board or project managers are also called upon to attend the meetings. The Committee met five times in the 2012 financial year. On average the meetings lasted four hours and 97% of members were present. No teleconferences were held. The Committee prepares information for the attention of the Board of Directors on transaction-related matters, for example, in connection with setting up or dissolving important Group companies, acquiring or disposing of significant shareholdings, or entering into or terminating strategic alliances. The Committee also acts in an advisory capacity on matters relating to major investments and divestments. The Finance Committee has the ultimate decision-making authority when it comes to approving rules of procedure and directives in the areas of mergers and acquisitions and corporate venturing.

Audit Committee

This Committee is chaired by Theophil Schlatter; the other members are Hugo Gerber, Hansueli Loosli and Richard Roy. The CEO, CFO, Head of Group Accounting & Reporting, Head of Group Internal Audit and the external auditors also attend the Audit Committee meetings. Depending on the agenda, other management members are called upon to attend. The Committee met five times in the 2012 financial year. 95% of members were present at the meetings, which lasted on average six hours. No teleconferences were held in the year under review. All members are independent, i.e. they neither work nor have worked for Swisscom in an executive capacity, nor do they have any significant commercial links with Swisscom Ltd or the Swisscom Group. Theophil Schlatter is considered a financial expert. The Audit Committee handles all financial management business (for example, accounting, financial controlling, financial planning and financing), assurance (risk management, the internal control system, compliance and the internal audit) and the external audit. It also handles matters dealt with by the Board of Directors that call for specific financial expertise (payout policy, for example). The Committee is therefore the Board of Directors' most important controlling instrument and is responsible for monitoring the Group-wide assurance functions. It comments on business matters which lie within the decision-making authority of the Board of Directors and has the final say on those business matters for which it has the corresponding competence. Details of the Committee's activities are set out in the Audit Committee rules of procedure. The latest version of these documents can be viewed online on the Swisscom website, and revised or superseded versions can be accessed in the "Download Archive".

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

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Compensation Committee

For information on the Compensation Committee, refer to the section "Remuneration Report".

Nomination Committee

This Committee is formed on an ad-hoc basis for the purpose of preparing the groundwork for electing new members to the Board of Directors and the Group Executive Board. The Committee is presided over by the Chairman and the composition is determined on a case-by-case basis. The Committee carries out its work based on a specific requirements profile defined by the Board of Directors and presents suitable candidates to the Board of Directors. The Board of Directors elects the members of the Group Executive Board and submits the proposal for presentation to the Annual General Meeting for the election and approval of members of the Board of Directors. The Committee met once in the 2012 financial year. All members were present at the meeting, which lasted two hours.

3.7 Assignment of powers of authority

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. Pursuant to Article 716a of the Code of Obligations, the Board of Directors is responsible first and foremost for the overall management and supervision of persons entrusted with managing the company's operations. It decides on the appointment and removal of members of the Group Executive Board of Swisscom Ltd. It also determines the strategic, organisational, financial planning and accounting guidelines, taking into account the four-year targets set by the Federal Council in accordance with the provisions of the Telecommunications Enterprise Act (TEA) and the will of the Federal Council in its role as principal shareholder.

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 its statutory duties, the Board of Directors decides on business transactions of major importance to the Group, such as the acquisition or disposal of companies with a financial exposure in excess of CHF 20 million, or investments or divestments with a financial exposure in excess of CHF 50 million. The division of powers between the Board of Directors and the CEO is set out in Annex 2 to the Organisational Regulations (see function table in Rules of Procedure and Accountability). The latest version of these documents can be viewed online on the Swisscom website, and revised or superseded versions can be accessed in the "Download Archive".

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

3.8 Information instruments of the Board of Directors vis-à-vis 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 its Group companies. The CEO also reports in detail at each ordinary meeting of the Board of Directors on the general course of business, major events and any measures taken. The Board of Directors also receives a monthly report on all key performance indicators of 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 financial position, results of operations, cash flows and risk position of the Group and the segments. It also receives projections for the income statement, cash flow statement and balance sheet for the current financial year. Internal financial reporting is carried out in accordance with the same accounting principles and standards as external reporting. 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 relating to the Group at any time, provided this does not conflict with any abstention provisions or confidentiality obligations. The Board of Directors is also informed immediately of any events of an exceptional nature.
The Board of Directors examines risk management, the internal control system (ICS) and compliance management in detail once a year, on the basis of a written and oral report. The Audit Committee examines risk management in detail four times a year, on the basis of a report which includes all significant ICS and compliance risks. The Committee approves the integrated strategic audit plan and examines the Internal Audit reports at least four times a year. In urgent cases the Chairman of the Audit Committee is informed without delay about any significant new risks. He is also informed in a timely manner if there is a significant change in assessed compliance or ICS risks or if serious breaches in compliance (including violation of rules that are designed to ensure reliable financial reporting) are detected or currently being examined.

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

The Board of Directors is responsible for establishing and monitoring the Group-wide assurance functions of risk management, the internal control system, compliance and internal audit.

3.9.1 Risk management

Swisscom's approach to risk management complies with established risk management standards, most notably COSO II and ISO 31000. The aim of Swisscom's Group-wide enterprise risk management (ERM) is to protect the company's enterprise value, establish and operate an appropriate and recognised Group-wide risk management system, ensure purposeful, comprehensive reporting at different levels, provide appropriate documentation, and uphold a corporate culture that fosters risk awareness and effective risk management. Risk management covers risks in the areas of strategy, operations, compliance and financial reporting.
The Board of Directors delegates responsibility for implementing the ERM system to the CEO of Swisscom Ltd. Risk Management reports directly to the CFO. It coordinates all organisational units charged with risk management tasks and systematically manages them as required for reporting purposes.
The main risks to which Swisscom Ltd and its Group companies are exposed are identified in a comprehensive risk analysis. Each risk is assigned a risk owner. To enable the early identification, assessment and management of risks and their inclusion in strategic planning, the central Risk Management unit collaborates closely with the Strategy department and other departments concerned. The risks are assessed according to their probability of occurrence and their qualitative and quantitative effects in the event of occurrence, and managed on the basis of a risk strategy. The risks are evaluated in terms of their impact on the key performance indicators reported by Swisscom. The risk profile is reviewed and updated quarterly. The Audit Committee and the Group Executive Board are informed about significant risks, their potential effects and the status of corrective measures on a quarterly basis, and the Board of Directors on an annual basis. The risk factors are described in the Risks section of the Management Commentary.

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3.9.2 Internal control system

Swisscom operates an internal control system in order to ensure reliable and comprehensive Group-wide financial reporting and to safeguard against misreporting (irregularities or errors) of business transactions. On the basis of the internationally recognised COSO II framework, the internal control system guarantees the necessary procedures and instruments to ensure the timely identification and assessment of risks related to financial accounting, and to control such risks by initiating 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 key responsible units and bodies, in particular the Audit Committee. Swisscom sees the internal control system as an ongoing task and an opportunity to continually improve the underlying processes. A report on the internal control system is drawn up quarterly for the Audit Committee and once a year for the Board of Directors.

3.9.3 Compliance management

Based on guidelines issued by the Board of Directors, Swisscom operates a central compliance system aimed at ensuring compliance with legal requirements and other external regulations with comparable legal implications. The Board of Directors receives a full Group-wide compliance risk assessment report once a year. The Audit Committee receives a quarterly report on significant compliance risks.

3.9.4 Internal auditing

In addition to risk and compliance management, internal auditing is an important part of the Swisscom Group's corporate governance and is carried out by the Internal Audit unit. Internal Audit supports the Swisscom Board of Directors and the Audit Committee in carrying out their statutory and regulatory supervisory and controlling obligations. It highlights for management potential areas where business processes can be improved, documents audit findings and monitors any measures implemented.

Internal Audit is responsible for planning and performing audits throughout the Group in compliance with guidelines promulgated by the profession. It conducts an objective audit and evaluation of the suitability, efficiency and effectiveness, in particular of the governance and control processes, operational processes and the assurance functions of risk management, the internal control system and compliance, in all organisational units in the Swisscom Group.

Internal Audit possesses maximum independence. It is under the control of the Chairman of the Board of Directors and reports to the Audit Committee. At its meetings, the Audit Committee is briefed on audit findings and the status of any corrective measures implemented. In addition to ordinary reporting, Internal Audit informs the Audit Committee of any irregularities which come to its attention.

Internal Audit liaises closely and exchanges information with the external auditors. The external auditors have unrestricted access to the audit reports and audit documents of Internal Audit. Audit planning is closely coordinated with the external auditors. The integrated strategic audit, which includes the coordinated annual plan of both the internal and the external auditors, is prepared annually on the basis of a risk analysis, and presented to the Audit Committee for approval. Independently of this audit, ad-hoc audits can be commissioned based on information received on the whistle-blowing platform operated by Internal Audit. The reporting procedure approved by the Audit Committee ensures the anonymous and confidential receipt and handling of complaints relating to external reporting, financial reporting and assurance function issues. The Chairman of the Board of Directors and the Chairman of the Audit Committee are informed of notifications received and a report is drawn up at least once a year for the Audit Committee.

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 subordinates, in the first instance 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 heads of the divisions of Swisscom (Switzerland) Ltd and the CEO of Swisscom IT Services Ltd.
Daniel Ritz, Chief Strategy Officer (CSO), left the company at the end of January 2012. His successor, Jürgen Galler, took up his duties in September 2012. Eros Fregonas, former CEO of Swisscom IT Services Ltd, left the company at the end of April 2012. He was succeeded by Andreas König in October 2012. Swisscom will simplify its management structure and streamlined the Group Executive Board as of 1 January 2013. From 2013 the Group Executive Board comprises the following members: Carsten Schloter as CEO, Mario Rossi as CFO, Jürgen Galler as CSO, Hans C. Werner as Chief Personnel Officer (CPO), Urs Schaeppi (Head of Swisscom (Switzerland) Ltd) and Andreas König (CEO of Swisscom IT Services).

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An overview of the composition of the Group Executive Board at 31 December 2012, including the year of appointment of each member and their function within the Group, is given below.

Name	Year of birth	Function	Appointed as of
Carsten Schloter [1]	1963	CEO of Swisscom Ltd	January 2006
Ueli Dietiker [2]	1953	CFO and Deputy CEO of Swisscom AG	April 2002
Jürgen Galler	1966	CSO of Swisscom Ltd	September 2012
Kathrin Amacker-Amann	1962	CCO of Swisscom Ltd	October 2010
Hans C. Werner	1960	CPO of Swisscom AG	September 2011
Christian Petit	1963	Head of Residential Customers of Swisscom (Switzerland) Ltd	August 2007
Roger Wüthrich-Hasenböhler	1961	Head of Small and Medium-Sized Enterprises of Swisscom (Switzerland) Ltd	January 2011
Urs Schaeppi [1]	1960	Head of Corporate Business of Swisscom (Switzerland) Ltd	August 2007
Heinz Herren [1]	1962	Head of Network & IT of Swisscom (Switzerland) Ltd	January 2011
Andreas König	1965	CEO of Swisscom IT Services Ltd	October 2012

[1] Prior to current function member of the Group Executive Board: Carsten Schloter since 2000; Urs Schaeppi since 2006; Heinz Herren since August 2007.
[2] From March 2006 to December 2007 CEO Swisscom Fixnet Ltd.

4.2 Education, 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 provided below for each member of the Group Executive Board.

4.3 Management agreements

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

Group Executive Board
from left to right

Urs Schaeppi, Head of Corporate Business of Swisscom (Switzerland) Ltd
Hans C. Werner, CPO of Swisscom Ltd
Ueli Dietiker, CFO of Swisscom Ltd
Jürgen Galler, CSO of Swisscom Ltd
Carsten Schloter, CEO Swisscom Ltd
Christian Petit, Head of Residential Customers of Swisscom (Switzerland) Ltd
Heinz Herren, Head of Network & IT of Swisscom (Switzerland) Ltd
Andreas König, CEO Swisscom IT Services Ltd
Kathrin Amacker, CCO of Swisscom Ltd
Roger Wüthrich-Hasenböhler, Head of Small and Medium-Sized Enterprises of Swisscom (Switzerland) Ltd

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, Swisscom Ltd, and since January 2008 CEO, Swisscom (Switzerland) Ltd; April 2010–November 2010 acting CEO, Fastweb S.p.A.

Since March 2000 member of the Swisscom Group Executive Board

Other mandates: Member of the Executive Board, Association Suisse des Télécommunications (asut), Berne; member of the Executive Board, Swiss-American Chamber of Commerce, Zurich; member of the ITU Telecom Board, Geneva

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 of Swisscom Ltd; March 2006–December 2007 CEO, Swisscom Fixnet Ltd; since August 2007 CFO and since April 2002 Deputy CEO, Swisscom Ltd; September 2010–August 2011 acting Chief Personnel Officer (CPO), Swisscom Ltd; May 2012–September 2012 acting CEO, Swisscom IT Services Ltd

April 2002–December 2012 member of the Swisscom Group Executive Board

Other mandates: Member of the Board of Directors, Zuckermühle Rupperswil AG; member of the Board of Directors and Chairman of the Audit Committee, Sanitas Krankenkassen; member of the Board of Directors and Chairman of the Audit Committee, Wincare Krankenkassen; member of the Board of Directors, BKW AG; until December 2012 member of the Board of Directors, jobs.ch AG; member of the Board of Directors, Belgacom International Carrier Services S.A., Brussels; Vice-Chairman of the Board of Directors, CT Cinetrade AG; Chairman of the Board of Trustees, comPlan

Jürgen Galler

Italian citizen

Education: Dr rer. soc. oec., University of Saarland, Saarbrücken; Mag. rer. soc. oec., Johannes Kepler University, Linz, Austria

Career history: September 1992–November 1996 research associate, Institute for Business Information Technology, University of Saarland; December 1996–February 2000 various positions at IDS Scheer Korea and Japan, latterly as CEO; March 2000–September 2005 various positions at Lycos-Bertelsmann GmbH, latterly as Vice-President, Lycos Communication & Community Products and Managing Director, Lycos Madrid, Spain and Gütersloh, Germany; October 2005–June 2007 CTO and Head of Product Management, Spotigo GmbH, Madrid, Spain; July 2007–June 2009 Director, Product Management for Europe, Middle East & Africa, Google Inc.; July 2009–August 2012 Director, Product Management and Engineering for Europe, Middle East & Africa, YouTube, Google Inc., Zurich, Switzerland; since September 2012 Chief Strategy Officer (CSO), Swisscom Ltd

Since September 2012 member of the Swisscom Group Executive Board

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), Swisscom Ltd

October 2010 –December 2012 member of the Swisscom Group Executive Board

Other mandates: Member of the Board of Trustees, Merian Iselin Stiftung, Basel; until March 2012 member of the Board of Trustees, Basel-Karlsruhe Forum, Basel; member of the Board of Trustees, World Demographic and Ageing Forum, St. Gallen; member of the Board of Trustees, ETH Zurich Foundation; member of the Board of Trustees, Swiss Foundation for the Protection of Children

Hans C. Werner
Swiss citizen
Education: PhD in business administration, Dr oec.
Career history: 1997–1999 Rector, Kantonsschule Büelrain; 1999–2000 Head of Technical Training and Business Training; 2001 Divisional Operation Officer, Reinsurance & Risk Division, Swiss Re; 2002–2003 Head of HR Corporate Centre and HR Shared Services, Swiss Re; 2003–2007 Head of Global Human Resources, Swiss Re; 2007–2009 Head of HR and Training, Schindler Aufzüge AG; 2010–2011 HR Vice President Europe North and East, Schindler; since September 2011 Chief Personnel Officer (CPO), Swisscom Ltd
Since September 2011 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
August 2007–December 2012 member of the Swisscom Group Executive Board
Other mandate: Member of the Board of Directors, CT Cinetrade AG

Roger Wüthrich-Hasenböhler
Swiss citizen
Education: Degree in electronic engineering (HTL), Executive MBA HSG
Career history: 2000–2005 Head of Business Customer Sales, Swisscom Mobile Ltd; 2006–2007 Head of Marketing and Sales, Swisscom Solutions Ltd; 2008–2010 Head of Marketing and Sales, Swisscom Corporate Business, and CEO, Webcall GmbH; since January 2011 Head of Small and Medium-Sized Enterprises, Swisscom (Switzerland) Ltd
January 2011–December 2012 member of the Swisscom Group Executive Board
Other mandates: Member of the Board of Directors, Raiffeisenbank am Ricken Genossenschaft; since June 2012 member of the Board of Directors, Genossenschaft basecamp4hightech (bc4ht); since January 2012 member of the Foundation Board, BlueLion Foundation

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, Electronics Production, Ascom AG; 1994–1998 plant manager, 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 mandate: Member of the Board of Directors, BV Group, Berne

Heinz Herren
Swiss citizen
Education: Degree in electronic engineering (HTL)
Career history: 1986–1988 Hasler AG; 1988–1991 XMIT AG; 1991–1993 Ascom Telematik AG; 1993–1994 Bedag Informatik; 1994–2000 3Com Corporation; 2000 Inalp Networks Inc.; 2001–2005 Head of Wholesale Marketing, Swisscom Fixnet; 2005–2007 Head of Small and Medium-Sized Enterprises, Swisscom Fixnet; 2007–2010 Head of Small and Medium-Sized Enterprises, Swisscom (Switzerland) Ltd; since January 2011 Head of Network & IT, Swisscom (Switzerland) Ltd
August 2007–December 2012 member of the Swisscom Group Executive Board

Andreas König
Austrian citizen
Education: Degree in mechanical engineering (Dipl. Ing. ETH)
Career history: 1989–1990 MacNeal-Schwendler; 1990–1996 Silicon Graphics, 1996–October 2012 various positions at NetApp, including as Vice President, Central and Eastern Europe from 2001–2004; 2004–2007 Vice President, Sales, EMEA; 2007–September 2012 Senior Vice President and General Manager EMEA; since October 2012 CEO, Swisscom IT Services Ltd
Since October 2012 member of the Swisscom Group Executive Board

5 Remuneration, shareholdings and loans

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All information on the remuneration of the Board of Directors and the Group Executive Board of Swisscom Ltd is provided 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 holder 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

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 of the voting shares represented in the following cases:
- Introduction of restrictions on voting rights
- Conversion of registered shares to bearer shares and vice versa
- Change in the Articles of Incorporation concerning special quorums for resolutions

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 said 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 are 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 share register with voting rights are entitled to vote at the Annual General Meeting. As in previous years, the share register was not closed before the Annual General Meeting for fiscal 2011 held on 4 April 2012. Shareholders registered in the share register with voting rights by 4 p.m. on 30 March 2012 were entitled to vote.

7 Change of control and defensive measures

7.1 Duty to make an offer

Under the terms of the Telecommunications Enterprise Act (TEA), the Swiss Confederation must hold the majority of the capital and voting rights in Swisscom Ltd. This requirement is also set out in the Articles of Incorporation. There is no duty to submit a takeover bid as defined in the Federal Act on Stock Exchanges and Securities Trading, since this would contradict the TEA.

7.2 Clause on change of control

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Details of the clauses on change of control are given in 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 auditors of Swisscom Ltd and the Group companies (with the exception of Fastweb, which is audited by PriceWaterhouseCoopers S.p.A.) since 1 January 2004. Rolf Hauenstein of KPMG AG is responsible for the mandate as auditor-in-charge. KPMG AG is a licensed, state-supervised auditing firm.

8.2 Unapproved services

The Audit Committee 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, notably legal advice, may only be provided in parallel 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 auditing services provided by KPMG AG in 2012 amounted to CHF 3.26 million (prior year: CHF 4.15 million). Fees for additional audit-related services amounted to CHF 0.09 million (prior year: CHF 0.29 million). PricewaterhouseCoopers S.p.A. as auditors for Fastweb received remuneration of CHF 0.79 million in 2012 (prior year: CHF 0.79 million).

8.4 Supplementary fees

Supplementary fees of KPMG AG for non-audit services such as tax and other advisory services (other services) amounted to CHF 0.89 million (prior year: CHF 0.44 million).

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

The Audit Committee verifies the qualifications, performance and independence of the statutory auditors on behalf of the Board of Directors, approves the integrated strategic audit plan, 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 also 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. He is also responsible for observing the statutory rotation principle for the auditor-in-charge. The statutory auditors, represented by the auditor-in-charge and his representative, usually attend all Audit Committee meetings. They report to the Committee in detail on the performance and results of their work, in particular regarding the final annual audit. They submit a written report to the Board of Directors and the Audit Committee on the implementation and results of the final annual audit, as well as on their findings with regard to accounting and the internal control system. The Chairman of the Audit Committee also liaises closely with the auditor-in-charge and regularly reports to the Board of Directors.

9 Information policy

Swisscom pursues an open, active information policy vis-à-vis the general public and the financial markets. It publishes comprehensive, consistent and transparent financial information on a quarterly basis.
Swisscom therefore 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 2013 financial year will be published on the following dates:

- Interim Report: 2 May 2013
- Interim Report: 7 August 2013
- Interim Report: 7 November 2013
- Annual Report: February 2014

9.2 The Annual General Meeting will be held on:

- 4 April 2013

See www.swisscom.ch/financialreports

The Interim Reports 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.

See www.swisscom.ch/adhoc/en

Push and pull links for the distribution of ad-hoc communications can also be found on the Swisscom website.

www.swisscom.com/generalmeeting

A recording of the Annual General Meeting of 4 April 2012 is available as a webcast on the Swisscom website.

Remuneration Report

Remuneration paid to the Board of Directors and the Group Executive Board is tied to the generation of sustainable returns and therefore creates an incentive to achieve long-term corporate success as well as added value for shareholders.

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 (Executive Board as defined in Article 4 of the Articles of Incorporation) of Swisscom Ltd and will be put to a consultative vote at the Annual General Meeting on 4 April 2013.
The Remuneration Report is based on Article 5 of the Corporate Governance Directive issued by the SIX Swiss Exchange. Swisscom also complies with the recommendations of the Swiss Code of Best Practice for Corporate Governance issued by economiesuisse, the umbrella organisation representing Swiss business. Information and comments on remuneration and shareholdings pursuant to 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.

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Remuneration principles

The remuneration principles applicable to the Board of Directors and the Group Executive Board are systematic, transparent and geared to the long term. Salaries of all Swisscom Group employees are determined by 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 on a long-term basis highly skilled and motivated specialist staff and managers. The variable performance-related component is an additional management instrument aimed at achieving overarching goals. It serves to motivate employees, including management, to contribute to the company's long-term success. The Management Incentive Plan, which is binding on all members of the Board of Directors and the Group Executive Board, also ensures direct financial participation in the medium-term performance of Swisscom's shares. In addition to the details provided in this section, further information on the Management Incentive Plan can be found in Note 11 to the consolidated financial statements.

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Decision-making powers

Division of tasks between the Board of Directors and the Compensation Committee

The Board of Directors approves the personnel and remuneration policy for the entire Group, as well as the general terms and conditions of employment for members of the Group Executive Board. It also 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. The Compensation Committee handles business matters of the Board of Directors concerning remuneration, submits proposals to the Board of Directors in this context, and decides on the business which falls within its remit. While for the members of the Board of Directors no abstention obligation exists concerning the setting of their remuneration, the CEO and the other members of the Group Executive Board are not entitled to attend meetings at which discussions take place or decisions are made with regard to their remuneration. The decision-making powers are defined in the Organisational Regulations of the Board of Directors and the regulations for the Compensation Committee. The latest versions of these documents can be accessed on the Swisscom website. Revised or superseded documents can also be viewed there in the "Download Archive".

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

The following table shows the division of tasks between the Board of Directors and the Compensation Committee.

Subject	**Compensation Committee**	**Board of Directors**
Personnel and remuneration policy	–	A [1]
General terms and conditions of the Group Executive Board	P [2]	A
Guidelines of variable performance-related compensation to the Group Executive Board	P	A
Equity participation schemes of the entire Group	P	A
Concept of Compensation to members of the Board of Directors	P	A
Compensation of the Board of Directors	P	A
Incentive targets	P	A
Compensation of the CEO of Swisscom Ltd	P	A
Total remuneration to the Board of Directors	P	A
Compensation to members of the Group Executive Board (excl. CEO)	A [3]	–

[1] A stands for approval.
[2] P stands for proposal.
[3] In the context of the Board of Directors defined total remuneration.

Composition and functioning of the Compensation Committee

The Compensation 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) and the Audit Committee (Theophil Schlatter) as well as the representative of the Swiss Confederation, Hans Werder. As Chairman of the Board of Directors, Hansueli Loosli attends committee meetings but has no voting rights.
The Committee met four times in the 2012 financial year. All members were present at the meetings, each of which lasted approximately two hours. No teleconferences were held. The CEO and CPO (Chief Personnel Officer) attend the meetings in an advisory capacity, unless the agenda items exclusively concern the Board of Directors or the CEO and CPO themselves, in which case the CEO and CPO are not present. Minutes are kept of the meetings. The Chairman reports orally on the activities of the Compensation Committee at the next meeting of 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 is reviewed every December for the following year to ensure it is still appropriate. In December 2011 the Board of Directors opted not to adjust its remuneration for the 2012 financial year. This decision was based on the following benchmarks: the study on remuneration for the 30 listed companies in the Swiss Leader Index (SLI) for the 2010 business year, which was conducted by Towers Watson, a consulting firm which is active worldwide in the field of top management remuneration, and the publicly accessible study by ethos on management compensation at the 48 largest exchange-listed companies in Switzerland (SMI and SMIM) in the 2010 business year.

Remuneration

The remuneration plan provides for a basic salary 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 120,000 net each. Each member of the Finance and Audit Committees is entitled to remuneration of CHF 10,000 net, while each member of the Compensation Committee receives an equivalent individual functional allowance. In addition, the Vice-Chairman and the Chairman of the Finance and Compensation Committees are each entitled to an allowance in an amount of CHF 20,000 net. The Chairman of the Audit Committee receives CHF 50,000 net. The representative of the Swiss Confederation receives CHF 40,000 net for the special duties related to his function. Meeting attendance fees are also paid (CHF 1,250 net for a whole day and of CHF 750 net for a half-day). Out-of-pocket expenses are reimbursed on the basis of actual costs incurred. No significant non-cash benefits are paid.
The members of the Board of Directors are required to draw 25% of their basic remuneration including individual allowances in the form of shares. Swisscom then increases the amount to be invested by 50%. Remuneration (excluding meeting attendance fees) therefore comprises two-thirds cash and one third shares. The amount of the share purchase obligation can vary in the case of members who join, leave or take over or give up a function during the year. The shares allocated based on their tax value, rounded up to whole numbers of shares, and are subject to a three-year blocking period. In future, the members of the Board of Directors will also undertake to maintain a minimum shareholding of an annual emolument (basic emolument plus an individual allowance). This must be implemented within four years after election to the Board of Directors. The shares which are allocated in April of each reporting year are recorded at market value as of the acquisition date, if purchased (usually three weeks before allocation), or at the market value on the date of allocation, if treasury shares are allocated. In April 2012, 1,927 shares were allocated to the members of the Board of Directors (prior year: 1,895 shares) with a tax value of CHF 310 per share (prior year: CHF 346). The market value was CHF 361 per share (prior year: CHF 412).

Total remuneration paid to the individual members of the Board of Directors for the financial years 2012 and 2011 is presented in the tables below, broken down into individual components. As regards the disclosure of non-cash benefits and expenses, these are dealt with from a tax point of view. Accordingly, neither non-cash benefits nor expenses are included in reported compensation. Remuneration is lower year-on-year, due mainly to the fact that in the previous year the number of Board members was increased for a period of four months.

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

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

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

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

Remuneration paid to the Group Executive Board

Principles

In keeping with Swisscom's general remuneration policy, remuneration paid to the Group Executive Board consists of a fixed basic salary in cash and a variable performance-related component in cash and shares 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 in the form of a bonus in cash or shares. In the case of one member of the Group Executive Board, part of the fixed remuneration takes the form of shares which, like the variable performance-related share of profits, are paid out in April of the year following the reporting year. The shares are allocated on the basis of their tax value, rounded up to whole numbers of shares, and are subject to a three-year blocking period.
As a rule, the Compensation Committee reviews individual remuneration paid to members of the Group Executive Board every three years of employment. Besides individual performance, the amount of the remuneration depends on the market rate for the position and the function, with the latter carrying greater weight. Relevant benchmarks are used. The following three comparative studies carried out by the renowned consultancy firms Towers Watson and Aon Hewitt are all based on data available in 2011 and were used by Swisscom as benchmarks: The "Top Executive Remuneration" study by Towers Watson covers 23 companies in various sectors, with headquarters in Switzerland. More than half are represented in the SMI and have average revenues of CHF 8 billion and an average workforce of 14,000 (FTEs). The "Swiss Headquarters Executive Total Compensation Measurement Study" by Aon Hewitt covers 98 Swiss companies and international groups in all sectors, with global or regional headquarters in Switzerland, average revenues of CHF 3.3 billion and an average workforce of 8,900. The international "European Executive Survey", also produced by Aon Hewitt, covers 33 European groups, mainly telecommunications companies, with average revenues of CHF 34 billion and an average workforce of 78,000 (FTEs). Due to their numerous reference companies, these studies provide the basis for a representative comparison. In the evaluation of these studies, Swisscom took into account factors such as sector, revenue, number of employees and location. During the reporting year the remuneration of one Group Executive Board member was adjusted to reflect these benchmarks and to bring the salary into line with the market.

Targets for the variable performance-related component

The 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 Compensation Committee. The relevant targets set for the reporting year are based on the Swisscom Group's budget figures for 2012.
Three target levels are defined: "Group (excluding Fastweb)", "Customers" and "Segments". All members of the Group Executive Board are measured against Group targets (excluding Fastweb) and customer targets and, depending on their function, against targets of other segments for which they are responsible. Group targets consist of financial targets, while customer targets are measured by improvements in customer interaction/satisfaction in the customer group for which the Group Executive Board member is responsible. Additional targets tailored to the relevant position of each Group Executive Board member consist of financial and non-financial targets.

The following table illustrates the target structure valid for Group Executive Board members in the year under review, showing the three target levels, individual targets and the respective weighting.

Target levels	Weighting of targets level	Objectives	Weighting of targets
Group (excluding Fastweb)	30–40%	Net revenue EBITDA margin Operating free cash flow	9–12% 9–12% 12–16%
Customers	30%	Improvement of the customer interaction and customer satisfaction, respectively	30%
Segments	30–40%	Net revenue Operating free cash flow Targets of segments	0–20% 0–20% 0–40%
Total	**100%**	**Total**	**100%**

Swisscom's target structure aims to strike a balance between financial performance and market performance, taking into account the specific area of responsibility of the individual Group Executive Board member.

Depending on their function, Group Executive Board members receive a variable performance-related component of between 40% and 117% of their fixed basic salary if they meet their targets. The amount of the performance-related component paid out depends on the extent to which the targets set by the Compensation Committee are achieved. When defining these targets, the level of achievement (from overachievement to underachievement) is defined as a basis for calculating the target value. Special factors can also 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 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 targets fixed in the year under review, and is paid in April of the following year. Members of the Group Executive Board receive 75% of the variable performance-related component in cash and 25% in shares, with the exception of one member who receives 64% in cash 36% in shares. During the period under review no bonuses for outstanding individual performance were awarded. 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 share-based compensation for the reporting period is increased by a factor of 1.19 to reflect 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 prior to allocation) or, if treasury shares are allocated, as of the date of allocation. Shares for the year under review will be allocated in April 2013. A total of 3,170 shares with a tax value of CHF 310 per share and a market value of CHF 361 per share were allocated to members of the Group Executive Board in April 2012 for the 2011 financial year. In April 2011, a total of 3,128 shares with a tax value of CHF 346 per share and a market value of CHF 412 per share were allocated for the 2010 financial year.

Achievement of targets

Group targets (excluding Fastweb) were achieved in the year under review and in some cases were slightly exceeded. Customer targets in the individual segments were largely achieved and in some cases exceeded. Fastweb's targets were largely achieved. The other targets of the segments were also largely achieved and in some cases exceeded.

Total remuneration

As regards the disclosure of non-cash benefits and expenses, these are dealt with from a tax point of view. The disclosed fringe benefits therefore only include a share in a company car. Reported pension benefits (amounts which give rise to pension entitlements or increase pension benefits) encompass all savings, guarantee and risk contributions paid by the employer to pension plans. The following table shows total remuneration paid to the members of the Group Executive Board for fiscal years 2012 and 2011, broken down into individual components and including the highest amount paid to one member. Any 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. Two members of the Group Executive Board stepped down in the year under review. Subsequent to stepping down, one member of the Group Executive Board received remuneration during the year under review for advisory services provided as support for the interim solution. No additional remuneration was paid and hence no termination benefits are reported. One member of the Group Executive Board received compensation as reparation for deferred entitlements to share and option plans which were forfeited as a result of joining Swisscom. In the year under review the ratio of the basic salary (total CHF 4.353 million) to the variable performance-related bonus (total CHF 4.318 million) was 50.2% to 49.8%. The total remuneration paid to the CEO rose by 16.6%. The increase in remuneration paid to the CEO and the other members of the Group Executive Board is mainly due to higher target achievement.

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

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

Planned adjustments to remuneration system as per 2013

The remuneration system for the Group Executive Board was revisited in the year under review. In order to strengthen the focus on the long-term performance of Swisscom, members of the Group Executive Board will in future be obliged to hold a minimum number of Swisscom shares. The minimum shareholding to be held by the CEO shall be equivalent to two years' basic salary. The remaining members shall maintain a shareholding equivalent to one year's basic salary. The shareholding must be acquired within a four-year period. To this end, Group Executive Board member have the opportunity to draw a higher proportion of the variable performance-related component of their salary in shares. The variable performance-related component is now capped at 130% (previously 200%).

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 contracts 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 mandates 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 Swisscom Group company Worklink AG, no other members of the Board of Directors or the Group Executive Board received any additional remuneration for mandates performed for Swisscom Ltd or any of its subsidiaries.

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

With the exception of compensation paid to one member of the Group Executive Board after stepping down, for advisory services provided as support for the interim solution, no remuneration was paid to former members of the Board of Directors or the Group Executive Board in the year under review. Nor was any remuneration paid to persons closely related to members of the Board of Directors or the Group Executive Board. Information on the meaning of "closely related persons" can be found in Note 13 to the financial statements of Swisscom Ltd.

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Loans and credits granted

In the 2012 financial year, 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 Group Executive Board or to persons closely related to them. Nor are there any receivables of any kind outstanding.

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

Blocked and non-blocked shares held by members of the Board of Directors and the Group Executive Board or persons closely related to them as at 31 December 2012 and 2011 are listed in the table below:

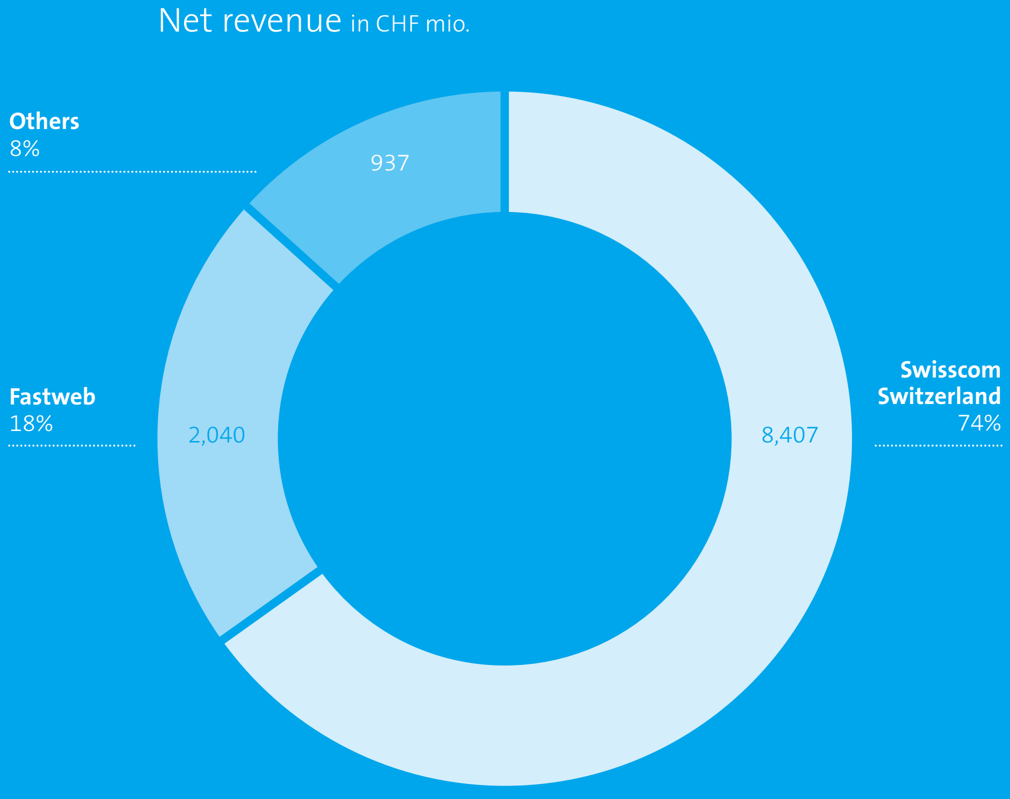
Number	31.12.2012	31.12.2011
Hansueli Loosli [1]	915	412
Barbara Frei [2]	151	–
Hugo Gerber	888	730
Michel Gobet	1,255	1,097
Torsten G. Kreindl	899	705
Catherine Mühlemann	878	720
Richard Roy	1,087	869
Theophil Schlatter [3]	518	360
Othmar Vock [4]	–	1,058
Hans Werder [5]	506	288
Total shares of the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

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

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.



Consolidated financial statements

Financial statements of Swisscom Ltd

Consolidated income statement

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

Consolidated statement of comprehensive income

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

Consolidated balance sheet

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

Consolidated statement of cash flows

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

Consolidated statement of changes in equity

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

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

Notes to the consolidated financial statements

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

1 General information

The Swisscom Group (hereinafter referred to as “Swisscom”) provides telecommunication services and is active primarily in Switzerland and Italy. A more detailed description of Swisscom’s business activities is to be found in Notes 3.16 and 6. The consolidated financial statements of Swisscom as of and for the year ended 31 December 2012 comprise Swisscom Ltd, the parent company and its subsidiaries. A table of the Group subsidiaries is set out in Note 41. Swisscom Ltd is a limited-liability company incorporated in Switzerland under a private statute and has its registered office in Ittigen (Berne). Its address is: Swisscom Ltd, Alte Tiefenaustrasse 6, 3048 Worblaufen. Swisscom Ltd is listed on the SIX Swiss Exchange. As of 31 December 2012, the Swiss Confederation (“Confederation”), as majority shareholder, held 56.8% of the voting rights and issued capital of Swisscom Ltd. The Confederation is obligated by current law to hold the majority of the capital and voting rights. The Board of Directors of Swisscom has approved the issuance of these consolidated financial statements on 6 February 2013. The consolidated financial statements must be approved at the Annual General Meeting of Shareholders of Swisscom Ltd to be held on 4 April 2013.

2 Basis of preparation

The consolidated financial statements of Swisscom have been prepared in accordance with International Financial Reporting Standards (IFRS) and in compliance with the provisions of Swiss law. The reporting period covers twelve months. The consolidated financial statements are presented in Swiss francs (CHF). Unless otherwise indicated, all amounts are stated in millions of Swiss francs. The balance sheet is classified according to maturities. Assets and liabilities due within one year are classified as current. The income statement is classified based upon the nature of the income/expense. The consolidated financial statements have been prepared on the historical cost basis, unless a Standard or Interpretation prescribes another measurement basis used in preparing a particular item in the consolidated financial statements.

3 Summary of significant accounting policies

3.1 Consolidation

Subsidiaries

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

Investments in associates

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

3.2 Foreign currency translation

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

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

3.3 Cash and cash equivalents

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

3.4 Trade and other receivables

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

3.5 Other financial assets

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

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

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

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

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

3.6 Inventories

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

3.7 Property, plant and equipment

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

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

[1] Technical installations.

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

3.8 Business combinations and goodwill

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

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

3.9 Other intangible assets

Research and development costs

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

Other intangible assets

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

Useful lives of other intangible assets

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

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

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

3.10 Non-current assets held for sale

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

3.11 Impairment losses

Impairment of financial assets

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

Impairment of goodwill

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

Impairment of property, plant and equipment and other intangible assets

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

3.12 Leases

Finance leases

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

Operating leases

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

3.13 Financial liabilities

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

3.14 Trade and other payables

Trade and other payables are recorded at amortised cost.

3.15 Provisions

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

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

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

3.16 Net revenue

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

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

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

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

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

Network & IT

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

Fastweb

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

Other Operating Segments

Other Operating Segments mainly comprise Swisscom IT Services, Swisscom Participations and Swisscom Hospitality Services. Swisscom IT Services is a provider of IT services. Its core business consists of the integration and operation of complex IT infrastructures. In addition, Swisscom IT Services provides comprehensive services to the financial industry in the area of system integration and business process outsourcing. Furthermore, Swisscom IT Services offers a full range of SAP services. Swisscom Participations maintains a portfolio of small and medium-size companies whose activities to a large degree closely follow or support the core business of Swisscom. In addition, Swisscom Participations offers solutions in the fields of eHealth and Smart Living. Swisscom Participations comprises mainly Alphapay Ltd, Billag Ltd, cablex Ltd, Datasport Ltd, Sicap Ltd, Swisscom Broadcast Ltd and Swisscom Real Estate Ltd. Alphapay Ltd is active as a debt collection agent and is specialised in receivables management for third parties. Billag Ltd collects radio and TV license fees on behalf of the Swiss Confederation. cablex Ltd operates in the field of construction and maintenance of wired and wireless networks in Switzerland, primarily in the field of telecommunication. Datasport Ltd is a service provider for recreational and mass sporting events. Sicap Ltd develops and operates applications for mobile phone operators. Swisscom Broadcast Ltd is the leading provider in Switzerland of radio services, of cross-platform services for clients in the media field and of security radio transmissions. Swisscom Hospitality Services offers Internet-based services to guests and customers in the hotel and congress sector in Europe and North America.

Revenue generated from services

Fixed networks

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

Mobile

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

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

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

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

3.17 Subscriber acquisition and loyalty-programme costs

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

3.18 Post-employment benefits

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

3.19 Share-based payments

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

3.20 Capitalised costs of self-constructed assets and other income

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

3.21 Financial income and financial expense

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

3.22 Income taxes

Income taxes include all current and deferred taxes which are based on income. Taxes which are not based on income, such as taxes on real estate and on capital are recorded as other operating expenses. Deferred taxes are computed using the balance sheet liability method whereby deferred tax is recognised in principle on all timing differences. Timing differences arise between the value of an asset or liability reported for tax purposes and its carrying amount in the financial statements and which will reverse in future periods. Deferred tax assets and liabilities are determined using the tax rates that are expected to apply when the timing difference reverses and based on the tax rates which are in force or announced as of the balance sheet date. Deferred tax assets are only recognised as assets to the extent that it is probable that they can be offset against future taxable income. Income tax liabilities on undistributed profits of Group companies are only recorded if the distribution of profits is to be made in the foreseeable future. Current and deferred tax assets and liabilities are offset when they relate to the same taxing authority and taxable entity.

3.23 Derivative financial instruments

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

3.24 Fair value

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

3.25 New and amended Standards and Interpretations

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

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

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

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

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

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

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

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

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

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

Goodwill

As of 31 December 2012, the carrying amount of goodwill from acquisitions totalled CHF 4,662 million. The recoverability of goodwill is tested for impairment annually during the fourth quarter or earlier if an indication of impairment exists. The value of goodwill is primarily dependent upon projected cash flows, the discount rate (WACC) and long-term growth rate. The significant assumptions are disclosed in Note 24. Changes to these assumptions may result in an impairment loss in the following year.

Post-employment benefits

Defined benefit obligations are calculated on the basis of various financial and demographic assumptions. The key assumptions for valuing the obligations are the discount rate, future salary and pension increases as well as the expected return on plan assets. As of 31 December 2012, the underfunding amounted to CHF 2,801 million which was recognised as a liability in the consolidated balance sheet. A reduction in the discount rate of 0.5% would result in an increase in the pension obligations of CHF 920 million. An increase in average future salary increases of 0.5% would lead to an increase in post-employment benefits of CHF 98 million. See Note 10.

Provisions for dismantling and restoration costs

Provisions are raised for costs incurred in connection with dismantling and restoring mobile-telephone and broadcasting stations of Swisscom Broadcast. As of 31 December 2012, the carrying amount of these provisions totalled CHF 512 million. The level of the provisions is primarily determined by estimates of future costs for dismantling and restoration and the timing of the dismantling. An increase in the estimated costs by 10% would result in an increase in the provision of CHF 46 million. A postponement of the date of dismantling by ten years would lead to a decrease in the provisions of CHF 75 million. See Note 28.

Provisions for regulatory proceedings

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

Proceedings conducted by the Competition Commission

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

Allowances for doubtful receivables

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

Deferred taxes

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

Useful lives of property, plant and equipment

As of 31 December 2012, the carrying amount of property, plant and equipment totalled CHF 8,517 million. In assessing the useful life of an item of property, plant and equipment, the expected use of the asset by the company, the expected physical wear and tear, technological developments as well as past experience with comparable assets are considered. The assessment of useful lives is based upon the judgment of management. A change in the useful lives may impact the future level of depreciation and amortisation recorded. See Notes 3.7 and 23.

5 Business combinations

Business combinations in 2012

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

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

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

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

Business combinations in 2011

Payments totalling CHF 21 million were made in 2011 for the acquisition of Group companies. Of this amount, CHF 12 million relates to deferred consideration for business combinations in prior years and CHF 9 million for businesses acquired in 2011. The newly acquired companies in 2011 are viewed each as non-significant business combinations and are thus reported on an aggregate basis.
On 15 March 2011, Swisscom Broadcast Ltd acquired the entire share capital of Solutionpark AG, a company operating in the field of video and TV streaming. The acquisition of Solutionpark AG is designed to broaden the existing range of services for events and media. Following acquisition, Solutionpark AG changed its name to Swisscom Event & Media Solutions Ltd. On 30 November 2011, Swisscom IT Services completed the acquisition of EFP Group and the Cirrus Group, which are active as SAP service providers. The acquisition of these two companies is designed to strengthen the existing portfolio of services offered in the field of SAP services. Following acquisition, both companies were merged with Swisscom Enterprise Solutions Ltd.
The aggregate allocation of acquisition costs to the net assets may be analysed as follows:

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

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

6 Segment information

Operating segments requiring to be reported are determined on the basis of a management approach. Accordingly, external segment reporting reflects the internal organisational and management structure used within the Group as well as internal financial reporting to the Chief Operating Decision Maker. In the case of Swisscom, the chief operating decision maker is the Board of Directors of Swisscom Ltd. Reporting is divided into the segments “Residential Customers”, “Small and Medium-Sized Enterprises”, “Corporate Business”, “Wholesale”, and “Network & IT” which are grouped under Swisscom Switzerland, “Fastweb”, and “Other Operating Segments”. In addition, unallocated costs are reported separately under “Group Headquarters”.

In segment reporting, the business divisions of Swisscom Switzerland are reported as individual segments. The support functions of finance, human resources and strategy of Swisscom Switzerland are embedded in the division Network & IT. Reported revenues and segment results correspond to the internal reporting system. No network costs are recharged for the financial management of customer segments. The results of the customer segments Residential Customers, Small and Medium-Sized Enterprises, Corporate Business and the segment Wholesale thus report their contribution margins prior to network costs. Network costs are planned, monitored and controlled by the business division Network & IT. The business division Network & IT is managed as a cost centre. For this reason, no revenue is credited to the Network & IT division within segment reporting. The segment results of Network & IT consist of operating expenses and depreciation and amortisation less capitalised self-constructed assets and other income. The sum of the segment results of Swisscom Switzerland is equal to the operating results (EBIT) of Swisscom Switzerland. Fastweb is one of the largest fixed-network operator and a leading provider of IP-based services in Italy and is reported in the consolidated financial statements as a separate segment. Other Operating Segments principally comprise Swisscom IT Services, Swisscom Participations and Swisscom Hospitality Services. Swisscom Participations encompasses primarily Alphapay Ltd, Billag Ltd, cablex Ltd, Datasport Ltd, Sicap Ltd, Swisscom Broadcast Ltd, Swisscom Real Estate Ltd as well as the areas of eHealth and Smart Living. Group Headquarters which includes unallocated costs, comprises mainly the Group central divisions of Swisscom, Swisscom Re Ltd and the employment company Worklink AG.

The services offered by each operating segment are described in Note 3.16. The segment results of the segments Fastweb and Other Operating Segments correspond to the operating result (EBIT) of these units. The latter reflects the net revenues from external customers and other segments less segment expenses and depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets. Segment expenses include the costs of materials and services, personnel costs and other operating costs less capitalised self-constructed assets and other income. Group Headquarters charges no management fees for its financial management services; similarly, the segment Network & IT recharges no network costs to other segments. Other intersegment services are recharged at market prices. Unrealised gains and losses may arise as a result of recharging services and sales of assets between the segments. These are eliminated and are reported in the segment information in the column “Elimination”. Capital expenditures by segment include additions to property, plant and equipment and other intangible assets.

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

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

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

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

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

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

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

2011, in CHF million	Residential Customers	Small and Medium-Sized Enterprises	Corporate Business	Whole-sale	Network & IT	Elimi-nation	Total Swisscom Switzer-land
Net revenue from external customers	4,906	1,127	1,754	609	–	–	8,396
Net revenue with other segments	176	27	95	388	–	(633)	53
Net revenue	**5,082**	**1,154**	**1,849**	**997**	**–**	**(633)**	**8,449**
Segment result	**2,796**	**875**	**914**	**391**	**(2,187)**	**1**	**2,790**
Associates	150	–	–	68	–	–	218
Capital expenditure in property, plant and equipment and other intangible assets	146	15	111	–	1,128	–	1,400
Depreciation and amortisation	95	5	57	–	832	(1)	988
Gain (loss) on disposal of property, plant and equipment, net	(1)	–	(1)	–	–	–	(2)
Share of results of associates	11	–	–	19	–	–	30

Disclosures by geographical regions

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

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

Disclosures by products and services

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

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

Significant customers

Swisscom has a large number of customers. No individual customers accounted for more than 10% of segment revenue in 2011 and 2012.

7 Net revenue

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

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

8 Goods and services purchased

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

9 Personnel expense

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

Termination benefit programmes

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

10 Post-employment benefits

Defined benefit plans

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

comPlan

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

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

Retired employees of PUBLICA

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

Fastweb

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

Pension cost

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

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

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

Status of pension plans

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

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

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

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

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

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

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

Actuarial assumptions

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

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

Additional disclosures on the defined benefit obligations and plan assets

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

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

Amounts recognised in other comprehensive income

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

11 Share-based payments

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

Management Incentive Plan

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

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

[1] Allocation for the fiscal year 2011.

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

[1] Allocation for the fiscal year 2010.

Other share-based payments plans

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

12 Other operating expense

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

13 Capitalised costs of self-constructed assets and other income

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

Capitalised costs of self-constructed assets include personnel costs for the production of technical installations, the construction of network infrastructures and the development of software for internal use. In September 2011, the Italian subsidiary Fastweb settled legal disputes with another telecommunication service provider. As a result thereof, Fastweb reduced its customer base by 197,000 and transferred the customer relationships to the other telecommunication service provider. In turn, Fastweb receives a one-time payment of EUR 56 (CHF 69 million), which was recorded as other income in the third quarter of 2011.

14 Financial income and financial expense

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

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

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

15 Income taxes

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

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

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

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

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

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

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

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

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

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

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

Deferred tax assets and liabilities have changed as follows:

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

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

Deferred tax assets relating to unused tax loss carry-forwards and to deductible temporary differences are recognised if it is probable that they can be offset against future taxable profits or existing temporary differences. At as 31 December 2012, various subsidiaries recognised deferred tax assets on tax loss carry-forwards and other temporary differences totalling CHF 904 million (prior year: CHF 728 million) since it was foreseeable that tax loss carry-forwards could be offset against future taxable profits. Of this amount, tax loss carry-forwards and other temporary differences of CHF 301 million (prior year: CHF 257 million) were recognised by subsidiaries reporting a loss in 2011 or 2012. On the basis of the approved business plans of these subsidiaries, Swisscom considers it probable that the tax loss carry-forwards and temporary differences can be offset against future taxable profits.

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

In CHF million	31.12.2012	31.12.2011
Expiring within 1 year	2	37
Expiring within 1 to 2 years	9	33
Expiring within 2 to 3 years	38	9
Expiring within 3 to 4 years	5	56
Expiring within 4 to 5 years	14	27
Expiring within 5 to 6 years	27	20
Expiring within 6 to 7 years	43	43
No expiration	220	203
Total unrecognised tax loss carry-forwards	**358**	**428**

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

16 Earnings per share

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

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

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

17 Cash and cash equivalents

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

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

18 Trade and other receivables

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

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

The geographical distribution of trade receivables is as follows:

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

Analysis of maturity and allowances

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

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

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

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

Construction contracts

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

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

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

19 Other financial assets

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

Loans and receivables

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

Available-for-sale financial assets

Available-for-sale financial assets primarily include financial investments in equity instruments. As a general rule, shares not quoted on stock exchanges are recorded at cost since their fair value cannot be reliably determined. As of 31 December 2012, the carrying amount of investments in shares recorded at cost totalled CHF 20 million (prior year: CHF 13 million).

Derivative financial instruments

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

20 Inventories

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

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

21 Other non-financial assets

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

22 Non-current assets held for sale

Non-current assets held for sale include real estate from the segment Other Operating Segments in an amount of CHF 1 million (prior year: CHF 1 million). Disposal is anticipated within the next twelve months. In 2012, non-current assets held for sale were sold for a total of CHF 12 million (prior year: CHF 14 million). A gain on disposal of CHF 9 million (prior year: CHF 9 million) was recorded under other income.

23 Property, plant and equipment

In CHF million	Land, buildings and leasehold improvements	Technical installations	Other assets	Advances made and assets under construction	Total
At cost					
Balance at 31 December 2010	**2,991**	**23,357**	**3,101**	**420**	**29,869**
Additions	7	982	223	414	1,626
Disposals	(18)	(920)	(198)	–	(1,136)
Additions from acquisition of subsidiaries	–	–	1	–	1
Adjustment to dismantlement and restoration costs	2	57	–	–	59
Reclassifications to non-current assets held for sale	(10)	–	–	–	(10)
Reclassifications	4	152	88	(244)	–
Foreign currency translation adjustments	(2)	(81)	1	–	(82)
Balance at 31 December 2011	**2,974**	**23,547**	**3,216**	**590**	**30,327**
Additions	6	1,091	223	382	1,702
Disposals	(101)	(235)	(195)	–	(531)
Additions from acquisition of subsidiaries	5	–	1	–	6
Adjustment to dismantlement and restoration costs	–	(45)	3	–	(42)
Reclassifications to non-current assets held for sale	(19)	–	–	–	(19)
Reclassifications	8	237	72	(323)	(6)
Foreign currency translation adjustments	(1)	(23)	–	–	(24)
Balance at 31 December 2012	**2,872**	**24,572**	**3,320**	**649**	**31,413**
Accumulated depreciation and impairment losses					
Balance at 31 December 2010	**2,125**	**17,682**	**2,163**	**–**	**21,970**
Depreciation	29	1,011	254	–	1,294
Impairment losses	1	–	–	–	1
Disposals	(16)	(920)	(189)	–	(1,125)
Reclassifications to non-current assets held for sale	(8)	–	–	–	(8)
Foreign currency translation adjustments	–	(27)	–	–	(27)
Balance at 31 December 2011	**2,131**	**17,746**	**2,228**	**–**	**22,105**
Depreciation	29	1,016	259	–	1,304
Disposals	(98)	(232)	(188)	–	(518)
Reclassifications to non-current assets held for sale	(16)	–	–	–	(16)
Reclassifications	–	(2)	(2)	–	(4)
Foreign currency translation adjustments	–	(7)	–	–	(7)
Balance at 31 December 2012	**2,046**	**18,521**	**2,297**	**–**	**22,864**
Net carrying amount					
Net carrying amount at 31 December 2012	**826**	**6,051**	**1,023**	**649**	**8,549**
Net carrying amount at 31 December 2011	**843**	**5,801**	**988**	**590**	**8,222**
Net carrying amount at 31 December 2010	**866**	**5,675**	**938**	**420**	**7,899**

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

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

24 Goodwill and other intangible assets

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

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

Auctioning of mobile phone frequencies

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

Goodwill impairment testing

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

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

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

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

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

Swisscom Switzerland

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

Fastweb

The impairment test in Fastweb was undertaken in the fourth quarter of 2012. The recoverable amount was determined on the basis of the value in use using the discounted cash flow method. The basis for projecting future cash flows is the business plan prepared by management for the five years 2013 to 2017. The latter takes into consideration historical empirical values and management's expectations regarding the future development of the relevant market. The impairment test took into account the following assumptions.

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

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

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

25 Investments in associates

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

The most significant participations classified as associates are LTV Yellow Pages, Cinetrade and Belgacom International Carrier Services. Dividends received totalling CHF 38 million (prior year: CHF 29 million) are attributable mainly to the dividends paid by LTV Yellow Pages, Cinetrade and Belgacom International Carrier Services.

On 21 March 2012, Swisscom acquired an 11.1% minority shareholding in the Italian company Metroweb for a purchase price of EUR 37 million (CHF 45 million). Metroweb is the operator of the largest glass fibre network in Milan and Lombardy. Through its representation on the Board of Directors of the company, inter alia, Swisscom can exercise a significant influence over Metroweb. For this reason, Metroweb is reflected in the consolidated financial statements of Swisscom as an associated company.

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

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

26 Financial liabilities

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

Money market borrowings

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

Bank loans and credit limit

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

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

Debenture bonds

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

In 2012, Swisscom issued one debenture bond aggregating CHF 500 million with a coupon rate of 1.75% and a term of twelve years. The amount taken up was applied to refinance existing loans. In 2012, a debenture bond totalling CHF 250 million was redeemed upon maturity. The effective interest rate on the debenture bonds is 3.23%. The investors are entitled to sell the debentures back to Swisscom if a shareholder other than the Swiss Confederation gains a majority share in Swisscom and at the same time, the company's rating falls below BBB–/Baa3.

Private placements

In CHF million	Due within	Par value in CHF	Carrying amount 31.12.2012	Carrying amount 31.12.2011
Private placements in CHF abroad	2017–2019	600	567	560
Private placements in CHF domestic	2012–2016	350	350	500
Private placements in EUR abroad	2013–2014	332	335	339
Total			**1,252**	**1,399**

In 2012, a private placement amounting to CHF 150 million was repaid. The interest rate risk of private placements maturing in 2016 is hedged with interest-rate swaps and was designated as cash flow hedges for hedge accounting purposes. The duration of the hedges is identical to the duration of the hedged private placements. The total EUR-denominated private placement was swapped to variable CHF financing using currency swaps. The swap of fixed interest-bearing EUR financing into variable CHF financing was designated as a fair value hedge. As in the prior year, no transaction costs were recorded as of 31 December 2012 in connection with the private placements. The effective interest rate on the private placements in CHF is 1.42%. For the EUR-denominated private placements, the rate is 0.71%. The Swiss-franc-denominated private placements maturing in 2017 through 2019 of CHF 600 million may become due for immediate repayment if the shareholding of the Swiss Confederation in the capital of Swisscom falls below 35% or if another shareholder can exercise control over Swisscom. The investors in the remaining private placements are entitled to resell their investments to Swisscom should the Swiss Confederation permanently give up its majority shareholding in Swisscom.

Financial liabilities from cross-border lease agreements

Between 1996 and 2002, Swisscom entered into various cross-border lease agreements under the terms of which parts of its fixed and mobile phone networks were sold or leased on a long-term basis and leased back. Swisscom defeased a significant part of the lease obligations through the acquisition of investment-grade financial investments. The financial assets were irrevocably deposited with a trust. In accordance with Interpretation SIC 27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease", these financial investments and payment under-taking agreements and the liabilities in the same amount are offset and not recorded in the balance sheet. At 31 December 2012, the financial liabilities and assets including accrued interest which arose from cross-border lease agreements amounted to USD 44 million or CHF 40 million, respectively, which, in compliance with SIC 27, were not recognised in the balance sheet (prior year: USD 42 million or CHF 39 million).

Liabilities arising from finance leases

In addition to the cross-border lease agreements described above, Swisscom concluded two agreements in 2001 for the sale of real estate. At the same time, Swisscom entered into long-term agreements to lease back part of the real estate sold which, in part, qualify as finance leases. The gain realised on real estate classified as finance leases was deferred. As of 31 December 2012, the deferred gains totalled CHF 187 million (prior year: CHF 191 million). The deferred gains are released to other income over the term of the individual leases. In 2012, CHF 4 million (prior year: CHF 5 million) of the deferred gains was released. The effective interest rate of the finance lease liabilities was 6.65%. The minimum lease payments relating to these leaseback agreements are included in the table below. In addition, other real estate has been leased under operating leases over durations ranging from 1 to 26 years. See Note 35. In 2012, contingent rental payments of CHF 4 million (prior year: CHF 4 million) were recorded as rental expense. As of the balance sheet date, future minimum lease payments and financial liabilities aggregated:

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

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

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

27 Trade and other payables

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

28 Provisions

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

Provisions for termination benefits

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

Provisions for dismantling and restoration costs

The provisions for dismantling and restoration costs relate to the dismantling of mobile phone and broadcasting stations of Swisscom Switzerland and Swisscom Broadcast and the restoration to its original state of the land owned by third parties on which the transmitters are located. The provisions are computed by reference to estimates of future dismantling costs and are discounted using an average interest rate of 1.63% (prior year: 1.88%). The effect of using different interest rates amounted to CHF 18 million (prior year: CHF 56 million). In addition, the assumption regarding the indexation of construction costs was subjected to a review and reduced by 0.50% to 1.5%. This resulted in a reduction of the provision of CHF 60 million. In 2012, adjustments in the amount of CHF 42 million (prior year: CHF 59 million) were recorded under the dismantling costs capitalised as part of property, plant and equipment and CHF 4 million (prior year: CHF 4 million) was recognised in the income statement. The non-current portion of the provisions is expected to be settled subsequent to 2020.

Provisions for regulatory proceedings

In accordance with the revised Telecommunications Act, Swisscom provides interconnection services and other access services to other telecommunication service providers in Switzerland. In previous years, several telecommunication service providers demanded from the Federal Communications Commission (ComCom) a reduction in the prices charged to them by Swisscom. Interconnection regulates the joint hook-up of Swisscom's networks and those of other telecommunication service providers. Since 2000, Swisscom charges its interconnection prices in accordance with the cost-accounting method of long-run incremental costs (LRIC) prescribed in the Ordinance on Telecommunication Services (FDV). The amended Telecommunications Act (TCA) and its implementing ordinances obligate Swisscom, from 1 April 2007 onwards, to offer further access services to the other providers of telecommunication services at prices which – with the exception of charges for subscriber connections over fixed landlines – are also computed in accordance with the LRIC cost-accounting method prescribed in the Ordinance on Telecommunication Services (FDV). Following a petition by two telecommunication service providers, ComCom established in its rulings of 10 March 2010 that Swisscom occupies a position of market dominance regarding all transmission technologies capable of being used for rental lines of all bandwidths throughout Switzerland. The only exception was connections between localities where the services of at least two alternative service providers are available in addition to those supplied by Swisscom. For this reason, ComCom ruled on cost-based prices for rental lines with bandwidths of 2 Mbit/s to 10 Gbit/s for the years 2007-2009 and thus lowered the related prices charged by Swisscom by 15–30%. On 26 April 2010, Swisscom appealed against these rulings. With its decisions of 28 February 2012 and 22 March 2012, the Federal Administrative Court largely dismissed the appeal of Swisscom. As a result, however, Swisscom was not required to adjust the provisions raised in prior year.
As of 31 December 2012, the provisions relating to the proceedings for interconnection and other access services of Swisscom (Switzerland) Ltd amounted to CHF 104 million. Settlements made in 2012 amounted to CHF 49 million. Settlements of the remaining claims are dependent upon the date on which legally binding rulings and decisions are issued.

Other provisions

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

Tax risks Fastweb

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

29 Contingent liabilities

Proceedings conducted by the Competition Commission

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

Regulatory proceedings

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

Other contingent liabilities

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

30 Other non-financial liabilities

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

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

31 Additional information concerning equity

Share capital and treasury shares

As of 31 December 2012, the total number of shares issued remained unchanged from the prior year at 51,801,943 shares. All shares have a par value of CHF 1 and are fully paid up. Each share entitles the holder to one vote. Shares with a market value aggregating CHF 6 million (prior year: CHF 9 million) were allocated for share-based compensation plans. See Note 11. The holdings of treasury shares have changed as follows:

	Number	Average price in CHF	In CHF million
Balance at 31 December 2010	**3,859**	**332**	**1**
Purchases on the market	18,253	404	7
Allocated for share-based compensation	(21,677)	391	(8)
Balance at 31 December 2011	**435**	**404**	**–**
Purchases on the market	15,500	361	6
Allocated for share-based compensation	(15,489)	361	(6)
Balance at 31 December 2012	**446**	**361**	**–**

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

Other reserves

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

The hedging reserves comprise the changes in the fair value of hedging instruments which were designated as cash flow hedges. Changes in the fair value of available-for-sale financial assets are recognised in the fair value reserves. Reserves arising from foreign currency translation adjustments comprise the differences from the foreign currency translation of the financial statements of subsidiaries and associates from the functional currency into Swiss francs. On 31 December 2012, cumulative foreign currency translation losses at Fastweb amounted to CHF 1,978 million (prior year: CHF 1,951 million).

Other comprehensive income

Other comprehensive income in 2012 may be analysed as follows:

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

Other comprehensive income in 2011 may be analysed as follows:

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

32 Dividends

Distributable reserves are determined on the basis of equity as reported in the statutory financial statements of the parent company, Swisscom Ltd, and not on the equity as reported in the consolidated financial statements. At 31 December 2012, Swisscom Ltd's distributable reserves amounted to CHF 5,082 million. The dividend is proposed by the Board of Directors and must be approved by the Annual General Meeting of Shareholders. The dividend proposed for the 2012 financial year is not recorded as a liability in these consolidated financial statements. Treasury shares are not entitled to a dividend.
Swisscom paid the following dividends in 2011 and 2012:

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

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

33 Financial risk management and supplementary disclosures regarding financial instruments

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

Market price risks

Foreign exchange risks

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

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

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

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

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

Sensitivity analysis

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

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

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

Interest rate risks

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

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

Sensitivity analysis

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

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

Credit risks

Credit risks from operating activities

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

Credit risks from financial transactions

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

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

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

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

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

Liquidity risk

Prudent liquidity management includes the holding of adequate reserves of cash and cash equivalents and marketable securities as well as the provision of adequate financing. Swisscom has processes and policies in place that guarantee sufficient liquidity in order to settle current and future obligations. Swisscom has an unchanged confirmed line of credit from banks with a maturity ending in 2015 of CHF 2,000 million. As of 31 December 2012, this line of credit had not been drawn-down, as in the prior year.
The contractual maturities of financial liabilities including estimated interest payments as of 31 December 2012 are as follows:

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

The contractual maturities of financial liabilities including estimated interest payments as of 31 December 2011 are as follows:

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

Estimation of fair values

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

Asset/liability categories and fair value of financial instruments

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

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

Fair value hierarchy

The fair value hierarchy encompasses the following three levels:
- Level 1: stock-exchange quoted prices in active markets for identical assets or liabilities;
- Level 2: other factors which are observable on markets for assets and liabilities, either directly or indirectly;
- Level 3: factors that are not based on observable market data.

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

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

Asset/liability categories and results of financial instruments

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

In CHF million	Loans and receivables	Available-for-sale	At fair value through profit or loss	Financial liabilities	Hedging transactions
2012					
Interest income (interest expense)	14	–	(4)	(258)	(5)
Foreign currency translation adjustments	(4)	–	(3)	6	–
Gains and losses transferred from equity	–	(5)	–	–	(3)
Net result recognised in income statement	**10**	**(5)**	**(7)**	**(252)**	**(8)**
Change in fair value	–	–	–	–	(5)
Gains and losses transferred to income statement	–	5	–	–	8
Net result recognised in other comprehensive income	**–**	**5**	**–**	**–**	**3**
Total net result by asset/liability category	**10**	**–**	**(7)**	**(252)**	**(5)**

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

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

Derivative financial instruments

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

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

Fair Value Hedges

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

In 2007, for the purpose of hedging the foreign currency and interest rate risks of financing in EUR, cross-currency swaps for EUR 48 million were entered into which were designated as fair value hedges for hedge accounting. As of 31 December 2012, the instruments designated for hedge accounting had negative fair values of CHF 18 million (prior year: CHF 17 million).

Cash Flow Hedges

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

As of 31 December 2012, derivative financial instruments include cross-currency swaps to hedge foreign exchange risks with respect to USD-denominated bank loans. These hedging instruments were designated for hedge accounting purposes, and, as of the balance-sheet date, had negative fair values of CHF 23 million (prior year: CHF 22 million). CHF 2 million (prior year: CHF 5 million) was recorded in the hedging reserve within consolidated equity as of 31 December 2012. The maximum remaining term of the hedges is one year.
Swisscom entered into interest rate swaps with final maturities in 2016 in order to hedge interest rate risks of CHF 350 million of the variable CHF-denominated interest-bearing private placements. These hedges were designated as cash flow hedges for hedge accounting purposes. As of 31 December 2012, these interest rate swaps were recorded with a negative fair value of CHF 17 million (prior year: CHF 17 million). CHF 18 million was recognised in the hedging reserve within consolidated equity for these hedging instruments (prior year: CHF 18 million). In 2009, interest rate swaps designated for hedge accounting for the premature hedging of the interest rate risk for the intended issuance of debenture loans totalling CHF 500 million were closed out. The effective share of CHF 24 million was left in the other reserves and is being released to interest expense over the hedged duration of debenture bonds issued in 2009. As of 31 December 2012, a negative amount of CHF 10 million (prior year: CHF 15 million) is recognised in the hedging reserve as part of consolidated equity.
As of 31 December 2012, derivative financial instruments include forward currency contracts of USD 159 million which serve to hedge future purchases of goods and services in the respective currencies. The hedges were designated for hedge accounting purposes. The hedges disclose a negative fair value of CHF 3 million (prior year: positive market value of CHF 5 million). In addition, hedging transactions in EUR were recognised in the prior year in a negative amount of CHF 4 million. A negative amount of CHF 3 million was recorded in the hedging reserve within consolidated equity for these designated hedging instruments (prior year: positive amount of CHF 1 million).

Other derivative financial instruments

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

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

Management of equity resources

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

In CHF million	31.12.2012	31.12.2011
Share of equity attributable to equity holders of Swisscom Ltd	4,132	4,272
Share of equity attributable to non-controlling interests	24	24
Total capital	**4,156**	**4,296**
Total assets	20,094	19,450
Equity ratio in %	20.7	22.1

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

In CHF million	31.12.2012	31.12.2011
Money market borrowings	–	130
Debenture bonds	5,455	5,199
Bank loans	1,169	1,177
Private placements	1,252	1,399
Finance lease liabilities	639	660
Other financial liabilities	268	266
Total financial liabilities	**8,783**	**8,831**
Cash and cash equivalents	(538)	(314)
Current financial assets	(40)	(73)
Non-current fixed interest-bearing deposits	(134)	(135)
Net debt	**8,071**	**8,309**
Operating income before depreciation and amortisation (EBITDA)	4,381	4,584
Ratio net debt/EBITDA	1.8	1.8

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

34 Supplementary information on the statement of cash flows

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

Purchase of minority shares in Fastweb

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

Other cash flows from financing activities

In 2012, other cash flows from financing activities aggregated CHF 12 million (prior year: CHF 4 million). This relates mainly to payments in connection with hedging contracts and the commitment fee for the guaranteed credit limit.

Non-cash investing and financing transactions

Additions to property, plant and equipment include additions from finance leases amounting to CHF 8 million (prior year: CHF 5 million). See Note 23. In 2011, following an agreement with the counterparty, receivables totalling USD 166 million (CHF 146 million) were offset against financial liabilities in the same amount and derecognised from the balance sheet.

35 Future commitments

Commitments for future capital expenditures

Firm contractual commitments for future investments in property, plant and equipment and other intangible assets as of 31 December 2012 aggregated CHF 868 million (prior year: CHF 658 million).

Operating leases

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

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

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

36 Research and development

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

37 Related parties

Majority shareholder

Pursuant to the Swiss Federal Telecommunication Enterprises Act ("Telekommunikationsunternehmungsgesetz, TUG"), the Swiss Confederation ("the Confederation") is obligated to hold a majority of the share capital and voting rights of Swisscom. On 31 December 2012, the Confederation as majority shareholder held 56.8% of the issued shares of Swisscom Ltd. Any reduction of the Confederation's holding below a majority would require a change in law which would need to be voted upon the Federal Assembly, which would also be subject to a facultative referendum by Swiss voters. As the majority shareholder, the Confederation has the power to control the decisions of the general meetings of shareholders which are taken by the absolute majority of effectively cast votes. This relates primarily to the approval of dividend distributions and the election of the members of the Board of Directors. Swisscom supplies telecommunication services to and in addition, procures services from the Confederation, the majority shareholder in Swisscom. The Confederation comprises the various departments and administrative bodies of the Confederation, governmental agencies and the other companies controlled by the Confederation (primarily the Post, Swiss Federal Railways, RUAG, and Skyguide) and the Swiss Broadcasting Corporation, SRG-SSR. All transactions are conducted on the basis of normal relationships with customers and suppliers and on conditions applicable to unrelated third parties. In addition, financing transactions were entered into with the Swiss Post on normal commercial terms.

Associates

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

Minority shareholders

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

Post-employment benefits funds

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

Transactions and balances

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

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

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

Key management compensation

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

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

38 Service concession agreements

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

39 Risk assessment process

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

40 Events after the balance sheet date

Approval of the consolidated financial statements

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

41 List of Group companies

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

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

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

Report of the Statutory Auditor

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

As statutory auditor, we have audited the accompanying consolidated financial statements on pages 149 to 216 of Swisscom Ltd, which comprise the income statement, statement of comprehensive income, balance sheet, statement of cash flows, statement of changes in equity and notes for the year ended 31 December 2012.

Board of Directors' Responsibility

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2012 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Report on Other Legal Requirements

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

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

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

KPMG AG

Rolf Hauenstein	Daniel Haas
Licensed Audit Expert	Licensed Audit Expert
Auditor in Charge	

Gümligen-Berne, 6 February 2013

Financial statements of Swisscom Ltd Income statement

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

Balance sheet

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

Notes to the financial statements

1 General information

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

2 Contingent liabilities

At 31 December 2012, guarantees in favour of third parties for the account of Group companies amount to CHF 308 million (prior year: CHF 305 million).

3 Fire insurance values of property, plant and equipment

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

4 Amounts payable to pension funds

As of 31 December 2012, there were no amounts payable to pension funds (prior year: CHF 1 million).

5 Debenture bonds issued

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

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

6 Treasury shares

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

7 Equity

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

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

Swisscom Ltd is a holding company established under Swiss law. According to the provisions of law governing the appropriation of retained earnings by holding companies, the share capital and appropriations to the general legal reserve to the extent of 20% of share capital as well as the reserve for treasury shares may not be distributed. As of 31 December 2012, distributable reserves aggregated CHF 5,082 million. Any dividend distribution must be proposed by the Board of Directors and approved by the Annual General Meeting of Shareholders.

8 Significant shareholders

On 31 December 2012, the Swiss Confederation (Confederation), as majority shareholder, held 56.8% of the issued share capital of Swisscom Ltd. The Federal Telecommunication Enterprises Act (TUG) stipulates that the Confederation must hold the majority of the capital and voting rights of Swisscom Ltd.

9 Participations and recording of dividends from subsidiaries

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

10 Assets subject to restriction

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

11 Information on risk assessment process

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

12 Net release of hidden reserves

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

13 Management compensation

Compensation for the members of the Board of Directors

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

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

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

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

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

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

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

Compensation for the members of the Group Executive Board

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

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

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

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

Payments to related parties

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

Loans and credits granted

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

Further information

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

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

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

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

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

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

Proposed appropriation of retained earnings

Proposal of the Board of Directors

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

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

[1] Excluding treasury shares.

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

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

Report of the Statutory Auditor

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

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

Board of Directors' Responsibility

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements for the year ended 31 December 2012 comply with Swiss law and the company's articles of incorporation.

Report on Other Legal Requirements

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

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

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

KPMG AG

Rolf Hauenstein	Daniel Haas
Licensed Audit Expert	Licensed Audit Expert
Auditor in Charge	

Gümligen-Berne, 6 February 2013

Swisscom is making enormous investments in the networks of the future and thus in Switzerland.

4G/LTE (Long Term Evolution): 4G/LTE is the successor technology to HSPA. LTE enables mobile broadband data speeds of up to 300 Mbps. 4G stands for "4th-generation mobile technology".

FTTS (Fibre to the Street)/FTTB (Fibre to the Building)/FTTC (Fibre to the Curb): FTTS, FTTB and FTTC with vectoring refer to innovative, hybrid broadband connection technologies (optical fibre and copper). These technologies enable fibre-optic cables to be laid as close as possible to the building, or to the basement in the case of FTTB, while the remaining section uses the existing copper cabling.

| Pages 233–240

Glossary

Technical terms

ADSL (Asymmetric Digital Subscriber Line): A broadband data transmission technology that uses the existing copper telephone cable for broadband access to the data network. Filters at the customer end and in the network prevents mutual interference, allowing traditional analogue telephony and data transmission to exist in parallel. Depending on the line length and other factors, the transmission speed varies between 150/50 kbps and a maximum of 6,000/600 kbps.

All-IP: All-IP is the technology behind the transition to a single, unified network based on the Internet Protocol (IP). All-IP means that all services such as television, the Internet or telephony run over the same IT network based on the Internet Protocol. Phone calls are no longer transmitted using analogue signals but instead take the form of data packets, as is already the case with Internet services. Thanks to the unified All-IP network infrastructure, devices and services can communicate with one another and exchange data. 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.

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): bps, kbps, Mbps.

Connectivity: Connectivity is the generic term used to denote IP services or the connection to the Internet and the ability to exchange data with any partner on the network.

DSL (Digital Subscriber Line): DSL is the generic term for transmission technologies that use subscriber lines based entirely or partly on copper. Examples of DSL technologies: ADSL or VDSL.

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. Up to 256 kbps can be transmitted over the Swisscom mobile network, and up to four customers can be online simultaneously. Today EDGE covers 99.8% of the Swiss population.

FTTH (Fibre to the Home): FTTH stands for the end-to-end connection of homes and offices using fibre-optic cables instead of traditional copper cables.

FTTS (Fibre to the Street)/FTTB (Fibre to the Building)/FTTC (Fibre to the Curb): FTTS, FTTB and FTTC with vectoring refer to innovative, hybrid broadband connection technologies (optical fibre and copper). With these technologies fibre-optic cables are laid as close as possible to the building, or up to the basement in the case of FTTB, while the remaining section uses the existing copper cabling.

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 global 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): HSPA is a further development of the UMTS mobile communications standard. HSPA enables large volumes of data to be transmitted at faster speeds. HSPA allows far more customers to use the same radio cell simultaneously and at a consistently high speed than would be possible 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 42 Mbps.

ICT (Information and Communication Technology): A term coined in the 1980s, combining the terms information technology and communication technology. The collective term denotes the convergence of information technology (information and data processing and the related hardware) and communication technology (technically aided communications).

IP (Internet Protocol): IP enables different types of services to be integrated on a single 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 (for example, television programmes and films) over an IP network.

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.

4G/LTE (Long Term Evolution): 4G/LTE is the successor technology to HSPA. LTE enables mobile broadband data speeds of up to 300 Mbps. 4G stands for fourth-generation mobile technology.

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.

OTT (Over the Top): OTT refers to content distributed by service providers over an existing network infrastructure without operating the infrastructure themselves. OTT companies offer proprietary services on the basis of the infrastructures of other companies in order to reach a broad range of users quickly and cost-efficiently.

PWLAN (Public Wireless Local Area Network): A PWLAN is a public local area network which enables data access using different wireless transmission technologies. Swisscom customers can access the PWLAN at 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: 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 1,800 MHz networks (which are most commonly used in Europe) as well as 850 MHz and 1,900 MHz networks.

Router: A router is a device for connecting 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).

TDM (Time Division Multiplexing): Multiplexing is a method which allows the simultaneous transmission of multiple signals over a single communications medium (line, cable or radio link), for example, by means of classic telephony (using an ISDN or analogue line). Multiplexing methods are often combined to achieve even higher utilisation. The signals are multiplexed once the user data have been modulated on a carrier signal. At the receiver end they are then demultiplexed and demodulated.

TIME (Telecommunications, Information, Media, Entertainment): The TIME market covers applications in the areas of telecommunications, IT, media and entertainment.

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. Today the UMTS network covers around 93% of the Swiss population.

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.

Vectoring: Interference between copper wire pairs is eliminated by replacing the hardware in neighbourhood distribution cabinets. From a technical standpoint, this allows existing bandwidths to be doubled or trebled.

VDSL (Very High Speed Digital Subscriber Line): VDSL is currently the fastest DSL technology, allowing data transmission speeds of over 50 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.

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 VPN at present is IP-VPN, where subscribers are connected over IP tunnels.

WLAN (Wireless Local Area Network): A WLAN is a network that connects several computers 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 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 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. Swisscom began extending optical fire to homes and offices (FTTH) in 2008. In future, fibre-optic technology will enable bandwidths in the gigabit range.

Data networks: Swisscom has several leased-line networks which are supplemented by an SDH (Synchronous Digital Hierarchy) and an Ethernet platform. These 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 tailored to customers' individual requirements concerning availability and security.

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 different 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 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 Swiss population. Swisscom began rolling out UMTS as far back as 2004, and since 2006 has continued to expand its mobile network using HSPA/HSPA+. This allows download speeds of up to 21 Mbps or even up to 42 Mbps in some areas. By the end of 2012, 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 2011 when it became the first mobile provider in Switzerland to launch a field trial with LTE. Since December 2012 Swisscom's 4G/LTE offerings have already been available to 20% of the Swiss population. At present LTE supports bandwidths of up to 150 Mbps.

Next-generation network: To enable more cost-effective use of new services such as VoIP and convergent solutions in the future, Swisscom is investing in an All-IP network infrastructure. This structure allows Swisscom to offer services irrespective of the type of access technology selected (copper, wireless or fibre optic). Having migrated the data transport network to IP, commissioned an IP-based telephony and multimedia platform, and launched its first IP-based services such as Swisscom TV and VoIP, Swisscom has already gained experience in All-IP offerings. 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 network: The PSTN 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.

Other terms

BSA (bit stream access): Regulated bit-stream access is a high-speed link which Swisscom sets up on the last mile (on a metallic pair cable from the local exchange to the home) and makes available 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.

ComCo (Competition Commission): ComCo 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. ComCo 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.

ComCom (Federal Communications Commission): ComCom is the decision-making authority for telecommunications. Its primary responsibilities include issuing concessions for use of the radio frequency spectrum as well as basic service licences. It also provides access (unbundling, interconnection, leased lines, etc.), approves national numbering plans and regulates the conditions governing number portability and freedom of choice of service provider.

COSO/COSO ERM (Committee of Sponsoring Organizations of the Treadway Commission): COSO is a voluntary, private-sector US organisation. Its goal is to qualitatively improve financial reporting through ethical conduct, effective internal controls and good corporate management. The Enterprise Risk Management (ERM) Framework is an extension of COSO's Internal Control Framework.

ERM (Enterprise Risk Management): ERM is a Group-wide management system that ensures the assessment, handling and reporting of significant risks at Group level as well as Group-company level.

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 (for example, price) are known to the parties using the regulated services. There is legal provision for the affected providers to establish that the price has been correctly determined.

Ex-post: In an ex-post regime, the parties must agree all possible aspects of 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).

FTE (full-time equivalent): Throughout this report, FTE is used to denote the number of full-time equivalent positions.

Full access: Full access in connection with unbundling means providing alternative telecommunications service providers with access to subscriber lines for the purpose of using the entire frequency spectrum of metallic pair cables.

Hubbing: Hubbing relates to the trading of telephone traffic with other telecommunication operators.

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 TSPs are required to allow their competitors interconnection at cost-based prices (LRIC, see below).

ISO (9001, 14001-14064, 15504, 27001, 31000): The International Organization for Standardization (ISO) draws up international standards in all fields with the exception of electricity and electronics, for which the International Electrotechnical Commission (IEC) is responsible, and with the exception of telecommunications, for which the International Telecommunication Union (ITU) is responsible. Together, these three organisations form the WSC (World Standards Cooperation). The relevant ISO standards are ISO 9001: Quality Management System – Requirements; ISO 14001 to ISO 14064: Environmental Management System; ISO 15504 Software Process Improvement and Capability Determination (SPICE); ISO 27001 Information Technology – IT Security Techniques – Information Security Management Systems – Requirements; ISO 31000: Risk Management Principles and Guidelines. These standards govern the principles and general requirements for the risk management process.

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 (unbundling).

LRIC (Long-Run Incremental Costs): 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.

OFCOM (Federal Office of Communications): OFCOM deals with issues related to telecommunications and broadcasting (radio and television), and performs official and regulatory tasks in these areas. It 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).

Termination charges: Termination charges are levied by a network operator for forwarding calls to another third-party network (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 prerequisite for ULL is the presence of a market-dominant provider.

Index of keywords

Swisscom Group five-year review

In CHF million, except where indicated		2008	2009	2010	2011	2012
Net revenue and results						
Net revenue		12,198	12,001	11,988	11,467	11,384
Operating income before depreciation and amortisation (EBITDA)		4,806	4,702	4,599	4,584	4,381
EBITDA as % of net revenue	%	39.4	39.2	38.4	40.0	38.5
Operating income (EBIT) before impairment losses on goodwill		2,651	2,707	2,627	2,681	2,431
Operating income (EBIT)		2,651	2,707	2,627	1,126	2,431
Net income		1,749	1,938	1,788	694	1,762
Share of net income attributable to equity holders of Swisscom Ltd		1,754	1,941	1,813	683	1,755
Earnings per share	CHF	33.87	37.47	35.00	13.19	33.88
Balance sheet and cash flows						
Equity at end of year		4,926	6,212	5,350	4,296	4,156
Equity ratio at end of year	%	21.3	28.0	25.4	22.1	20.7
Cash flow provided by operating activities		4,126	4,395	4,024	3,951	4,245
Capital expenditure in property, plant and equipment and other intangible assets		2,050	1,987	1,903	2,095	2,529
Net debt at end of period		10,071	9,141	8,848	8,309	8,071
Employees						
Full-time equivalent employees at end of year	number	19,943	19,479	19,547	20,061	19,514
Average number of full-time equivalent employees	number	19,801	19,813	19,464	19,832	19,771
Operational data at end of period						
Fixed access lines in Switzerland	in thousand	3,556	3,391	3,233	3,120	3,013
Broadband access lines retail in Switzerland	in thousand	1,334	1,478	1,584	1,661	1,727
Mobile access lines in Switzerland	in thousand	5,359	5,602	5,828	6,049	6,217
Swisscom TV access lines in Switzerland	in thousand	118	232	421	608	791
Unbundled fixed access lines in Switzerland	in thousand	31	153	255	306	300
Broadband access lines in Italy	in thousand	1,483	1,644	1,724	1,595 [1]	1,767
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	in million of shares	53.441	51.802	51.802	51.802	51.802
Market capitalisation at end of year		17,587	20,491	21,296	18,436	20,400
Closing price at end of period	CHF	339.50	395.60	411.10	355.90	393.80
Closing price highest	CHF	442.75	400.90	420.80	433.50	400.00
Closing price lowest	CHF	292.00	293.50	358.00	323.10	334.40
Ordinary dividend per share	CHF	19.00	20.00	21.00	22.00	22.00 [2]
Ratio payout/earnings per share	%	56.10	53.38	60.00	166.85	64.94

[1] As a result of the settlement of litigations Fastweb reduced the number of access lines by 197,000.
[2] In accordance with the proposal of the Board of Directors to the Annual General Meeting.

Publishing details

Key dates

- **7 February 2013**
  Annual Press Conference 2012, Zurich
- **4 April 2013**
  Annual General Meeting of Shareholders, Hallenstadion, Fribourg
- **8 April 2013**
  Ex-dividend date
- **11 April 2013**
  Dividend payment
- **2 May 2013**
  2013 First-Quarter Report
- **7 August 2013**
  2013 Half-Year Report
- **7 November 2013**
  2013 Third-Quarter Report
- **in February 2014**
  Annual Press Conference 2014, Zurich

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