swisscom

2016
Annual Report

Annual Report publications

The Annual Report, Sustainability Report and Swisscom at a glance are part of Swisscom’s Annual Report 2016.
The three publications are available online at: *swisscom.ch/report2016*

The “best companion in the networked world” concept

Digitisation is changing our lives, our behaviour and our needs. Regardless of how vastly our customers’ needs differ, we still want to address each of those needs individually. Because nothing feels better than knowing you have a reliable partner at your side.

The images on the cover of the 2016 reports symbolise the collaboration between our customers and Swisscom.

From left to right:
Annual Report: Impact Hub in Zurich, customer Ava AG with Lea von Bidder
Sustainability Report: Jucker Farm in Seegräben, with customer Martin Jucker
Swisscom at a glance: Swisscom Shop in Zurich, with customer Therese G.

We would like to thank our customers and employees who took the time to have these pictures taken.

Welcome to the country of possibilities

Swisscom is connecting Switzerland: we accompany and support our customers in today's networked world with our network, products and services, and offer them only the best – everywhere and anytime.

Swisscom assumes responsibility: together with the Swiss population, we are committed to our country.

Swisscom promotes skilled employees: people who want to help shape Switzerland's digital future.

Hansueli
Loosli

Urs
Schaeppi

Shareholders’ letter

Dear Shareholders

Swisscom held its ground during a challenging 2016. An impressive market performance helped Swisscom generate stable revenue and retain its strong market position. Large investments ensure that the Swisscom network infrastructure stays fit for the future. Fastweb continues to develop nicely and the company boosted its revenue, operating income and customer numbers in 2016.

Swisscom holds its ground in a challenging environment

At CHF 11,643 million (–0.3%), Swisscom’s net revenue was practically on a par with the previous year. This is a remarkable achievement given current price pressure and the market environment. Compared with the prior year, Swisscom increased its operating income before depreciation and amortisation (EBITDA) by CHF 195 million or 4.8% to CHF 4,293 million primarily as a result of non-recurring items in the prior year. On a like-for-like basis, EBITDA fell slightly by 1.2%. Cost cutting and growth at Fastweb were unable to compensate for declining returns in the Swiss core business. Net income rose by 17.8% to CHF 1,604 million, largely due to non-recurring items. At CHF 2,416 million, Group-wide capital expenditure was roughly on a par with last year (+0.3%).

Swisscom maintains its strong market position in Switzerland

Net revenue in the Swiss core business declined by CHF 105 million or 1.1% year-on-year to CHF 9,440 million. While revenue from telecommunications services fell as a result of increasing competitive pressure and lower roaming prices, revenue in the solutions business with corporate customers increased. The number of revenue generating units (RGU) dropped by 96,000 or 0.8% to 12.4 million as a result of market saturation. Nevertheless, the Company maintained or, as in the case of Swisscom TV, even increased its market shares. Operating income before depreciation and amortisation (EBITDA) rose by CHF 85 million or 2.4% to CHF 3,686 million. After adjustments for non-recurring items, EBITDA fell by CHF 125 million or 3.2% due to pressure on pricing, higher costs for roaming and subscriber acquisition as well as low subscription growth. Capital expenditure in Switzerland remained high at CHF 1,774 million (–2.6%).

Successful business year at Fastweb in 2016

Fastweb acquired many new customers in the broadband business (+7.0% to 2.36 million) and boosted its revenue by EUR 59 million to EUR 1,795 million (+3.4%) as a result. Operating income before depreciation and amortisation (EBITDA) rose by EUR 85 million or 14.8% to EUR 661 million. Excluding non-recurring items, the increase amounted to EUR 45 million or 8.0%. Fastweb continues to make progress on the expansion of its network. 810,000 customers were connected to the company’s own ultrafast broadband network at the end of 2016 (+25% year-on-year), which represents around one-third of all Fastweb broadband customers. The Fastweb network now extends to around 100 towns and cities in Italy, thus covering 30% of the population or 7.5 million households. Capital expenditure at Fastweb grew by 7.4% to EUR 581 million due to accelerated broadband expansion.

Swisscom share performance in 2016

The Swisscom share price fell by 9.3% in 2016. In terms of total shareholder return (share price movement and dividend payout), Swisscom achieved –5.4% thanks to the high dividend yield. The Swisscom share outperformed the Stoxx Europe 600 Telecommunications Index (–16.9% in CHF; –15.8% in EUR). Payment of an unchanged ordinary dividend of CHF 22 per share 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.

Digitisation as an opportunity and challenge

Digitisation is changing both our economy and our society. Networking between people, applications and devices is intensifying with each passing year and billions of devices are already interconnected. Processes previously involving tedious manual work are being digitised. We are producing new services more quickly and cost-effectively in the cloud. Not only are our infrastructures being controlled from the cloud, but physical devices themselves are being migrated to the cloud (virtualisation) as well. This digital environment is giving rise to new business models and behaviours. Instead of buying, people rent and share (sharing economy) and new platforms emerge. In this way, digitisation is permeating our everyday lives and the world we work in. Swisscom views digitisation as both an opportunity and a challenge. Constantly available high-performance networks and infrastructures form the backbone of all digitisation projects. Swisscom's infrastructure and ICT expertise are opening up excellent opportunities for the company to sustain this success in nearly every area of business and daily life. Yet at the same time, we see the economic and social changes that accompany digitisation. We therefore make an effort to embrace our responsibility as a company through a variety of different initiatives and commitments.

More challenging market environment

Competition is extremely fierce in the Swiss ICT sector. The number of telephone lines connected through the fixed telephone network is dropping by more than 200,000 lines per year. 2016 marked the first year in which we were unable to offset this decline and the trend is set to continue in the years ahead. In the business customer market, too, cost pressure and falling margins triggered by an intense price war with our competitors have not gone unnoticed.

Global, web-based foreign providers have stepped up their activities in our markets as well. While these competitors have mainly been gearing their products toward private users up until now, they are increasingly extending their offers to business customers and forming partnerships to launch efficient, scalable products and services.

Demands for data security on the rise

Increasing connectivity and digitisation are producing ever-increasing volumes of data. Accordingly, the public spotlight is not only shifting to the careful use of data, but also security. At Swisscom, the responsible, secure handling of information takes centre stage. We want industry and society to be able to leverage the opportunities offered by smart data to their advantage.

Swisscom has the right product portfolio and capabilities needed to continue growing in the information security market. We already fend off 99% of all hacker, phishing or spam attacks with our current resources.

What we stand for

As a partner, pioneer and shaper, Swisscom aspires to offer its customers the very best in today's networked world. As an exemplary company offering digitisation solutions, we let people choose flexibly how to interact, work and live. As a technology partner, Swisscom helps companies improve their products, processes and marketing and, in doing so, remain competitive. We thereby strengthen and promote all of Switzerland as a business location.

Building the best infrastructure – the basis for the networked world

A networked world is only as strong as its infrastructure. In keeping with that maxim, Swisscom has been investing in a future-oriented mix of network technologies for several years. In 2016, Swisscom invested nearly CHF 1.8 billion in Switzerland alone and further investments of the same magnitude are planned for 2017 as well. Switzerland boasts one of the best telecommunications infrastructures in the world. With 99% of coverage boasting speeds in excess of 30 Mbps, it is already close to achieving the broadband objective of 100% coverage with 30 Mbps as set forth in the EU's Digital Agenda 2020.

By the end of 2016, Swisscom had already provided more than 3.5 million ultrafast broadband connections (>50 Mbps). Swift expansion has made it possible for more than 94% of all homes and businesses to use Swisscom TV. In 2016, Swisscom defined new strategic objectives for its expansion of the broadband infrastructure via the fixed telephone network: the majority of people living in any given Swiss municipality should have access to higher bandwidths by the end of 2021. To this end, some 90% of all homes and businesses will have a minimum bandwidth of 80 Mbps by the end of 2021 – with around 85% of those achieving speeds of 100 Mbps or higher.

At the heart of the Swisscom network is IP technology (Internet Protocol). This not only forms the basis for Internet services, but also for Swisscom TV and voice telephony, to name a few examples. Swisscom is planning to switch all of its products and services over to IP by the end of 2017, so that its All IP customers can take advantage of the many opportunities offered by the digital world. All IP customers can block annoying advertising calls, for instance, by activating the free filter for unwanted advertising calls on their fixed-line connection. 1.5 million customers had already migrated to IP as at the end of 2016. The changeover is proceeding as planned.

We doubled revenue from cloud-based infrastructure (Dynamic Computing Services) in 2016 and more than 270 customers and partners are now using dynamic infrastructures. Given the cloud and ICT infrastructures' ability to help us simplify processes and facilitate innovative business models, they are a key competitive advantage in this digitised world. Customers can focus more on their business and outsource ICT services, and we are able to meet the IT needs of our customers more quickly and effectively than in the past through increased standardisation and virtualisation.

In 2016, Swisscom became the first provider in Switzerland to set up an additional network dedicated to the Internet of Things. This Low Power Network is operated separately from the mobile phone network and forms the basis for the Internet of Things which will interconnect millions of sensors in future. Through all of these investments and innovations, Swisscom plays a pivotal role in shaping the markets where it does business.

Offering the best experiences – to set Swisscom apart from the rest

The market environment is changing at an accelerating pace and offerings are easily copied. Companies are only successful if they design experiences to engender a strong emotional bond and create enthusiastic, loyal customers. In everything it does, Swisscom wants to make a trustworthy, simple and inspiring impression. We put people and their relationships at the centre of all of our thoughts and actions. We go up against global competition with the very best we have to offer: our employees. They are on site in municipalities both large and small, visit customers at their homes and provide advice over the phone or via online chats. Our customer experiences are designed so that they feel the same each time customers come into contact with Swisscom, whether this be during communication, while using our products or when interacting with our customer service. Uniform experiences offer a vital link between Swisscom and its customers, particularly in the age of digitisation.

By the end of 2016, Swisscom had attracted 1.48 million customers to sign up for Swisscom TV. It is continuously expanding the TV offering, including the addition of a new UHD box and the launch of services that make TV accessible for everyone, especially people with a visual or hearing impairment.

Quick mobile phone repair services have emerged as a major need. In response to this, we set up our own Repair Centers in some of the Swisscom Shops. And in keeping with our promise to customers, they are different than what consumers have come to know and expect elsewhere. Our Repair Centers guarantee repairs within 24 hours using original spare parts and even offer a coffee bar atmosphere for anybody waiting.

The new Natel infinity 2.0 subscriptions introduced in 2016 are proving extremely popular. Since the offer's spring launch, over a million customers have opted in favour of more roaming, quicker surfing speeds and other included services like a device-independent cloud.

Seizing the best opportunities for growth – long-term competitiveness

Long-term competitiveness calls for companies to evolve and embrace the courage to change. Swisscom has been doing this for years. We share this experience with our business customers and offer our support as a trusted partner during their digital transformation. Swisscom has a broad portfolio of machine-to-machine applications, digitisation of business processes, use of the cloud, security solutions, use of artificial intelligence and much more. These solutions give Swisscom's customers a chance to leverage opportunities for growth and guarantee their competitiveness.

Swisscom avails itself of the best opportunities for growth as well. It plans to continue expanding both in growth areas in the TIME market (telecommunications, IT, media and entertainment) and by developing its Internet business.

The information services local.ch and search.ch were merged under the "localsearch" brand in 2016. We also collaborated with Coop to launch siroop, an online marketplace that unites merchants both large and small, nationwide and local. Our cooperation with the start-up Mila will continue as well: Around 22,000 interventions by Swisscom Friends, namely customers who help other customers locally, have been registered on the platform.

Fastweb

Swisscom is continuing to develop its subsidiary Fastweb. By expanding the ultrafast broadband network and mobile communications market, building partnerships, and improving service quality, Fastweb aims to further strengthen its strong market position in Italy and generate growth. The expansion of Italy's broadband network is continuing at full speed: Fastweb and Telecom Italia intend to cooperate on the rollout of Fibre to the Home (FTTH). The aim is for 13 million or half of homes and businesses in Italy to be connected to the ultrafast broadband network by 2020.

Swisscom values

At Swisscom, people and their relationships are at the heart of everything we do: We want to shape the future (sustainability), achieve great things (passion), be open to new ideas (curiosity), keep our promises (reliability) and be close to customers (customer focus). Swisscom's centre of excellence for Human Centred Design develops methods and approaches with a focus on people and their relationships. Our values and beliefs are then incorporated into the development of new products and services.

Multi-generational thinking as an integral component of the corporate strategy

Swisscom thinks and acts with a focus on sustainability. This responsibility towards the environment, society and the economy forms an integral part of our corporate strategy. Our vision is of a modern, forward-looking Switzerland.
In terms of Corporate Responsibility, our activities focus on the main priorities of climate protection, work and life, media skills, attractive employer, fair supply chain and a networked Switzerland. In 2016, we strengthened efforts to compile evidence related to our activities in the areas of energy efficiency, media skills and fair supply chain even further. Nationwide, we have connected over 6,020 schools to the Internet through Schools on the Net, a programme that has been in place for over 15 years. This initiative benefits around 50,000 school classes, 120,000 teachers and more than 900,000 pupils. At the same time, our media skills courses have introduced more than 300,000 elderly people (since 2005) and 100,000 pupils, parents and teachers (since 2008) to the networked world and all of the opportunities and risks it entails. As one of Switzerland's most attractive employers, it goes without saying that Swisscom fosters a corporate culture geared toward sustainability. This includes personal and professional development for each and every individual, active specialist training with more than 900 trainees at present (including 450 in ICT jobs) and a fair social partnership.
With regard to climate protection, we have cut our own CO_2 emissions by more than half since 1990. Nowadays, customers using our services for mobile working, for instance, are reducing CO_2 emissions by around 450,000 tonnes per year, which is equivalent to the emissions of around 110,000 cars. Newsweek magazine named Swisscom as the fourth most sustainable company in the world in 2016. And something of which we are very proud.

Challenging regulatory environment

A clear majority of voters and the all States rejected the “Pro Service Public” initiative in June 2016. In December 2016, ComCom decided to renew Swisscom’s licence for the Swiss universal service for another five-year period, beginning in 2018. The revised ordinance increases the minimum bandwidth from 2 to 3 Mbps, now includes IP technology and abolishes Swisscom’s obligation to operate one public payphone in each municipality. Several different topics are on the agenda in 2017: the complete revision of the Swiss Data Protection Act, revision of the Telecommunications Act, implementation of the Federal Law on the Monitoring of Postal and Telecommunications Traffic (BÜPF) and the Intelligence Service Act. With a view to the rollout of 5G, the telecommunications industry will continue to advocate for concessions for antenna construction.

Simplification and a focus on costs

Swisscom plans to reduce its cost base by over CHF 300 million between 2015 and 2020. We will achieve this through the organisational changes implemented in 2016, adjustments to our job vacancies, optimised processes and the transformation to All IP technology. These measures will free up funds, enabling Swisscom to continue investing in infrastructure and new business areas and to remain competitive over the long term.

Financial outlook for 2017

Swisscom will propose payment of a dividend of CHF 22 per share for the 2016 financial year at the 2017 Annual General Meeting. For 2017, Swisscom expects net revenue of around CHF 11.6 billion, EBITDA of around CHF 4.2 billion and capital expenditure of some CHF 2.4 billion. For Swisscom (excluding Fastweb), a slight decline in revenue is expected due to high competition and price pressure. A slight increase in revenue is expected for Fastweb. EBITDA for Swisscom, excluding Fastweb, is expected to be around CHF 100 million lower year-on-year. The reduction in EBITDA is attributable to price pressure and declines in the number of fixed-line telephony connections. In addition, the costs for roaming are expected to increase. EBITDA will be positively affected by cost savings. Fastweb’s EBITDA is expected to be slightly higher. Capital expenditure in Switzerland and at Fastweb is expected to be on a par with the prior year. Subject to achieving its targets, Swisscom will propose payment of an unchanged, attractive dividend of CHF 22 per share for the 2017 financial year at the 2018 Annual General Meeting.

A big thank you

2016 was a successful year, something that is not a given in light of today's market environment. We owe this success to the trust placed in us by our customers. We owe it to the loyalty of our shareholders. And we owe it to our employees' enthusiasm and eagerness to do their very best, every single day of the year. They deserve our most heartfelt gratitude. After all, they are the ones contributing their ideas, visions and innovations today in order to create the Swisscom of tomorrow and beyond. Their passion for Swisscom and the interest they show in our products fill us with confidence and pride as we look to the future.

Yours sincerely

Hansueli Loosli
Chairman of the Board of Directors
Swisscom Ltd

Urs Schaeppi
CEO Swisscom Ltd

Triple bottom line
Swisscom reports about the ecological, economic and social aspects and factors that shape its business activities and its role as a corporate citizen.

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Swisscom already has a high-level security culture. By conducting targeted attacks, the Red Team is able to identify weaknesses that were either previously unknown or not given a sufficiently high priority by Swisscom's security concepts.

Michel Grädel
Security expert

Stephan Rickauer
Head, Red Team

Optimum security

An average of five specific security measures can be recommended for each cyber attack.

Simulating cyber attacks

A realistic cyber attack by the Red Team lasts three weeks on average.

“We put ourselves in the minds of real cyber criminals and attack Swisscom several times a year. We’re the good hackers.”

Introduction

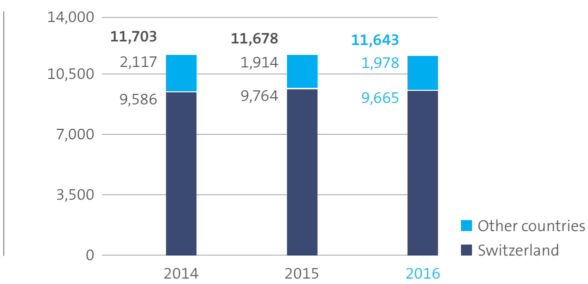
The best in today’s net-worked world – everywhere and anytime.

KPIs of Swisscom Group

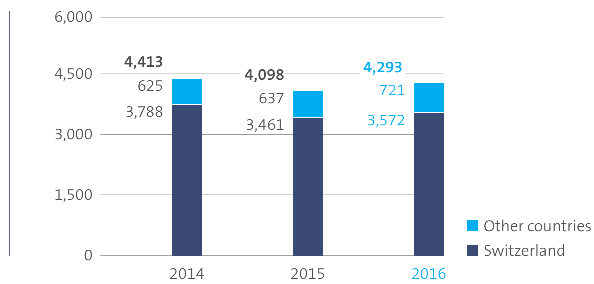
In CHF million, except where indicated		2016	2015	Change
Net revenue and results				
Net revenue		11,643	11,678	–0.3%
Operating income before depreciation and amortisation (EBITDA)		4,293	4,098	4.8%
EBITDA as % of net revenue	%	36.9	35.1	
Operating income (EBIT)		2,148	2,012	6.8%
Net income		1,604	1,362	17.8%
Earnings per share	CHF	30.97	26.27	17.9%
Balance sheet and cash flows				
Equity at end of year		6,522	5,242	24.4%
Equity ratio at end of year	%	30.4	24.8	
Operating free cash flow		1,791	1,844	–2.9%
Capital expenditure in property, plant and equipment and other intangible assets		2,416	2,409	0.3%
Net debt at end of period		7,846	8,042	–2.4%
Operational data at end of period				
Fixed telephony access lines in Switzerland	in thousand	2,367	2,629	–10.0%
Broadband access lines retail in Switzerland	in thousand	1,992	1,958	1.7%
Swisscom TV access lines in Switzerland	in thousand	1,476	1,331	10.9%
Mobile access lines in Switzerland	in thousand	6,612	6,625	–0.2%
Revenue generating units (RGU) Switzerland	in thousand	12,447	12,543	–0.8%
Unbundled fixed access lines in Switzerland	in thousand	128	128	0.0%
Broadband access lines wholesale in Switzerland	in thousand	364	315	15.6%
Broadband access lines in Italy	in thousand	2,355	2,201	7.0%
Swisscom share				
Number of issued shares	in thousand	51,802	51,802	0.0%
Closing price at end of period	CHF	456.10	503.00	–9.3%
Market capitalisation at end of year		23,627	26,056	–9.3%
Dividend per share	CHF	22.00 [1]	22.00	0.0%
Environmental key figures in Switzerland				
Energy consumption	GWh	536	521	2.9%
Energy efficiency increase since 1 January 2010	%	35.9	29.6	
Direct CO_2 emissions	tonnes	19,837	20,116	–1.4%
Ratio of CO_2 reduction to CO_2 emissions [2]		0.99	0.81	
Employees				
Full-time equivalent employees at end of year	number	21,127	21,637	–2.4%
Full-time equivalent employees in Switzerland at end of year	number	18,372	18,965	–3.1%

[1] In accordance with the proposal of the Board of Directors to the Annual General Meeting.
[2] Together with its customers Swisscom is aiming to save twice as much CO_2 as it emits through its operations including the supply chain by 2020.

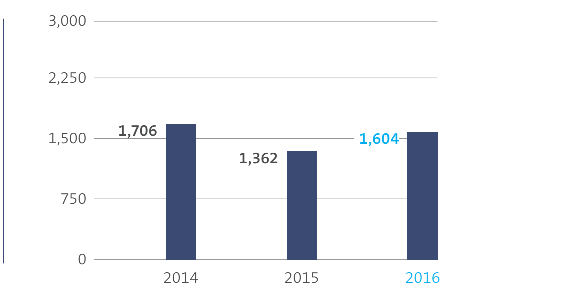
Net revenue in CHF million



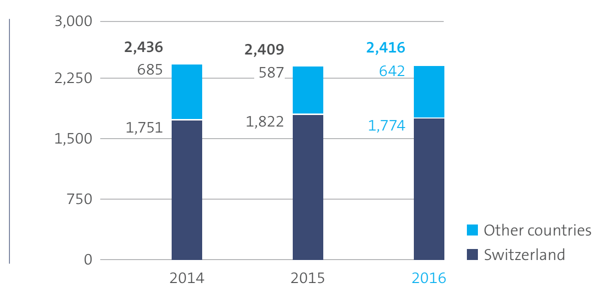
EBITDA in CHF million



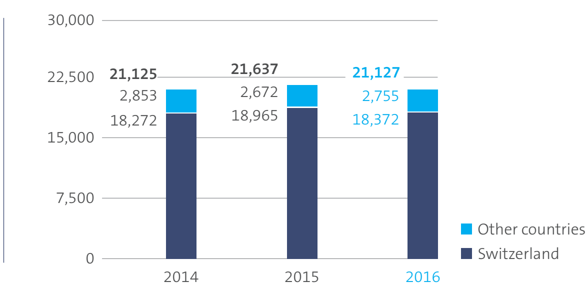
Net income in CHF million



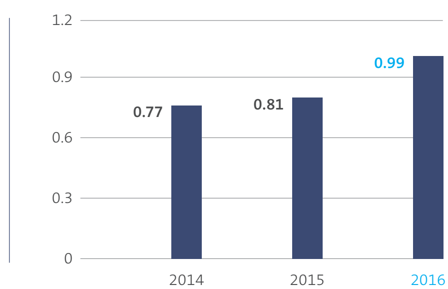
Capital expenditure in CHF million



Number of employees in full-time equivalent (FTE)



Ratio of CO_2 reductions to CO_2 emissions



Key events 2016

Swisscom TV

Thanks to a new TV-Box, customers can now for the first time watch programmes in ultra-high definition (UHD). The built-in voice-activated search function that supports Swiss dialects ensures that content is even easier to find. Swisscom is also making it easier to access barrier-free TV content.

1 Gbps

Swisscom, together with its partner Ericsson, is the first provider in Europe to successfully transfer data at 1 Gbps over the mobile broadband network. In doing so, it is taking another major step towards the introduction of even higher mobile Internet speeds.

G.fast

Swisscom is the first telecommunications service provider in Europe to start using the new G.fast transmission standard throughout Switzerland. The technology will allow Swisscom to quickly and cost-effectively provide high transmission speeds of up to 500 Mbps.

The Internet of Things

Swisscom is the first provider in Switzerland to set up an additional network dedicated to the Internet of Things: the Low Power Network. This network is designed for the transmission of small amounts of data independently of the electrical network.

Smart cities

Swisscom, in cooperation with the private IMD business school, published a study aimed at supporting authorities with digitisation. This study is one way in which Swisscom strives to help cities employ digital technology in smarter, more innovative ways.

Internet-Box 2

Thanks to its optimised technology, the new “Internet-Box 2” router offers faster WLAN speeds and a large transmission range at home.

Blocking advertising calls

Swisscom customers can activate a filter to block advertising calls with a few clicks in the Customer Centre or by calling the hotline. An IP-based fixed-network connection is required to use this filter.

Repair Centre

There are nine Repair Centres in Swisscom Shops throughout German-speaking and French-speaking Switzerland. Defective mobile phones are, where possible, repaired on site within 24 hours.

Voice recognition

Swisscom is introducing new voice recognition software for its Voiceprint hotline. The so-called customer voiceprint ensures an even faster and more reliable identity verification process than ever before.

FinTech start-ups

In its capacity as an IT service provider, Swisscom currently provides support to more than half of all Swiss banks in matters relating to digitisation, and is now intensifying its collaboration with FinTech start-ups.

New subscription benefits

Households made up of five people or more can now take advantage of the new Tutto benefit. The new Natel infinity 2.0 subscriptions also offer higher surfing speeds, more roaming options and unlimited online storage.

New business park

More than 500 employees are moving into the new business park in Sion. The building, which complies with the Minergie-P-Eco standard, meets Swisscom's high standards with respect to sustainable development and modern working methods.

Business overview

Swisscom provides financial reporting for the three operating divisions: Swisscom Switzerland, Fastweb and Other Operating Segments as well as Group Headquarters.

Swisscom Switzerland

Swisscom Switzerland comprises the customer segments Residential Customers (Sales & Services and Products & Marketing divisions), Enterprise Customers and Wholesale, as well as the IT, Network & Infrastructure division.

Residential Customers

Sales & Services
Sales & Services combines all sales channels and services for residential and SME customers under one roof and is responsible for all call centres, online & cross channels, shops and field services within Swisscom Switzerland. Sales & Services, together with the Customer Interaction Experience team, also oversees all customer, sales and service processes along the full customer experience chain and designs these processes.

Products & Marketing
The Products & Marketing segment houses the product and marketing expertise for residential and SME customers. The division ensures that these two segments provide a uniform customer experience. Products & Marketing plans, conceives and designs standardised B2B and B2C products.

Enterprise Customers

Whether voice or data, mobile or fixed network, individual products or integrated solutions, as a leading provider in the field of business communications, the Enterprise Customers 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. Enterprise Customers ranks as one of the leading providers for the integration and operation of complex IT systems. It also has core competencies in the fields of integrated communication solutions, IT infrastructure and cloud services, workplace solutions and the digitisation of business process (including SAP services) and provides a comprehensive range of outsourcing services for the financial sector.

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 services with foreign providers.

IT, Network & Infrastructure
The IT, Network & Infrastructure (INI) segment builds, operates and maintains Swisscom's nationwide fixed network and mobile communications infrastructure in Switzerland. It is also responsible for the development and production of Switzerland-wide standardised IT and network services and for the operation of all IT systems. INI is also driving forward the migration of the networks to an integrated IT and IP-based platform (All IP). The segment also includes the support functions for Swisscom Switzerland as well as Swisscom Real Estate Ltd and Business Fleet Management Ltd.

Fastweb

Fastweb is a leading, alternative service provider in the Italian fixed-network market for both residential and business customers. Fastweb supplies its services both directly via its own fibre-optic network and also via the unbundled fixed-access lines and wholesale products offered by Telecom Italia. In addition to fixed-network services, its portfolio also includes mobile services for residential customers on networks operated by other service providers. Fastweb provides its services in all large towns and cities in Italy.

Other Operating Segments

The Other Operating Segments includes the Digital Business unit as well as Participations and Subsidiaries in the areas of payment solutions, network construction and maintenance, radio transmitters, energy management and event solutions, which complement the Swisscom core business in related areas. Digital Business is focused on growth areas in the areas of Internet services and digital business models. It also includes the online directories and phone book business.

Group Headquarters

Group Headquarters chiefly comprises the Group divisions Group Business Steering, Group Strategy & Board Services, Group Communications & Responsibility, Group Security and Group Human Resources as well as employment company Worklink AG.

Denis Schlauss
IT architect

Thomas Birchmeier
Product manager

The Swisscom TV team plans and coordinates the development of Swisscom TV from both a technical and a visual perspective. Its primary aim is to produce a consistent TV experience across all screens and for all target groups. This has also led to the introduction of the first functions for barrier-free TV.

“We are proud to commit ourselves to investing in ‘Switzerland’s most popular television’. It is what drives us every single day. Agile and rapid development enables us to react to customer needs in a targeted manner. It’s important to us that our services are simple and intuitive to use so that even people with sensory impairments have easy access.”

Isabella Kosch
Strategic product developer

Alexander Schradt
Interface designer

375 music CDs

This is the volume of data that Swisscom TV delivers to our customers at peak times – per second.

36 kWh

of electricity is consumed annually by a Swisscom TV box, which equates to the cost of one or two cups of coffee at a restaurant.

Management Commentary

Inspiring our customers with the best experiences.

Strategy, organisation and environment

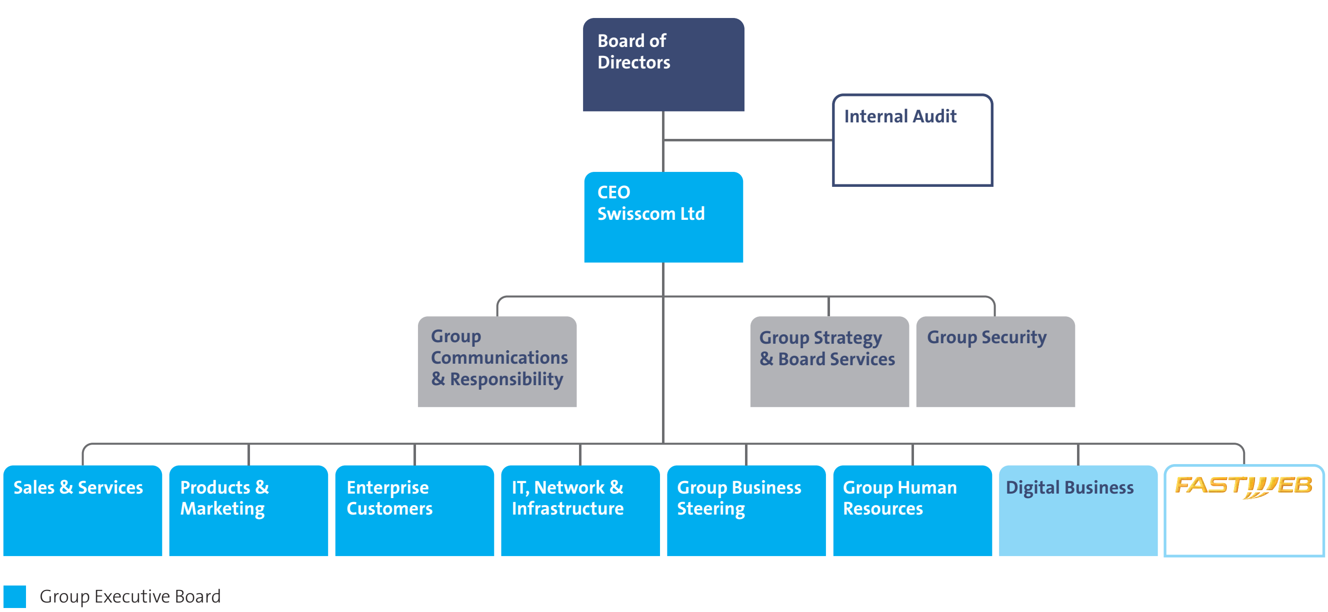
Swisscom's corporate strategy is aimed at maintaining its leading position in the ICT market and offering customers the best. Trusted, simple, inspiring.

Group structure and organisation

Management structure

From 1 January 2016 onwards, Swisscom further increased the level of digitisation within its organisational structure in order to strengthen areas with close customer proximity and boost the company's effectiveness in the highly competitive ICT market. In doing so, the company has combined distribution and service for Residential Customers and Small and Medium-Sized Enterprises of Swisscom Switzerland in the Sales & Services unit as well as the digital business in the Digital Business unit. To exploit synergies and accommodate the increasing level of convergence, Swisscom is also combining product development and product provision for Residential Customers and SME into one. The focus placed on corporate business will remain of central importance, and the organisational structure of Enterprise Customers will be further simplified. Through these adjustments Swisscom wants to improve the customer experience from a single source, simplify processes and increase efficiency in order to create greater scope for innovation. The restructuring has resulted in changes in the Group Executive Board.

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 financial principles. It delegates day-to-day business management to the CEO of Swisscom Ltd. Together with the CEO, the heads of the Group divisions Group Business Steering (CFO) and Group Human Resources (CPO) as well as the heads of the Sales & Services, Products & Marketing, Enterprise Customers and IT, Network & Infrastructure of Swisscom Switzerland form the Group Executive Board. The Board of Directors of Italian subsidiary Fastweb is presided over by the CEO of Swisscom Ltd. The management of Fastweb has been transferred to the Delegate of the Board of Directors of Fastweb.



Group structure

The holding company Swisscom Ltd is responsible for overall management as well as the strategic and financial management of the Group. By law, the Swiss Confederation must hold the majority of shares in Swisscom Ltd. As at 31 December 2016, the Confederation held 51.0% of the shares in Swisscom Ltd, which remains unchanged from the previous year.
27 Swiss subsidiaries (prior year: 33) and 14 foreign subsidiaries (prior year: 15) were fully consolidated in Swisscom's financial statements as at 31 December 2016, while 15 associated companies (prior year: 15) were included according to the equity method. Swisscom also holds various non-controlling interests in growth companies.
Swisscom Ltd mainly holds direct majority interests in Swisscom (Switzerland) Ltd, Swisscom Broadcast Ltd and Swisscom Directories Ltd. Fastweb S.p.A. (Fastweb) is held indirectly via Swisscom (Switzerland) Ltd and an intermediate company in Italy. Swisscom Re Ltd in Liechtenstein is the Group's own reinsurance company.
The main associates of Swisscom are Belgacom International Carrier Services Ltd (international data traffic), siroop Ltd (online marketplace), Admeira Ltd (marketing of media offerings and advertisement platforms) as well as Flash Fiber S.r.l. (optical fibre expansion in Italy).

Key changes to the Group structure in the year under review

At the start of 2016, Swisscom acquired a 50% stake in Geneva-based Open Web Technology SA, which was renamed Swisscom Digital Technology SA after the takeover. The acquired company is a specialist in the digital transformation of companies. The acquisition allows Swisscom to further expand its digitisation expertise with corporate customers.
As a result of organisational changes and in order to simplify processes, a number of companies in the Swiss core business were merged with Swisscom (Switzerland) Ltd in 2016, namely Swisscom Banking Provider Ltd, Wingo Ltd as well as all Veltigroup companies.
In Italy, Swisscom sold its 10.6% minority shareholding in Metroweb S.p.A. at the end of 2016. Its Italian subsidiary Fastweb and Telecom Italia (TIM) intend to cooperate on the rollout of Fibre to the Home (FTTH), and for this purpose have founded Flash Fiber S.r.l., in which Fastweb holds a 20% stake.

Segment reporting

For financial reporting purposes, the business divisions of Swisscom are allocated to individual segments based on the management structure. For practical reasons, segment reporting for 2016 has not been changed in comparison with the previous year. Segment reporting in 2016 thus continues to comprise the following: Swisscom Switzerland, Fastweb and Other Operating Segments. Swisscom Switzerland covers the segments Residential Customers, Small and Medium-Sized Enterprises, Enterprise Customers, Wholesale and IT, Network & Innovation.
Starting in 2017, segment reporting will be adapted to the management structure. The main change concerns segmental reporting for the Swisscom Directories unit (localsearch), which was previously reported as part of the Small and Medium-Sized Enterprises segment. The unit is now reported in the Digital Business unit under "Other Operating Segments". The new segment reporting is shown below and is broken down as follows: Swisscom Switzerland, Fastweb and Other Operating Segments. Swisscom Switzerland covers the segments Residential Customers, Enterprise Customers, Wholesale and IT, Network & Infrastructure. Group Headquarters, which primarily includes the Group divisions Group Business Steering, Group Human Resources, Group Communications & Responsibility, Group Strategy & Board Services and Group Security, continues to be reported separately:

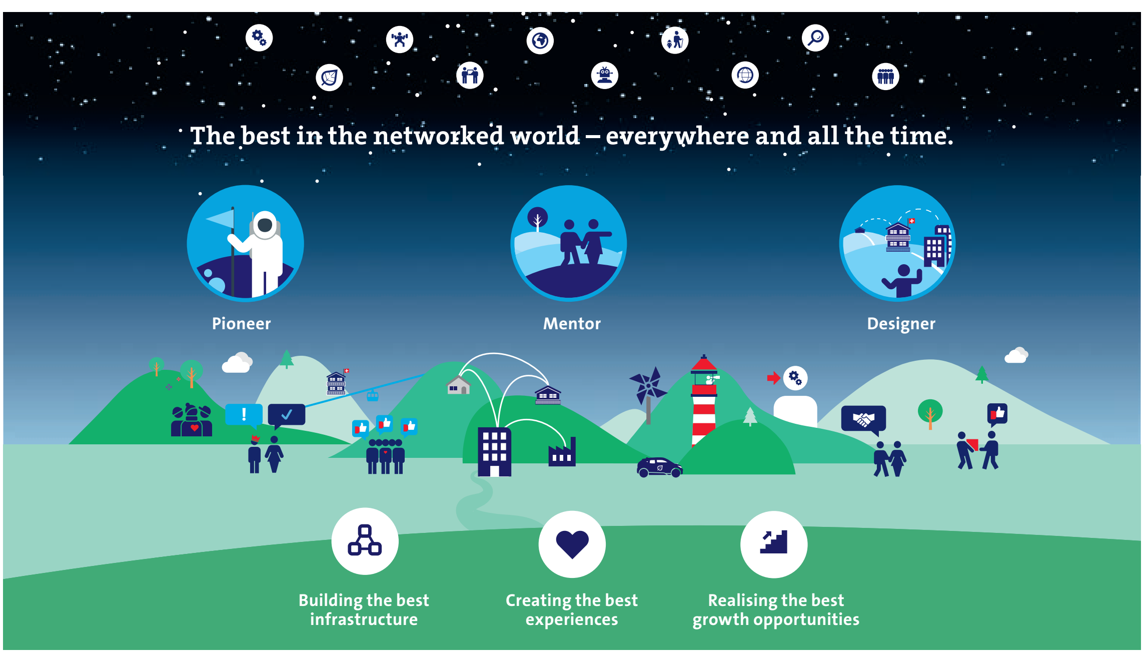
	Swisscom Switzerland[1]	Fastweb	Other Operating Segments[2]	Group Headquarters
Subsidiaries	> Swisscom (Switzerland) Ltd[3] > BFM Business Fleet Management Ltd > CT Cinetrade AG[4] > Datasport Ltd > Mila AG > Swisscom Digital Technology SA > Swisscom Health AG > Swisscom ITS Finance Custom Solutions Ltd > Swisscom Real Estate Ltd > Swisscom Services Ltd	> Fastweb S.p.A.	> Billag Ltd > cablex Ltd > Improve Digital B.V. > Mona Lisa Capital AG[5] > Swisscom Broadcast Ltd > Swisscom Directories Ltd > Swisscom Energy Solutions Ltd > Swisscom Event & Media Solutions Ltd	> Swisscom Ltd > Swisscom Italia S.r.l. > Swisscom Re Ltd > Worklink AG
Associates	> Belgacom International Carrier Ltd > finnova ltd bankware > Medgate Ltd > Medgate Technologies Ltd	> Flash Fiber S.r.l.	> Admeira Ltd > siroop Ltd > Venturing Participations > Zanox AG	

[1] Swisscom Switzerland comprises the operating segments Residential Customers, Enterprise Customers, Wholesale and IT, Network & Infrastructure.
[2] Other Operating Segments comprises the operating segments Digital Business and Participations.
[3] Swisscom (Switzerland) Ltd has operating subsidiaries in Austria, France, Germany, the Netherlands, Singapore, Sweden, Switzerland and the USA.
[4] CT Cinetrade AG has subsidiaries in Switzerland: kitag kino-theater Ltd, PlazaVista Entertainment AG and Teleclub AG.
[5] Mona Lisa Capital AG is a venturing participation.

Corporate strategy and objectives

Corporate strategy

Swisscom is the Swiss market leader in the field of telecommunications (mobile telecommunications and fixed telephone network) and digital television. It is also one of the leading providers in a wide range of IT business segments. Fastweb is the leading alternative provider for both retail and business customers in the Italian fixed-line market.
Society and the economy currently find themselves in a constant state of change. Megatrends such as digitisation and connectivity, customisation and demographic change are reshaping our society and the economy and have a more indirect and long-term impact on Swisscom's business. In this context, Swisscom recognises a series of short to medium-term trends that constitute direct, strategic influencing factors, such as the increasing proliferation of the Internet of Things, data-centric business models and progress in the field of artificial intelligence.
The market environment in which Swisscom operates has already changed radically in recent years. Connectivity is ever-present and will increase further. In the future, countless people, applications and devices will be in permanent communication with each other and the exponential data growth will continue at the same pace. Technological change is likewise proceeding at a rapid pace and customer requirements are changing in equal measure. The competition on the saturated core market is becoming increasingly fierce. New providers from around the world are forcing themselves into other ICT markets – often with disruptive business models – and are thus stepping up competition. These developments have exerted pressure on the revenues generated in the traditional Swisscom core business. The resulting lower revenue and income need to be offset in order to ensure that sufficient financial resources are available for major investments in new technologies.



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

In an increasingly networked and digitised world, Swisscom always offers its customers the best – regardless of their location. Thus, Swisscom is a pioneer and resolutely drives digitisation forward. Swisscom is focusing on internal digitisation in order to ensure that it can operate on the market as a leading, exemplary company. As an optimal companion in the networked world, Swisscom strives to ensure simplicity and is a trusted, inspiring partner for its customers. Swisscom helps business customers to create flexible ICT infrastructures, adjust their business processes to meet the new challenges of the digital world and optimise communication and teamwork among their employees. In this formative role, Swisscom is helping to shape this new world and make Switzerland into a leading European ICT centre. To always offer the best in the networked world, Swisscom must meet the highest expectations in terms of infrastructure, customer experience and growth.

Building the best infrastructure

A high-quality infrastructure allows Swisscom to deliver its products and services, provide a consistently positive customer experience and differentiate itself from its competitors. Swisscom wants to offer its customers in Switzerland and Italy the leading IT and communications infrastructure. Reliance on high-performance networks that are always available will continue to increase in future. Swisscom is fulfilling the ever-growing requirements of its customers with networks that are second to none in terms of security, availability and performance. In the fixed network area, Swisscom's focus is on driving forward the continuous, cost-efficient expansion of the ultrafast broadband network through various fibre-optic technologies – both in Switzerland and in Italy. Swisscom is continuing to drive forward the technological transition from traditional to IP-based solutions. It is constantly expanding its mobile network infrastructure and thus providing customers with the best experiences when using the network-based offerings. Swisscom aims to better meet customer needs through a scalable infrastructure, increasingly virtualised services and infrastructure, and continual improvement processes. The Swisscom Cloud infrastructure offers a high level of quality and security and is the basis for new scalable offerings that are produced in Switzerland. The transfer of internal platforms to the Swisscom Cloud increases scalability, flexibility and cost efficiency.

Offering the best experiences

To clearly distinguish itself in its core business, Swisscom is committed to delivering first-class service to its customers and inspiring them with unique experiences across the board. Swisscom customers can count on us as a competent, reliable partner and enjoy service that is individual, flexible and personal at all points of contact. From the customer's perspective, contact with Swisscom should always be simple and convenient. Swisscom is thus reducing complexity and is focused on providing relevant offerings. It is also standardising and simplifying procedures and processes. When optimising processes and creating new digital services and experiences, Swisscom always takes a customer-centric approach and aims to improve customer perception. In doing so, Swisscom aims to further boost customer loyalty, strengthen its brand and improve its efficiency and agility.

Realising the best growth opportunities

Swisscom anticipates that the relevant markets in Switzerland and Italy will continue to grow steadily on the whole. The main drivers of growth are modest increases in population and the number of households, the rising number of connected devices (as a result of the "Internet of Things") and the ever-growing use of ICT in a wide variety of industries. In addition to this, there is still pent-up demand and growth potential for convergent offerings in Italy due to the relatively low level of broadband penetration.

Swisscom wants to realise growth opportunities by further developing its core business – for example by means of growth in entertainment services (such as TV) and fibre-optic connections. There are further opportunities for growth in other sectors, too, such as healthcare – in which Swisscom provides vertical ICT services – the cloud, digital solutions for business customers, and digital security offerings. Swisscom is aiming to launch new digital services in selected areas. These services will be offered via the Internet and will in some cases rely on new business models. Examples include the offerings provided by Admeira (advertising), siroop (e-commerce) and localsearch (digital services for SMEs). Another focal point is the further development of Fastweb in Italy, where Swisscom intends to further improve the market position of its Italian subsidiary in order to generate an increasing value proposition.

In response to the far-reaching developments in the market environment, Swisscom periodically re-evaluates its strategy and focuses its implementation on counteracting the dynamic market conditions. It has defined five priorities in connection with this:

- **Maximising the core business:** Swisscom will ensure its position as market leader in the long term, differentiate itself by means of high-quality products, infrastructure and customer service, and tap new sources of income in the core business. Swisscom is confronting the erosion of its core business through active customer relationship management (e.g. with bundles and customer loyalty) and an attractive multi-brand portfolio.
- **Further development of Fastweb:** Swisscom is improving Fastweb's market position and achieving growth in Italy thanks to the further development of the ultrafast broadband network, the utilisation of partnerships, the expansion of the mobile communications business as well as high service quality.
- **Focus on growth:** In order to offset the decline in revenue in the core business and continue to offer customers relevant services, Swisscom is selectively tapping new growth areas in TIME markets and further developing its Internet business.
- **Operational excellence:** Over the next few years, Swisscom will continuously optimise its cost base in order to remain financially successful in the long term and to absorb the effects of price competition and margin erosion (e.g. through simplicity, reducing the complexity of processes and adjusting the product portfolio).
- **Transformation:** Swisscom will continue to work on developing the corporate culture, agile and customer-oriented methods, management and technology in order to prepare for the challenges it will face in the future (e.g. through the development of relevant key skills, the technological transformation (All IP) and clear innovation fields).

Forerunner in corporate responsibility

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

Energy efficiency and climate protection

Together with its customers, Swisscom is aiming to save twice as much CO_2 as it emits through its operations and supply chain by 2020. 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 ICT services from the cloud allow business customers to operate their IT operations more efficiently than if they were to use a server of their own. Buildings, vehicles and networks can be managed in an energy-efficient manner thanks to ICT solutions. Swisscom also offers residential customers numerous ways to reduce their carbon footprint, from online billing to a recycling service for mobile phones. Swisscom is committed to reducing its own CO_2 emissions from its operations and supply chain and also requires its suppliers to reduce their carbon footprint.

Work and life

By 2020, Swisscom aims to be supporting one million people with its offerings in the healthcare sector, such as the Swisscom health platform and corresponding fitness sensors, electronic patient dossiers and offerings from its subsidiary Datasport. Swisscom also wants to offer one million people the opportunity to use mobile working models by 2020. To this end, it has included Work Smart services in its portfolio and supports mobile working methods through activities such as the Home Office Day.

Media skills and security

Swisscom aims to be the market leader in data security by 2020, helping one million people to use the media safely and responsibly. Swisscom has for many years now provided free Internet access to schools and introduced first-time users to the digital world through media training courses. In doing so, Swisscom aims to protect young people in the use of online media by means of technical solutions and offerings that promote media skills.

Attractive employer

Swisscom wants to be one of the most attractive employers in Switzerland by 2020. It offers employees opportunities for personal development 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. Swisscom employees also have the chance to get involved in social and community projects, for example, by participating in the Corporate Volunteering Programme.

Fair supply chain

In the interests of a fair supply chain, Swisscom is committed to improving employment conditions for more than two million people by 2020. To this end, Swisscom has forged international partnerships that will ensure the implementation of relevant measures in close collaboration with suppliers. The company also ensures that working conditions at its suppliers are reviewed for improvements every year as part of the audit process.

Networked Switzerland

By the end of 2021, some 90% of all homes and businesses will have a minimum bandwidth of 80 Mbps by the end of 2021 – with around 85% of those achieving speeds of 100 Mbps or higher. Furthermore, 99% of the population was able to benefit from the fourth-generation mobile network incorporating 4G/LTE technology by the end of 2016. According to calculations performed by the Boston Consulting Group (BCG), Swisscom is thus indirectly contributing around CHF 30 billion to the country's GDP and helping to create and maintain some 100,000 jobs.

Swisscom's targets

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

	Objectives	Effective 2016
Financial targets [1]		
Net revenue	Group net revenue for 2016 of more than CHF 11.6 billion	CHF 11,643 million
Operating income before depreciation and amortisation (EBITDA)	EBITDA for 2016 of around CHF 4.2 billion	CHF 4,293 million
Capital expenditure in property, plant and equipment and other intangible assets	Capital expenditure for 2016 of more than CHF 2.3 billion	CHF 2,416 million
Other targets		
Ultrafast broadband in Switzerland [2]	Coverage of 90% by the end of 2021	more than 3.5 million in excess of 50 Mbps
Ultrafast broadband in Italy	Coverage of 30% by the end of 2016	30% or 7.5 million
Mobile network in Switzerland	Coverage of 99% with 4G/LTE by the end of 2016	99%
Energy efficiency in Switzerland	+35% by the end of 2020 compared to 1 January 2016	+8.9%
Ratio CO_2 reduction to CO_2 emmissions [3]	Ratio 2:1 by the end of 2020	0.99

[1] As already communicated in 2016, the financial targets for 2016 were adjusted as a result of compensation received by Fastweb from legal proceedings and increased capital expenditure in the broadband networks in Switzerland: EBITDA of around CHF 4.25 billion and capital expenditure of around CHF 2.4 billion.
[2] Basis: 4.3 million homes and 0.7 million businesses (Swiss Federal Statistical Office – SFSO).
[3] Swisscom would like to save twice as much CO_2 jointly with its customers, as she caused by the operation and the supply chain by the end of 2020.

Value-oriented business management

Key performance indicators for planning and managing the operating cash flows are operating income before depreciation and amortisation (EBITDA) and capital expenditure on property, plant and equipment and intangible assets. The enterprise value/EBITDA ratio is also used to compare Swisscom's enterprise value derived from the share price with that of comparable telecoms companies. The ratio is primarily driven by revenue and margins as well as the growth expectations of equity investors.

The remuneration system for Group Executive Board members contains a variable performance-related component, of which 25% is paid out in Swisscom shares subject to a three-year blocking period. Group Executive Board members may opt to receive up to 50% of the performance-related component in the form of shares. The variable performance-related component is based on factors including financial targets such as net revenue, EBITDA margin and operating free cash flow. The financial targets that determine the variable performance-related salary component and the Management Incentive Plan ensure that the interests of management are kept aligned with those of the shareholders.

Enterprise value

In CHF million, except where indicated	31.12.2016	31.12.2015
Enterprise value		
Market capitalisation	23,627	26,056
Net debt	7,846	8,042
Non-controlling interests in subsidiary companies	8	5
Enterprise value (EV)	**31,481**	**34,103**
Operating income before depreciation and amortisation (EBITDA)	4,293	4,098
Ratio enterprise value/EBITDA	**7.3**	**8.3**

The sum of market capitalisation, net debt and non-controlling interests in subsidiaries is the enterprise value (EV). Non-controlling interests are stated at carrying amount. For the sake of simplicity, other non-operating assets and liabilities are not included. Swisscom's enterprise value decreased year-on-year by CHF 2.6 billion or 7.7% to CHF 31.5 billion, mainly as a result of lower market capitalisation. The ratio of enterprise value to EBITDA dropped to 7.3 (prior year: 8.3). The decline reflects the fact that EBITDA rose more sharply than the enterprise value compared with the previous year. EBITDA for 2015 was very adversely affected by provisions of CHF 186 million for legal proceedings. Excluding this one-off item in EBITDA, the ratio for the previous year was 8.0.

With a ratio of 7.3, Swisscom's relative market valuation is well above the average for comparable companies in Europe's telecoms sector. The higher ratio is supported by the solid market position Swisscom has achieved thanks to a high level of investment and an attractive dividend policy, as well as the general business conditions in Switzerland such as lower interest rates and lower corporate income tax rates as compared to other European countries.

General conditions

Macroeconomic environment

Swisscom's financial position, net assets and results of operations are primarily influenced by macroeconomic factors, notably economic trends, interest rates, exchange rates and the capital markets.

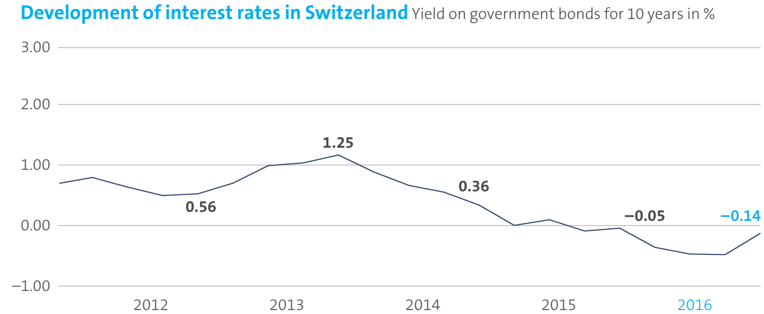
Economy

Economic growth in 2016 was slightly better than in the previous year, with an increase in net exports being one of the main contributors towards this growth. The performance of the economy continued to be influenced by the monetary policy of the Swiss National Bank and the European Central Bank, while inflation, as measured by the national consumer price index, increased slightly. Viewed over the long term, inflation rates remain at a very low level.
The bulk of Swisscom's revenue from telephony and broadband services comes from fixed monthly fees and is subject to low cyclical fluctuations in demand. Project business with corporate customers, on the other hand, is more sensitive to cyclical factors.

Interest rates

The general level of interest rates in Switzerland has historically been lower than in most other industrialised countries. In the reporting year, the level of and movements in interest rates were determined to a large extent by the monetary policy of the SNB and the European and US central banks. The SNB lifted the cap of CHF 1.20 against the euro on 15 January 2015 and at the same time introduced negative interest rates for sight deposits. As a result, the yields on ten-year Confederation bonds also fell into negative territory. At the end of 2016 they stood at minus 0.14%.

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

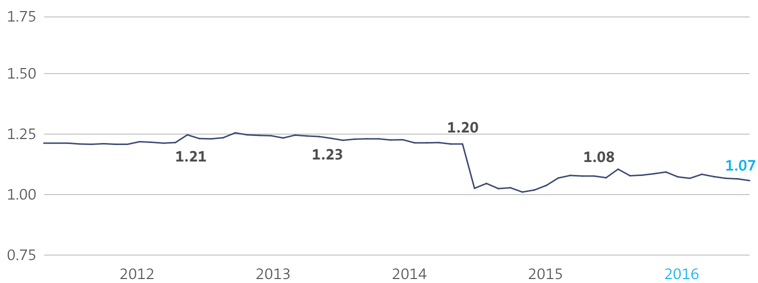


The level of interest rates has a direct impact on funding costs and also affects in the consolidated financial statement the valuation of various items in the balance sheet such as assets, long-term provisions and pension liabilities. Swisscom again took advantage of the ongoing period of negative interest rates in 2016 for various financing transactions. It issued three bonds with a total value of CHF 700 million with maturities of between 11 and 16 years, all at favourable terms of interest. In addition, a private placement for CHF 150 million that fell due was extended by 15 years. The proportion of variable interest-bearing financial liabilities stands at 21%. The interest expense on all financial liabilities averaged 1.9% in 2016 (prior year: 2.3%). In addition, Swisscom has in the past concluded interest rate swaps with long terms to maturity which are not designated for hedge accounting. Changes in market interest rates can result in high fluctuations in fair values recognised in income statement.

Exchange rates

On 15 January 2015, the Swiss National Bank (SNB) announced it would no longer defend the minimum CHF/EUR exchange rate of 1.20. As a consequence, the Swiss franc appreciated substantially, particularly against the euro. At the end of 2016, the exchange rate of the Swiss franc to the euro was 1.07.

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



These exchange rate movements have not had a particularly large net impact on Swisscom's operational activities in Switzerland. Only a small share of Swisscom's revenue in Switzerland is generated in foreign currencies. Handset and technical equipment procurement as well as roaming charges incurred for the use of fixed and mobile networks abroad by Swisscom customers give rise to transaction risks in foreign currencies (notably EUR and USD). These risks are partly hedged by foreign currency forward contracts.

Swisscom mostly funds itself in Swiss francs, although the proportion of financial liabilities in EUR has gradually increased in the last three years, particularly as a result of bond issuance activity. This has led to a better diversification of funding sources. At the end of 2016, financial liabilities amounted to CHF 8.5 billion, of which 73% was in CHF, 25% in EUR and 2% in USD. Currency translations in respect of foreign Group companies, in particular Fastweb in Italy, affect the presentation of the net assets and results of operations in the consolidated financial statements. Cumulative currency translation adjustments in respect of foreign subsidiaries recognised in consolidated equity before deduction of tax effects amounted to CHF 2.2 billion in 2016, which was unchanged from the previous year. A portion of the liabilities in EUR has been designated as a currency hedge of the net investment in Fastweb.

Capital market

In 2016, international equity markets fell and the Swiss Market Index (SMI) suffered a decline of 6.8%. Swisscom holds surplus liquidity in the form of cash and cash equivalents and short-term money-market investments. There are only insignificant direct financial investments in equities or other non-current financial assets. comPlan, Swisscom's legally independent pension fund in Switzerland, has total assets of around CHF 10 billion invested in equities, bonds and other investment categories. These assets are thus exposed to capital market risks. This indirectly affects the financial position presented in Swisscom's consolidated financial statements.

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

Legal and regulatory environment

Swisscom's legal framework

Swisscom is a public limited company with special status under Swiss law. It is organised in compliance with the Telecommunications Enterprise Act (TEA), company law and the company's Articles of Incorporation. Its business operations are governed primarily by telecommunications and broadcasting legislation. Swisscom is also subject to rules governing business as a whole, namely competition law. As a stock-exchange-listed company, Swisscom is also required to comply with capital market legislation as well as with the Federal Ordinance against Excessive Compensation in Listed Stock Companies.

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

As of 1 January 1998, the former operations of Swiss Telecom PTT were legally transformed into "Swiss Post" and "Swisscom Ltd" (hence the term "public limited company with special status"). Under the terms of the TEA and the company's Articles of Incorporation, Swisscom is responsible for the provision of domestic and international telecommunications and broadcast services as well as related products and services. The TEA requires the Swiss Confederation to hold a majority of the capital and voting rights in Swisscom. For the Swiss Confederation to give up its majority shareholding, the TEA would need to be amended. Swisscom is also obliged to draw up a collective employment agreement in consultation with the employee associations. Every four years, the Federal Council defines the goals which the Confederation as principal shareholder aims to achieve. These include strategic, financial and personnel policy goals as well as goals relating to partnerships and investments. To guarantee transparency, the goals are made public to other investors. The objectives of the Swiss Confederation are incorporated in the strategic and operating targets set by the Swisscom Board of Directors. For the year under review, the goals for the period 2014 to 2017 are relevant. The Federal Council has set the following financial goals for Swisscom:

- Increase enterprise value over the long term. Deliver a total shareholder return (dividend payout and share performance) on a par with that of comparable telecoms companies in Europe.
- Pursue a dividend policy that follows the principle of consistency and guarantees an attractive dividend yield commensurate with other stock-exchange-listed companies in Switzerland. It should reflect the requirements of a sustainable investment policy, a risk-appropriate, industry-standard equity ratio and easy access to capital markets at all times.
- Aim for a maximum net debt of 2.1 times EBITDA (operating income before depreciation and amortisation). This ratio may be temporarily exceeded.

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

See
www.admin.ch

Telecommunications Act (TCA)

The Telecommunications Act governs the conditions under which market-dominant providers of telecoms services are required to make their network available to other providers. The Act covers a comprehensive catalogue of access types and in the connection area is restricted to copper cables. The access services cited in the Act must be offered at regulated conditions and above all at cost-based prices. In addition to network access, the Act governs universal service provision, laying down the framework for the reliable and affordable provision of basic telecommunications to all sections of the population in all regions of the country. The scope of services as well as the related quality and pricing requirements are determined periodically by the Federal Council. Among other things, universal service provision covers guaranteed nationwide access to a broadband connection with a download speed of at least 2 Mbps. The universal service provision licence granted to Swisscom in 2007 by the Federal Communications Commission (ComCom) runs until 2017. To date, Swisscom has fulfilled the requirements of the universal service provision licence according to the quality criteria laid down by the TCA without complaints and without financial compensation. The Telecommunications Act also governs conditions for use of the radio frequency spectrum.

See
www.admin.ch

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 abuse.

See
www.admin.ch

Regulatory developments in Switzerland in 2016

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. The Competition Commission (Weko) sanctioned Swisscom for abuse of a market-dominant position in proceedings regarding the case of ADSL services in the period up to the end of 2007. Swisscom challenged the ruling in the Federal Administrative Court. In October 2015, the Federal Administrative Court confirmed in principle the Competition Commission's decision and imposed a penalty of CHF 186 million against Swisscom. Swisscom has filed a complaint against the ruling with the Federal Supreme Court. In other proceedings related to live sport broadcasts on pay television, the Competition Commission imposed a CHF 72 million sanction against Swisscom for unlawful behaviour in the marketing of sports content. Swisscom has challenged the ruling in the Federal Administrative Court. In a third set of proceedings, Weko imposed a sanction of CHF 8 million against Swisscom in connection with allegations of unlawful terms and conditions related to the broadband connections of post office locations. Swisscom has also filed a complaint against this Weko ruling with the Federal Administrative Court. Further information on ongoing proceedings is contained in Notes 28 and 29 to the consolidated financial statements.

Basic service provision from 2018 to 2023

On 2 December 2016, the Federal Council approved an amendment to the Ordinance on Telecommunication Services (OST) which defines the content of basic service provision for telecommunications services as of 2018. From that year on, traditional analogue and digital connections will be replaced by a multi-functional connection. The minimum data transfer rate for Internet access will also be increased to 3000/300 kbps and services for people with disabilities will be expanded. The Federal Communications Commission (ComCom) has granted Swisscom a basic service licence for 2018 to 2023.

Revision of the Telecommunications Act (TCA)

The Federal Council conducted a consultation on the revision of the Telecommunications Act (TCA). Based on the results of the consultation, the Federal Department of Environment, Transport, Energy and Communications (UVEK) was commissioned to draw up a dispatch on the amendment of the TCA by September 2017. The intent of the bill is to strengthen consumer protection and the protection of minors, in part by combating unsolicited advertising calls and child pornography, but also by taking steps to control roaming prices. Concrete proposals will also be drawn up with regard to transparency requirements pertaining to net neutrality and on ways for the Federal Council to regulate access to new technologies in the event of a market dominant position. Other proposals will address a reduction in the administrative burden of telecommunication service providers, greater flexibility in the use of frequencies and improved access to building installations and directory data. Finally, standards are also required to govern Internet domain names, emergency calls, and communication in exceptional circumstances.

Regulatory differences between Switzerland and the European Union

In the European Union (EU), the regulatory authorities have extensive powers to analyse markets and impose obligations on market-dominant companies relating to non-discrimination, transparency and forms of access ("ex-ante regulation"). The Swiss government has rejected such all-encompassing regulation, as the market conditions in Switzerland are different to 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 electrical utilities have also entered the market. The market situation prevailing in Switzerland therefore necessitates a different form of regulation than in countries such as France and Italy, where there is largely a single network provider and no platform competition has evolved.

Legal and regulatory environment in Italy

Fastweb's legal framework

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

Regulatory developments in Italy in 2016

AGCOM carried out public consultations in 2016 related to the approval of the reference offerings provided by Telecom Italia (TIM) for unbundling, bitstream, NGA (next-generation access) and WLR (wholesale line rental) services for the period from 2015 to 2016; the definitive resolutions are expected until the first half of 2017.
In 2016, AGCOM concluded its market analysis on fixed network and mobile network termination fees and set the maximum fee for termination of mobile services for the period from 2015 to 2017 and the fee for fixed network services for 2017 to 2019. The obligation regarding cost orientation and equal treatment was retained in both cases; however, the operators were given the opportunity to assert varying termination fees for calls made from outside EU member states based on the principle of reciprocity. Full-service MVNOs will in future also be subject to regulated termination fees.

Swisscom stakeholder groups

Dialogue takes place with stakeholder groups depending on how close the relationship is and on the individual stakeholder group's interests. However, the size of the respective stakeholder group is the decisive factor in the kind of dialogue that is possible.

Customers

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

Shareholders and external investors

Besides the Annual General Meeting, Swisscom regularly fosters dialogue with shareholders at analysts' presentations, road shows and in regular teleconferences. It engages in a regular exchange of information with representatives of the Swiss Confederation (Confederation) as majority shareholder. Over the years, it has also built up contacts with numerous external investors and rating agencies. Shareholders and external investors expect above all stability, profitability and innovation from Swisscom.

Authorities / residents

Swisscom maintains close contact with federal, cantonal and municipal authorities. A key issue in its dealings with this stakeholder group concerns the expansion of the network infrastructure. Mobile data applications are becoming increasingly popular with customers. But while mobile communications are clearly appreciated and widely used, the expansion of the infrastructure required to provide these services does not always meet with the same level of support.

Network expansion gives rise to tension because of the different interests at stake. Swisscom has been engaged in dialogue with municipal authorities and residents on network planning for many years. In the case of construction projects, it gives the parties affected an opportunity to suggest suitable alternative locations. Swisscom also liaises regularly with public authorities in other areas and on other occasions: for example, it invites the 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, maintaining a regular dialogue with authorities, parties and associations. Swisscom makes constructive contributions to relevant legislative processes.

Suppliers

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

Media

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

Employees and employee representation

Using a wide range of communication platforms and activities, Swisscom promotes a corporate culture that encourages dialogue and cross-collaboration between employees. In 2016, Swisscom developed a new employee survey which is better suited to the organisation’s requirements. The new survey will be held three times a year and allows every employee, team and the entire organisation to respond to feedback and make improvements.
Helping to shape Swisscom’s future is one of the most important tasks of the Employee Representation Committee. Twice a year, Swisscom organises a round-table meeting with the employee representatives. Employee concerns mainly relate to social partnership, training and development, diversity, and health and safety at work. Swisscom engages in dialogue with teams from all organisational units on sustainability issues, under the motto “Hello Future”. Through this dialogue, Swisscom keeps its employees up to date on its work in the area of sustainability and encourages them to implement sustainability measures in their daily work and life.

Partners and NGOs

Swisscom believes in the importance of sharing insights and information with partners within the framework of projects; for example, with WWF, myclimate, the Swiss Child Protection Foundation, Brot für alle/Fastenopfer and organisations that address the specific needs of affected groups. Active partnerships and Swisscom’s social and ecological commitment are especially relevant for the partners and NGO stakeholder group. The Swisscom website provides an overview of the respective stakeholder groups.

Public

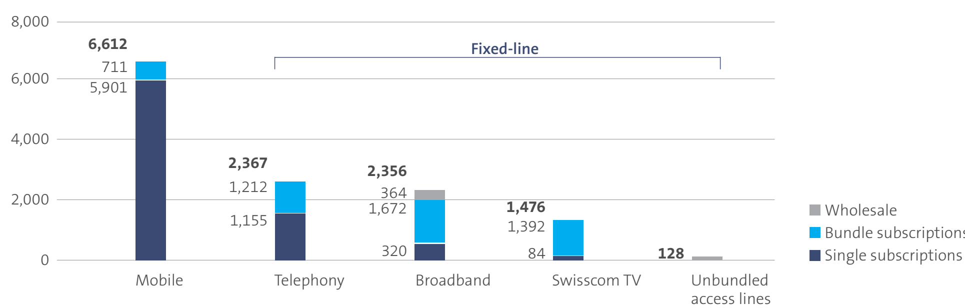
Swisscom maintains contact with the public through trade fairs and events, over social media, as well as directly via the Swisscom website, through surveys of the public and, as in 2016, through the Energy Challenge. The Energy Challenge is a campaign launched by the Swiss Federal Office of Energy in which Swisscom took part as the main partner.

Market trends in telecoms and IT services

Swiss telecommunications market

The Swiss telecommunications market is highly developed by international standards. It is characterised by innovation and a wide range of voice and data products and services. Total revenue generated by the telecoms market in Switzerland is estimated at around CHF 12 billion. The constant advancement of digitisation and connectivity is a key trend. In addition to the established national telecommunications companies, more and more new global competitors are entering the Swiss telecoms market, offering both free and paying Internet-based services around the world, including telephony, SMS messaging and streaming services. Cloud solutions are also playing an ever more important role, with storage capacity, processing power, software and services all relocating to an increasing degree to the Internet. These developments are causing a rapid growth in demand for high bandwidths that enable fast, high-quality access to data and applications. There is an increasing focus being placed on the security and uninterrupted availability of data and services, with modern, highly effective network infrastructures forming the basis for this. Swisscom is therefore setting up the networks of the future for both fixed-line and mobile communications. Swisscom's bundled offerings combine different technologies such as fixed-line broadband access with Internet, TV and telephony, plus the option of a mobile line. The Swiss telecoms market can thus be broken down into the following submarkets of relevance to Swisscom: mobile, broadband, TV and fixed-line telephony.

Swisscom Switzerland access lines in thousand



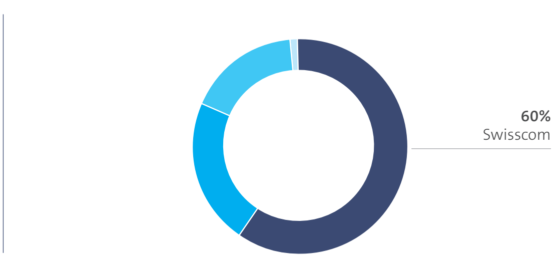
Mobile communications market

Switzerland has three separate, wide-area mobile networks on which the operators of those networks market their own products and services. Other market players additionally offer their own mobile services as MVNOs (mobile virtual network operators). Swisscom also makes its mobile communications network available to third-party providers so that they can offer their customers proprietary products and services over the Swisscom network.

Due to the high level of market penetration, the mobile communications market in Switzerland is showing signs of saturation. The number of mobile lines (SIM cards) in Switzerland stagnated at a total of around 11 million at the end of 2016. As in the previous year, the number of postpaid subscriptions taken out increased, while the number of prepaid customers fell. The proportion of mobile users with postpaid subscriptions now stands at 65% (prior year: approx. 62%). The penetration with mobile access lines in Switzerland continues to exceed 130%.

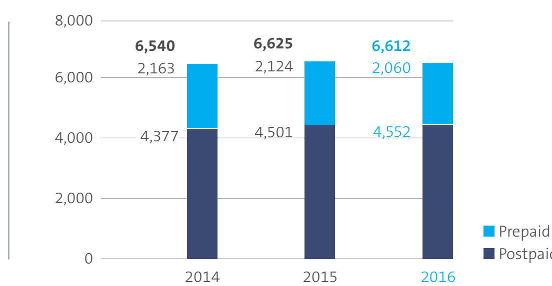
In order to provide its customers with the best communications experiences, Swisscom is constantly expanding its mobile network using the latest technology. There continues to be dynamic competition on the Swiss mobile communications market, as shown by the adjustments made to the portfolio of offerings by market participants throughout 2016. Swisscom has launched new mobile subscriptions, such as Natel infinity 2.0, which provide customers with a larger scope of service. These subscriptions allow Swisscom customers to make unlimited phone calls and send unlimited SMS messages to all Swiss networks, as well as unlimited Internet surfing at flat rates. The individual offerings mainly differ in terms of mobile data speeds and the number of inclusive days of usage and data volume when abroad. It is now also possible to take out a subscription without purchasing a handset as well as pay for a new handset in interest-free instalments. Swisscom offers occasional users of the mobile network prepaid services with no monthly subscription fee.

Market shares mobile subscribers in Switzerland* in %



* Estimate Swisscom

Swisscom mobile access lines in thousand



Swisscom's market share in 2016 was 60% (postpaid: 63%; prepaid: 55%), which corresponds to a one percentage point increase on the previous year. This is mainly attributable to the fact that the number of prepaid Swisscom customers has declined less than those of other market participants. As in previous years, prices for mobile services continued to be squeezed by competition in 2016.

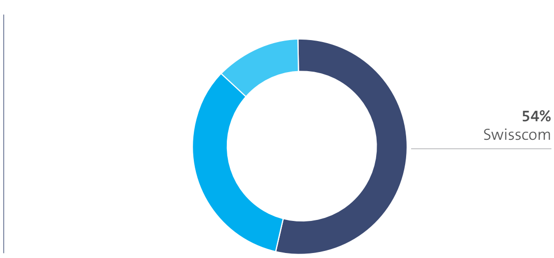
Fixed network

Switzerland has almost 100% coverage of fixed broadband networks. Alongside the fixed-line networks of telecoms companies, there are also cable networks of cable network operators. Moreover, new market players such as utilities operating in particular cities and municipalities are building and operating fibre-optic networks on their own initiative at a regional level. In order to meet the rising demands on the networks, Swisscom is investing heavily in its existing fixed network to create a high-performance ultrafast broadband network based on the latest fibre-optic and IP technology. The fixed broadband connection has therefore increasingly developed into the key access point for customers. It is the basis for a wide-ranging product offering from both national and global competitors. Alongside individual products, Swisscom offers various bundled products tailored to customer needs in the fixed-line area with a choice of TV and/or fixed telephony on top of the broadband connection.

Broadband market

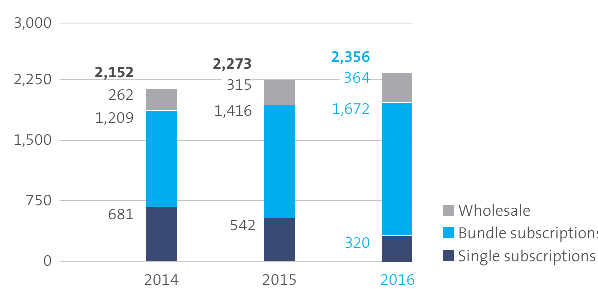
The most widespread access technologies for fixed broadband connections in Switzerland are infrastructures based on the networks of telecoms providers and cable network operators. At the end of 2016, the number of retail broadband access lines in Switzerland totalled around 3.7 million, corresponding to around 85% of households and businesses.

Market shares broadband access lines in Switzerland* in %



* Estimate Swisscom

Swisscom Broadband access lines in thousand

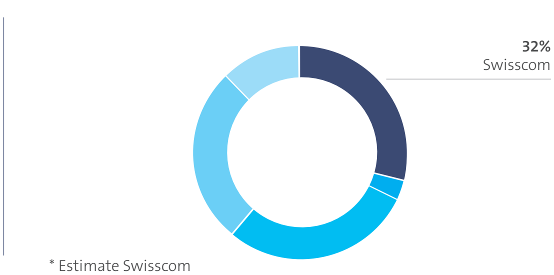


The number of broadband access lines increased by around 3% in 2016 (prior year: 4%). In contrast to the previous year, growth in broadband access lines provided by cable network operators lagged behind that of the broadband access lines of telecom service providers. Telecom service providers accounted for more than three-quarters of new broadband access lines in 2016, corresponding to a market share of all broadband lines of 67% (prior year: 66%). Of these, 54% (prior year: 54%) were for Swisscom end customers and 13% (prior year: 12%) for Swisscom wholesale offerings and fully unbundled lines.

TV market

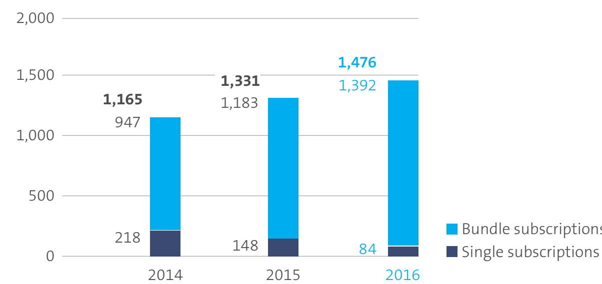
In Switzerland, TV signals are transmitted via cable, broadband, satellite, antenna (terrestrial) and mobile. The Swiss TV market is almost completely digitised, as the large-scale broadcast of analogue TV signals has been discontinued and high-definition television (Full HD) has now become standard. Swisscom has also enabled Ultra-HD (UHD) TV signals to be received on its network since spring 2016. UHD is the successor technology to Full HD and provides a picture quality that is around four times better. The UHD programme offering is however still in the start-up phase.
The Swiss TV market features a wide range of offerings from national market participants, and is now also playing host to offerings from other international companies. These international companies offer TV and streaming services that can be used over an existing broadband connection, regardless of the Internet provider. 2016 saw the level of competition increase, particularly in terms of TV content. This is highlighted by the reallocation of the broadcasting rights for domestic and international football and ice hockey. On the one hand, pay-TV channel Teleclub – a Swisscom subsidiary – has been awarded the broadcasting rights, as in previous years, to the Swiss football leagues from the 2017/2018 season onwards. On the other hand, national cable providers have acquired the broadcasting rights to the Swiss ice hockey leagues and will take over responsibility for these from Teleclub from the 2017/2018 season onwards.

Market shares digital TV in Switzerland* in %



* Estimate Swisscom

Swisscom TV subscribers in thousand



Just under 90% of TV connections are provided via cable or broadband networks. Swisscom has steadily increased the market share of its own digital TV offering, Swisscom TV, over the past few years. Swisscom became market leader at the end of 2015 and further expanded on this position throughout 2016, achieving a market share of 32% at the end of the year (prior year: 29%).

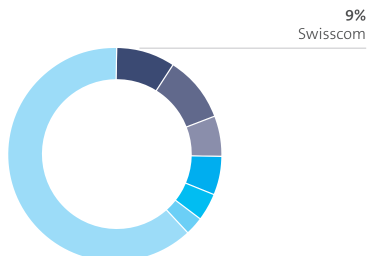
Fixed-line telephony market

Fixed-line telephony is mainly based on lines running over the fixed networks of the telecom service providers and the cable networks. The number of Swisscom fixed lines is steadily declining. This trend continued in 2016, with the number of Swisscom fixed-line connections falling by around 7% to 2.3 million. The main reason for the decline was the substitution of mobile phones for fixed-line connections.

IT services market in Switzerland

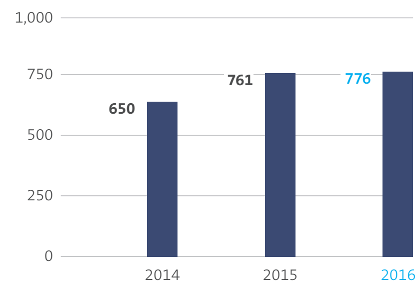
In 2016, the IT services market generated a revenue volume of CHF 8.6 billion. Market volume is expected to total CHF 9.3 billion by 2019. Swisscom expects the strongest growth in business process outsourcing (BPO) and in application-based and infrastructure project-based services, most notably in cloud and security services. This growth is a result of the increasing number of business-driven ICT projects. Customers usually expect services customised to their individual sector and business processes with related consultancy.

Market shares IT services in Switzerland* in %



* Estimate Swisscom

Swisscom net revenue IT services in CHF million

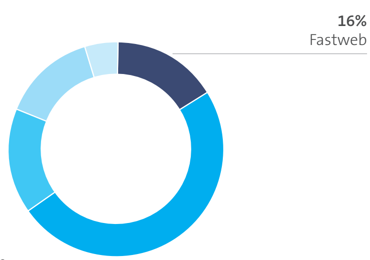


The shifts in the market and IT innovations are creating new opportunities for Swisscom. As one of the few providers of integrated digitisation solutions, Swisscom helps companies to improve customer experiences, simplify and automate processes and integrate existing solutions. Swisscom also co-creates new IT services with its customers. As a result, Swisscom is seen as a driver of digitisation in the Swiss economy. With a market share of around 9%, it remains one of the leading providers of IT services on the Swiss market.

Italian broadband market

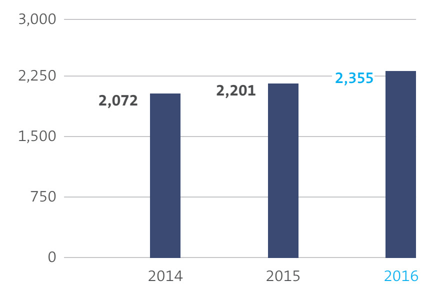
Italy's fixed broadband market is Europe's fourth largest, with a revenue volume of around EUR 13 billion. In contrast to most other European countries, in Italy there are no significant cable network operators who offer broadband services. Around 55% of households and businesses in Italy have access to fixed-line broadband services; the penetration of broadband is thus well below the European average. Nevertheless, acceptance is speeding up, driven mainly by the use of new fibre-optic networks and by the increasing use of online services, such as streaming and gaming. The Italian market continues to be dominated by bundled products which combine voice and broadband services. Convergence offerings for the fixed network and mobile communications are also becoming increasingly popular. Due to the intensely competitive environment, the market is under considerable pricing pressure. Ultrafast broadband services have become more popular and the coverage now extends to over half of the country. One of the market leaders for fibre-optic/VDSL offerings is Fastweb. Enel, the largest electricity producer and supplier in Italy, has founded a new company – Enel Open Fiber – with the aim of providing access to a fibre-optic network in selected Italian cities and using its capacity as operator to sell this wholesale to telecommunications companies. The government issued a call for tender in 2016 for several contracts relating to the installation of new public fibre-optic networks with the aim of providing coverage by 2020 to those areas that do not currently have Internet access.

Market shares broadband access lines in Italy* in %



* Estimate Swisscom

Fastweb broadband access lines in thousand



Fastweb is one of the leading providers in Italy with a market share of 16%. A permanent nationwide presence is becoming increasingly important for service providers given the growing complexity of products and services. The expansion of Italy's broadband network is continuing at full speed: Fastweb and Telecom Italia intend to cooperate on the rollout of Fibre to the Home (FTTH). The aim is for 13 million or half of homes and businesses in Italy to be connected to the ultrafast broadband network by 2020. Fastweb has also decided to expand its own sales network, improve the efficiency of its dealer structure and step up investment in its own sales outlets in major Italian cities.

Business model and customer relations

Swisscom is Switzerland's leading telecommunications company and one of its leading IT companies. Subsidiary Fastweb has established a strong position on the Italian broadband market. Swisscom is totally committed to meeting customer needs and delivering service and quality and is also investing heavily in the networks of the future.

Business activities

Company profile

Swisscom has over 21,000 full-time equivalent employees, of whom around 18,400 are employed in Switzerland. Swisscom's international activities are concentrated mainly in Italy, through its subsidiary Fastweb. Fastweb is one of the largest broadband companies in Italy. Over 80% of net revenue and operating income before depreciation and amortisation (EBITDA) is generated from business operations in Switzerland. Swisscom offers a full portfolio of products and services for fixed-line telephony, broadband, mobile communications and digital television throughout Switzerland and is mandated by the federal government to provide basic telecoms services to all sections of the population throughout Switzerland. Swisscom offers corporate customers a comprehensive range of communications solutions as well as individually tailored solutions. Swisscom is also a leading provider specialising in the integration and operation of IT systems in the fields of outsourcing, workplaces, SAP and banking. Customers can purchase their products and services via a wide range of sales channels. They can check out products and services first hand and receive comprehensive advice in Swisscom's own shops as well as in numerous partner outlets. They can also obtain product information and order products and services at any time online via the Swisscom website.

In the digital customer centre, which is also accessible via the Internet, customers can manage their personal details, subscriptions and bills on their own. Swisscom fosters close ties with all stakeholder groups: shareholders, investors, employees, suppliers, the general public, public authorities and, above all, its customers. It has long been committed to its Swiss roots and endeavours to ensure that all citizens benefit from leading-edge technologies. This is reflected in Swisscom's solution-oriented approach, which is geared to serving the common good as well as the interests of the company.

See
www.swisscom.ch

Net revenue
Switzerland accounts for

83 % of Swisscom's revenue

Full-time equivalent employees (FTEs)
Switzerland accounts for

87 % of Swisscom's FTEs

Swisscom brand

The Swisscom brand is managed strategically as an intangible asset and an important element of the Group's reputation management. It provides optimum support for Swisscom's business activities, gives guidance to customers and partners, and also acts to attract and motivate current and potential staff.
The brand is implemented across all units – in a consistent and high-quality manner. It also has to be extremely flexible at the same time, bridging the gap between known and new concepts, and likewise standing for network and infrastructure, best experiences and entertainment, as well as ICT and digitisation.
Swisscom offers products and services from the core business under the Swisscom corporate branding, as well as under the secondary brand Wingo and the third-party brand M-Budget. It also has other brands in its portfolio which are associated with other themes and business areas. Outside Switzerland, Swisscom's main market is Italy, where it operates under the Fastweb brand. The strategic management and development of the entire brand portfolio is an integral part of corporate communications.

Extract of the brand portfolio

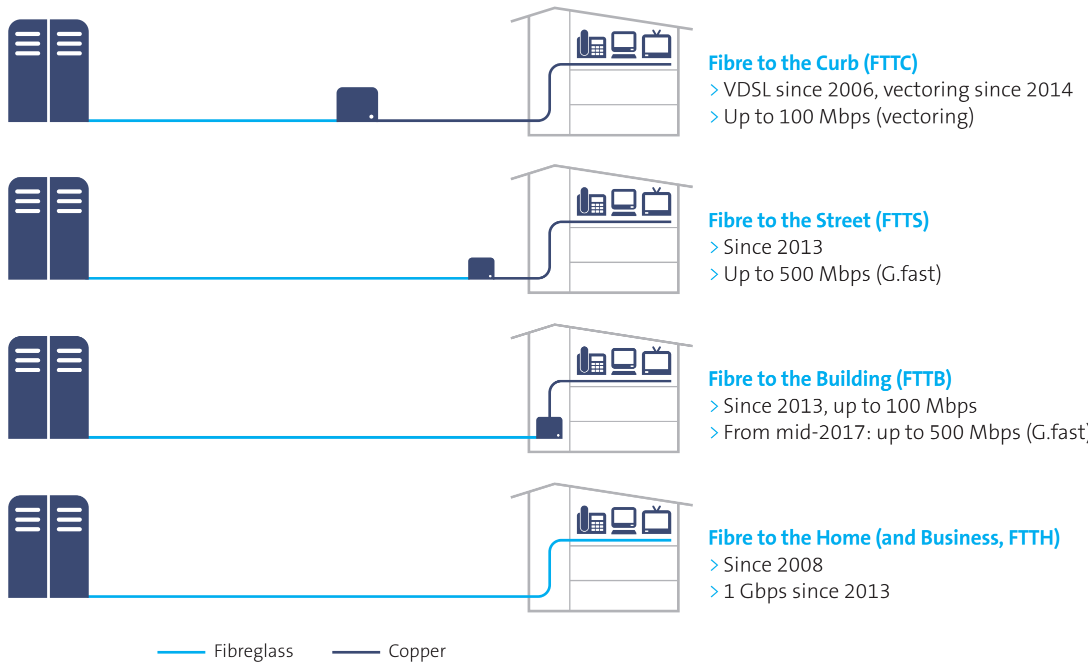
Swisscom wants to be perceived as being trustworthy, simple and inspiring, and aims to be the best companion for its customers in today's networked world. This is embodied by the successful mobile telephony and bundled offerings, as well as the ongoing success of the Swisscom TV business. The Teleclub, Kitag and Cinetrade brands, also operated by Swisscom, make a further contribution to positioning the Group in the entertainment market. Other progressive products with a market presence like cloud services under the Swisscom brand or – for example in the e-commerce sector – under the siroop brand improve the company's position on the market and reflect its commitment towards the continuous improvement of its services.
Trustworthiness and service remain important factors in confirming to existing customers that they made the right decision in opting for Swisscom and in winning new customers, while also helping to underscore the importance of Swisscom for Switzerland: Swisscom is part of a modern Switzerland, is always recognisable as a Swiss company and positions itself clearly and credibly through its stance on responsibility. All this rounds off the positive image of the Swisscom brand and enriches the Group's multi-faceted customer relationships. This is one reason why the reputation values achieved by Swisscom are exceptionally high for a company in the telecommunications sector worldwide.
External rankings also confirm this image. According to the "Best Swiss Brands 2016" survey carried out by Interbrand, Swisscom moved up two places in the reporting year and now sits in fourth place. This makes it one of the most valuable brands in Switzerland, with a monetary brand value of over CHF 5 billion.

Swisscom's network and IT infrastructure

Network infrastructure in Switzerland

Bandwidth requirements in the Swiss fixed and mobile telephone network continue to grow. This can be attributed to the fact that customers now use a wide range of devices for accessing the Internet. At the heart of the Swisscom network is IP technology (Internet Protocol), which can be used via copper and fibre-optic lines. Swisscom is planning to switch over all of its products and services to IP technology by the end of 2017. The old telephony infrastructure will be gradually taken out of operation from 2018 onwards. Today, 60,000 customers are switching to IP technology every month, and 75% of Swisscom customers are taking advantage of the benefits of IP products. All IP enables faster and more flexible processes and operations, and is boosting the competitive strength of Swisscom, its customers and Switzerland as a business centre. The Swisscom All IP initiative offers the basis for the digitisation of the Swiss economy.
Switzerland boasts one of the best IT and telecoms infrastructures worldwide. According to OECD findings (OECD Broadband Portal August 2016, values for Q4 2015), broadband penetration in Switzerland stands at 51.9%, which means that Switzerland has the highest broadband penetration in the world, ahead of Denmark and the Netherlands. This is also confirmed by the "State of the Internet Report" published by the technology service company Akamai in October 2016. According to this report, Switzerland ranks third in Europe and seventh globally in respect of the availability of ultrafast broadband. In mobile communications, broadband LTE coverage now extends to 99% of the population, making Swisscom the largest network operator in Switzerland by far, both in the fixed and mobile network.

To drive forward ultrafast broadband provision in Switzerland, Swisscom has opted for a broad, innovative mix of technologies. Alongside Fibre to the Home (FTTH), technology such as Fibre to the Curb (FTTC), Fibre to the Street (FTTS) and Fibre to the Building (FTTB) will play a key role here; in other words, optical fibre is getting ever closer to the client.



It is not only network expansion which is subject to constant change but also the way in which data is transported across the remaining copper cables. Vectoring doubles the capacity of copper cables, while G.fast, the successor to VDSL, will permit bandwidths of up to 500 Mbps on copper cables. G.fast was launched for the first time in the Swisscom network in September 2016. Swisscom is the first European telecommunications provider to implement this progressive technology. As at the end of 2016, Swisscom had established more than 3.5 million connections to its ultrafast broadband service (speeds in excess of 50 Mbps) through its technology mix. Of this number, over 2.5 million lines were equipped with the latest fibre-optic technology. This makes Swisscom a market leader by international standards.

In 2016, Swisscom defined new strategic objectives for its expansion of the fixed broadband network infrastructure: the majority of people living in any given Swiss municipality should have access to higher bandwidths by the end of 2021. To this end, some 90% of all homes and businesses will have a minimum bandwidth of 80 Mbps by the end of 2021 – with around 85% of those achieving speeds of 100 Mbps or higher. In remote regions of Switzerland, Swisscom will honour its universal service provision mandate. Thanks to the new DSL+LTE Bonding technology, it is also able to noticeably improve broadband provision in certain regions. DSL+LTE Bonding combines the performance of the fixed line network with that of the mobile network, thus ensuring a significantly better customer experience.

Swisscom supplies 99% of the Swiss population with 4G/LTE coverage. In urban regions with particularly high traffic along streets and in busy public places, 4G/LTE microcells ensure the required network capacity. In this context, Swisscom has developed its own antenna technology for installation in a manhole, which will be improving coverage from 2016. Swisscom is increasingly installing dedicated antenna systems in large business premises and indoor public areas. 4G+ technology (LTE advanced) already ensures mobile Internet bandwidths in excess of 300 Mbps in urban areas. In April 2016, Swisscom successfully transmitted data over its mobile network at a speed of 1 Gbps for the first time and mapped out the way forwards for other technological developments. Swisscom's offering is therefore leading the way, both in Switzerland and by international standards. Swisscom is likewise providing ultra-modern IP-based voice services in the form of VoLTE (Voice over LTE; launched in June 2015) and WiFi Calling (launched in August 2015). To ensure that it will still be able to satisfy the rising demand from customers for data volumes in future, Swisscom

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is continuously expanding its mobile network and investing in new technologies. As the 22-year-old 2G mobile technology needs a significant share of the antenna capacity but can only handle 0.5% of data traffic, Swisscom has decided to only support 2G until the end of 2020.
Swisscom is continually expanding its broadband network, extending the product range and increasing the number of antenna sites. Swisscom is committed to deploying modern, needs-appropriate technologies in order to ensure efficiency and compliance with contemporary zoning requirements while also minimising emissions. It coordinates site expansions with other mobile providers wherever feasible and already shares nearly a quarter of its approximately 8,400 antenna sites with other providers. At the end of 2016, Swisscom had around 5,800 exterior units and 2,600 mobile communication antennae in buildings. And with around 4,000 hotspots in Switzerland, Swisscom is also the country's leading provider of public wireless local area networks.
The Internet of Things has long connected an immense number of objects and devices to one another and to people. Swisscom is the first provider in Switzerland to set up an additional network dedicated to the Internet of Things: the Low Power Network (LPN), which forms the basis for the Internet of Things and thus for smart cities, energy-efficient buildings, machine-to-machine networking and new digital applications. The initial LPN rollout for 80% of the Swiss population as well as coverage in cities was concluded at the end of 2016.

Network infrastructure in Italy

Fastweb's network infrastructure consists of a fibre-optic network spanning a total distance of around 44,000 kilometres, reaching over 50% of the Italian population. Part of this infrastructure is made up by an ultrafast broadband network, which provides 7.5 million households and businesses, i.e. 30% of the population, with Fibre to the Home (FTTH) and Fibre to the Street (FTTS) coverage. This improved technology enables speeds of up to 200 Mbps to be reached. Moreover, Fastweb supplies its customers with broadband by means of wholesale services provided by well-established Italian operators.
In 2016, Fastweb initiated its plan to increase ultrafast broadband coverage to 50% of the population by the end of 2020, thus providing broadband to 13 million households and businesses. This network expansion will be implemented using both FTTS and FTTH. The FTTH network expansion will provide coverage to approximately 3 million households and businesses in 29 cities by the end of 2020 and will be carried out together with Telecom Italia. For this purpose, a joint venture has been founded in which Fastweb holds a 20% share.
While Fastweb does not have its own mobile network, it offers mobile services based on an agreement with another mobile operator (MVNO model). In view of the significance of convergence offerings for the fixed network and the increase in quality of mobile services, Fastweb upgraded its network to FULL MVNO in 2016 and is thus able to manage customer SIM cards directly and better control the customer experience. This will be launched on the market in 2017.

Swiss IT infrastructure

It's not only bandwidths in the networks that are constantly increasing, but also the usage of cloud services that Swisscom offers its customers. Bundled subscriptions such as Natel infinity 2.0 include memory capacity in the Swisscom Cloud. The two myCloud and Storebox storage offerings are showing data volume growth of 200 terabytes per month or 2 petabytes by the end of the reporting year, which Swisscom stores for its customers securely in the cloud. This is boosting the annual data growth in the volume of data being stored, with Swisscom now storing around 40 petabytes of data in its data centres.
The switch to data transmission by means of Internet Protocol, which is ubiquitous in All IP services, is increasing the requirements imposed on locations that previously provided traditional telephony services. In 2016, Swisscom upgraded its Lausanne data centre by providing it with modern IT infrastructure. This now meets the requirements incurred by the increase in power density in each rack – whereby the heat generated can be dissipated. In the data centre in Lausanne, Swisscom has set up part of its Telco Cloud, on which the network functions will be virtually mapped out in the future. This is a huge step into the future for Swisscom and confirms its role as a leader on the technology market.
Swisscom is becoming more experienced in using cloud technologies every year. The first cloud platforms used by Swisscom are already being replaced by the next generation of platforms. The constant state of change on the market backs up Swisscom's efforts to use the latest technologies both internally and externally for the benefit of its customers. The industrialisation of IT continues to make good progress, accompanied by the development of modern applications that benefit from the new opportunities offered by the platforms and help cut costs. Nevertheless, the old and new technologies will continue to exist and function side-by-side over the coming years. By inte-

grating different generations of technology to meet its needs, Swisscom is gaining the necessary experience and expertise to provide support to its customers as they make their way in the digital world.

Fastweb's IT infrastructure

Fastweb operates four large data centres in Italy with a total surface area of 8,000 square metres. The IT infrastructure consists of around 5,000 servers (virtual and physical servers in equal parts), 750 databases and 3 petabytes of storage capacity.
One data centre is managed by a technology partner who is responsible for setting up, designing and adapting the centre as well as the operational aspects of Fastweb's IT infrastructure. Two data centres are mainly used for corporate business services, in other words for housing, hosting or other cloud-based services. One of the Fastweb data centres in Milan was the first in Italy to be awarded Tier IV certification, which certifies the highest level of reliability, security and performance. It is fully operational and hosts services for business customers.

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

78 %

Investments in performance enhancement and security in the Swiss infrastructure and in ultrafast broadband expansion
totalled in 2016

1.8 billion Swiss francs

Data protection

The customer data that Swisscom works with is subject to the Swiss Data Protection Act, the Telecommunications Act and various client-specific confidentiality laws. Compliance with data protection laws and the observance of confidentiality are key tasks and concerns for Swisscom. It collects, stores and processes personal data on the basis of the applicable contract provisions, particularly for the provision of services, the handling and maintenance of the customer relationship, for billing, ensuring high service quality, the security of the business operations and its infrastructure, and for marketing purposes. Where legally stipulated, personal data is only processed with the necessary consent of the customer. Customers may at any time object to the processing of their respective personal data and can withdraw their consent. Swisscom raises awareness among all employees who have access to client data through data protection and confidentiality training and equips them to implement the compliance measures dedicated to this rigorously.

Moreover, Swisscom has taken technical measures to further improve data protection and confidentiality. It has reviewed and specified all access rights to critical customer data. It has also set up a system to determine whether access to critical customer data is legitimate. As in the past, Swisscom also aims in the future to continuously develop the technology used for data protection and to optimise the organisational structure, processes and employee training required for this purpose. In bringing in new technologies and in meeting new needs, Swisscom is aware of its responsibility and will continue to exercise the required sensitivity and assume its social responsibility as a companion in the networked world.

Swisscom intends to continue providing its customers with support in the ongoing digitisation of society. Within this realm, it is carrying out smart data projects for third parties, as part of which personal data is not sold; instead, only anonymised data is used to draw up interpretations and analyses. The residential customers affected by this can visit the Customer Centre online or call the hotline to prevent the data that they provided being used in smart data projects.

See **www.swisscom.ch/dataprotection**

Swisscom has also established an Ethics Board. This board serves the company in an advisory role and addresses issues relating to process sustainability and integrity as well as digitisation applications.

Finally, Swisscom strives to provide information on issues relevant to data protection in non-technical language and in befitting detail. Part of the Swisscom website will be dedicated to this.

Products, services, sales channels

Swisscom in Switzerland

Swisscom is committed to service and quality and to interacting with its customers in a personalised and value-adding manner. Approximately 6 million customer visits to Swisscom Shops, 3,500 customer advisors, 14 million calls from residential and SME customers and more than one and a half million e-mails, letters and social media enquiries per year are the basis for Swisscom staying in touch with its customers and providing personal service. For years now, excellence in service has been a top priority for Swisscom.

Residential Customers

In 2016, Swisscom enhanced its Swisscom TV 2.0 offering with a new UHD TV-Box, new functions and more content. The new ultra-high definition TV-box (UHD TV-Box) was launched in April 2016. It is smaller, quicker, more economical and displays images in ultra-high definition. At the same time, customers can now use the voice control function on the new remote control to search for content. In addition to the seven-day Replay function, the Video on Demand offering has been expanded and the latest TV series can be rented prior to their first broadcast on free TV. Swisscom has also updated the Natel infinity mobile phone offering. The new Natel infinity 2.0 subscription not only includes unlimited surfing, telephone calls and SMS/MMS in Switzerland, but also offers data transmission speeds that are up to five times faster, a considerable increase in roaming options, more included calls abroad, unlimited use of myCloud and one year's free use of Swisscom TV Air. The bundled offerings, ranging from Vivo XS to XL, combine TV, Internet and fixed-line access and offer the right subscription for individual needs. Subscribers who combine Vivo and Natel infinity (plus) also benefit from a bundle discount. In myCloud, Swisscom offers its customers a Swiss solution for the secure management and sharing of their personal data, such as photos, videos and documents. Swisscom Natel infinity customers enjoy unlimited storage capacity, while everyone else is given 15 gigabytes. Customers can also securely save their important documents, passwords and notes in Docsafe. The service offerings are also continually being upgraded. In addition to offerings such as My Service – the personal technical support service available as a subscription or on a one-off basis – Swisscom has now launched the Swisscom Repair Centre. Customers can now hand their damaged mobile phones into one of several Repair Centres and have them repaired within 24 hours without the phone leaving the Swisscom Shop. Swisscom is the only provider of mobile phone repair services across Switzerland that uses original replacement parts and thus caters to changing customer needs. Thanks to Swisscom Friends, customers receive rapid on-site customer support for technical issues from people in their neighbourhood. Experienced users can register for the service and build up a network of Swisscom Friends. Swisscom customers can book a Swisscom Friend to, for example, install a device in their home. Swisscom Friends are volunteers and are compensated by customers directly.

Small and Medium-Sized Enterprises

My SME Office and Smart Business Connect are modern communications solutions based on the future-oriented IP technology. The two packages include an Internet connection, telephony service and additional services such as an Internet failover. In combination with IT services from the cloud (Dynamic Computing Services and Business Network Solutions), SMEs are gaining a measure of flexibility in their everyday work, as they can set-up, dismantle and modify their IT and communications infrastructure at any time. Swisscom also offers Natel business infinity for SME and software from the cloud (Storebox, Microsoft Office 365 and HomepageTool) as well as full service solutions. Thanks to the digital solutions on offer, Swisscom gives its SME customers the option to work on any device or in any location, and sets them up to overcome the challenges of an increasingly interconnected world.

Enterprise Customers

Digitisation is substantially changing business processes, business models, the customer experience and the working world in companies, and relies on the presence of solid communication networks. As a telecommunications and IT company, Swisscom has many years' experience in digitisation and innovative solutions. It is driving the digitisation of Switzerland and supporting companies in their digital transformation. In this context, it has one of the largest ICT portfolios, comprising cloud, outsourcing and workplace solutions, UCC solutions, mobile phone solutions, networking solutions, location networking, business process optimisation, SAP solutions, security and authentication solutions (mobile ID) and a full range of services tailored to the banking industry, ranging from IT and business outsourcing to trend research. Swisscom also offers new solutions such as the Low Power Network for the Internet of Things and machine-to-machine networks, digital consulting, software development and solutions for digitised business processes.

Healthcare market

Swisscom provides a full range of services for the healthcare sector. Swisscom offers private individuals the Evita online health dossier, medical practices a cloud-based practice software and billing services, and health insurance companies the operation of their core IT systems. Swisscom is pressing ahead with digitisation in the health sector by providing networking solutions for service providers. This makes Swisscom a key provider of networked healthcare solutions on the Swiss market.

Networked home

Swisscom Energy Solutions is the first provider in Europe to use the intelligent tiko storage network for households. tiko power allows its 6,500 users to control and optimise the consumption of their heat pumps, electric heating systems and boilers remotely via the Internet. This makes it the largest electricity storage network in Switzerland with an overall capacity equal to a hydroelectric power station.

Sustainability

Sustainable ICT technologies support companies in their efforts to save energy and cut costs in intelligent ways while also offering their staff an attractive working environment. These technologies include teleworking and virtual meetings, which save on travel costs and time, and telehousing and hosting solutions, which reduce the amount of energy consumed by data centres. The Internet of Things creates further opportunities to manage vehicles, buildings and machines more intelligently and efficiently than in the past. Products that provide added value in terms of their sustainability for the environment and/or people receive a label, as well as a note describing their added value.

See **www.swisscom.ch/together**

Fastweb in Italy

Fastweb provides its residential and corporate customers with voice and broadband services through its own broadband and ultrafast broadband network as well as via unbundled access lines and wholesale products of Telecom Italia. In 2016, Fastweb strengthened the successful partnership with the pay-TV provider Sky Italia, offering an increasing number of bundled products which combine voice, broadband and TV services. Under an agreement with a mobile operator, Fastweb offers its mobile services primarily to residential customers. There is a full range of ICT, cloud and security service offerings for corporate customers.
Fastweb has confirmed its leading position as an innovative service provider. In 2016, work was started on upgrading the FTTS network to the improved VDSL technology, which doubled data transmission rates to speeds of up to 200 Mbps. The WiFi sharing solution (WoW-Fi), which can turn a customer's home router into a potential Wi-Fi access point for the entire Fastweb community, was also expanded on the entire infrastructure. This solution is based on Fastweb's fibre-optic network and a simple but secure registration process. Fastweb thus offers its customers the possibility of using mobile Internet without any additional expense.

Customer satisfaction

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

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

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

Employees

At the end of 2016, Swisscom had 21,127 full-time equivalent employees, of whom 18,372 or 87% were employed in Switzerland. Swisscom is also training 940 apprentices in Switzerland.

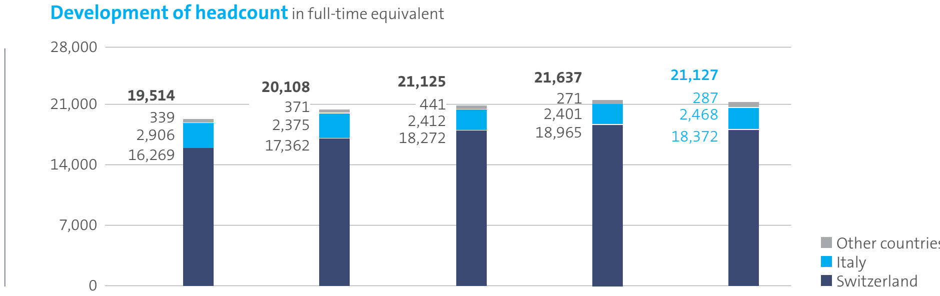
Headcount

At the end of 2016, Swisscom had 21,127 full-time equivalent employees (FTEs), of whom 18,372 or 87% of the total workforce were employed in Switzerland (prior year: 86.5%). Swisscom is also training 940 apprentices in Switzerland. The following chart shows a breakdown of full-time equivalent positions by segment:

	31.12.2016	31.12.2015	Change
Full-time equivalent employees at end of year			
Residential Customers	4,508	4,870	–7.4%
Small and Medium-Sized Enterprises	1,597	1,601	–0.2%
Enterprise Customers	5,335	5,378	–0.8%
Wholesale	88	105	–16.2%
IT, Network & Innovation	5,045	5,245	–3.8%
Swisscom Switzerland	**16,573**	**17,199**	**–3.6%**
Fastweb	2,468	2,401	2.8%
Other Operating Segments	1,796	1,723	4.2%
Group Headquarters	290	314	–7.6%
Total Group	**21,127**	**21,637**	**–2.4%**
Thereof employees in Switzerland	18,372	18,965	–3.1%

Headcount was reduced by 510 full-time equivalent positions or 2.4% to 21,127 FTEs. In Switzerland, the number of employees decreased by 593 FTEs or 3.1% to 18,372.
In the year under review, employees in Switzerland on open-ended contracts accounted for 99.6% of the workforce (prior year: 99.7%). Part-time employees made up 19.6% (prior year: 18.8%). Terminations of employment by employees in Switzerland amounted to 6.3% of the workforce (prior year: 5.8%).

Development of headcount in full-time equivalent



Employment law in Switzerland

Introduction

Swisscom has 18,372 full-time equivalent employees in Switzerland. It is therefore one of the country's largest employers. The legal terms and conditions of employment in Switzerland are based on the Swiss Code of Obligations. The current collective employment agreement (CEA), which entered into force on 1 April 2015, 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. The CEA of cablex AG likewise entered into force on 1 April 2015. At the end of December 2016, 15,392 Swisscom employees or 83% of the Swisscom workforce were covered by the collective employment agreement.
General terms and conditions of employment which exceed the minimum standard defined by the Code of Obligations govern the employment law provisions applicable to Swisscom management staff in Switzerland.

Employee representation and union relations

Swisscom is committed to fostering constructive dialogue with its social partners (the syndicom union and the transfair staff association) as well as the employee associations (employee representatives). The collective employment agreement (CEA) and the social plan constitute fair and consensual solutions. In the event of significant operational changes, Swisscom involves the social partners and employee associations at an early stage. The CEA grants the social partners and the employee associations rights of co-determination in various areas. In general and free elections in autumn 2013, Swisscom employees elected the new members of the employee associations charged with exercising these rights. Two employee representatives from the unions also sit on the Board of Directors of Swisscom Ltd.

Collective employment agreement (CEA)

The working week for employees covered by the Swisscom CEA is 40 hours. Among the progressive benefits defined by the CEA are five weeks' annual leave, or 27 days from age 45 and six weeks' annual leave from age 60, 17 weeks' maternity leave and ten days' paternity leave. Employees also enjoy an additional week of paid leave after five years of service. Swisscom pays a child and education allowance which in most cases is above the statutory cantonal allowance and grants leave on special family-related grounds such as adoption leave. In the event of incapacity to work due to illness or accident, Swisscom continues to pay the employee's full salary for up to 730 days. The CEA places special emphasis on staff development while also improving the rights of part-time employees. In November 2015, Swisscom negotiated the necessary CEA with the social partners on the basis of the revised Ordinance 1 to the Swiss Labour Law. This agreement provides for a waiver of time registration and was implemented on 1 January 2016, the date on which the amended ordinance took effect.

Working-hour models

Swisscom encourages its full-time and part-time employees to adopt an appropriate life domain balance by means of the following measures: Flexible working hours are the standard model used by a majority of employees. Other flexible working-hour models include annual working hours, a long-term working-time account and part-time work. In connection with this, Swisscom conducted the "Teilzeitmann" (part-time man) pilot trial in 2016. The experiment offered male employees the opportunity to work part-time on a trial basis and its aim was to dispel prejudice and increase the acceptance of part-time work. The "holiday purchasing" model allows employees to purchase additional leave. Employees may also work from home with the consent of their line manager. This option is used by many employees and is becoming increasingly easier thanks to solutions for modern communication and collaboration. Swisscom is a sponsor of the Work Smart initiative.

Combining work with the care of relatives at home presents a major challenge to those affected. Swisscom provides special support for employees who care for a relative or closely related individual in addition to their work duties. Two new flexible working-hour models named “Work & Care” have been added to the existing models to promote work-life balance, particularly where an employee is caring for a relative.

Social plan

Swisscom’s social plan sets out the benefits provided to employees covered by the CEA who are affected by redundancy. It utilises funds to improve employees’ prospects in the labour market. It also provides for retraining measures in the event of long-term job cuts. Responsibility for implementing the social plan lies with Worklink AG, a wholly owned subsidiary of Swisscom. Worklink AG opens up new prospects for Swisscom employees affected by job cuts, providing them with advice and support in their search for new employment outside the company or arranging temporary internal or external placements. The success rate is high, with 92% of those affected finding a new job in 2016 prior to the end of the social plan programme. Worklink is also committed to promoting and enhancing the employability of Swisscom employees by reviewing employees’ current status and providing career advice and coaching.
Swisscom also operates special employment schemes (such as phased partial retirement or temporary placements in similar areas of expertise) in line with its commitment to providing fair solutions for older employees affected by changes in skill set requirements or redundancy.

Employee remuneration

Salary system

Competitive pay packages help to attract and retain highly skilled and motivated specialists and managerial staff. Swisscom’s salary system comprises a basic salary, a variable performance-related component and bonuses. The basic salary is determined based on function, individual performance and the job market. The performance-related salary component is contingent on business performance as well as individual performance in the case of executive functions. Business performance is measured based on achievement of the Swisscom Group’s overarching targets and the targets of the respective business segment or division. The targets primarily relate to key financial indicators and customer loyalty. Individual performance is measured according to the achievement of results- and conduct-related goals. Details on remuneration paid to members of the Group Executive Board are provided in the Remuneration Report.

See report
page 131

Minimum wage

There is no legally defined minimum wage in Switzerland. Instead, this is negotiated by the social partners in the context of collective employment agreements. The current CEA provides for a minimum salary of CHF 52,000, or CHF 50,000 in the case of the cablex CEA. Swisscom’s operations are spread throughout Switzerland, and when it comes to determining salaries there is very little difference between regions. A study of starting salaries for the youngest employees (up to age 21) found that the average basic annual salary in the function levels used for most job starters in this category was CHF 58,000 or CHF 56,500 at cablex; in other words, 12% and 13% respectively above the minimum salary defined by the relevant CEA.

Pay round

In February 2016, Swisscom and its social partners signed a two-year pay round agreement for 2016 and 2017. During the reporting year, Swisscom increased salaries in Switzerland by 0.4% of the total salary. Salary adjustments were made based on individual employee performance and specifically for employees with salaries that needed to be increased in line with the market. Management staff were only awarded salary increases in individual cases.

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 job levels according to their requirements. A salary band is assigned to each job depending on the market salary. The salary band stipulates the remuneration range for equivalent duties and responsibility. Pay is determined within

this range based on the individual employee's performance. As part of its salary review, Swisscom grants employees who have performed better and are lower within the respective salary band an above-average pay rise. In this way, any wage disparities are evened out on an ongoing basis. When conducting the salary review, Swisscom also checks whether there are any pay inequalities between men and women within individual organisational units and corrects them in a targeted manner.
Swisscom also uses the federal government's equal pay tool (Logib) to conduct periodic reviews of its salary structures to ascertain whether disparities exist between men's and women's pay. Previous reviews have revealed only minor pay discrepancies, well under the tolerance threshold of 5%.

Staff development

Swisscom's market environment is constantly changing. The company invests in targeted professional training for its employees and managers in order to maintain and improve their employability and the company's competitiveness in the long term. As a pioneer in the field of digitisation in Switzerland, Swisscom is also dedicated to getting to grips with the working models of the future so as to provide employees and management with a learning environment in which they can develop and test new skills. All employees have a variety of e-learning modules at their disposal in the Learning Centre, featuring different types of lessons ranging from management topics, ICT and business economics all the way to security and governance issues. In dialogue and in agreement with line managers, all employees also have the opportunity to attend internal and external training programmes. Swisscom supports this both financially and also in terms of providing time off work. In doing so, Swisscom relies upon its employees' sense of responsibility to shape their own professional development so that it meets their respective strengths. This also applies to talent management. Employees can reapply for the talent programme independently. In the year under review, every Swisscom employee spent 2.9 days on learning, training and development in Switzerland.
Swisscom believes that providing employees with support in their development is an important task in the remit of management staff. Regular dialogue and feedback between employees, peers and line managers is used as an orientation tool to heighten the general awareness of professional development and long-term employability in the networked world. To assess and promote employee performance and development, Swisscom will continue to develop its Performance Management System in line with requirements. Performance evaluations are held on the basis of binding contribution agreements, which are now discussed openly within the respective teams.
The feedback provided by internal customers to the respective employees supplements the constant dialogue between employees and management staff and supports the achievement of agreed contribution throughout the course of the year.
The Leadership Academy offers managers in personnel, project and technical leadership roles the opportunity to get to grips with the key skills of management in a rapidly changing environment. Individual training offerings and platforms which deepen management capabilities in a particular group or a specific context also help to build up the skills of Swisscom's managers in a systematic and sustained way.

Staff recruitment

As a Swiss company, Swisscom is committed to the Swiss employment market. In order to meet customer needs and remain competitive, Swisscom is prepared to work together with both domestic and international partners, on the condition that they satisfy Swisscom's requirements as regards labour legislation and sustainability.
In the majority of cases, Swisscom first advertises available vacancies internally. When recruiting new employees, Swisscom seeks out individuals who are motivated and passionate about helping customers and who want to help shape the future of the networked world. At all company locations in Switzerland, Swisscom primarily endeavours to employ people who live in the area where they work.
In order to attract talented and highly motivated graduates, Swisscom cultivates close contact with universities and schools of applied sciences. Attending recruitment fairs and engaging in more advanced forms of cooperation such as guest lectures and workshops is very important to Swisscom. Many students gain initial professional experience at Swisscom during their studies either by working as interns or during the practical part of their Bachelor's or Master's course.
In August 2016, 325 young people started their apprenticeship at Swisscom. Swisscom is thus Switzerland's largest trainer of ICT professionals. In 2016, Swisscom trained a total of 940 apprentices in technical and commercial apprenticeships. The Swisscom training model is designed to promote independence and personal accountability so as to support the apprentice's personal development. Apprentices take an active role in devising their training so that it fits their individual priorities, and they apply within the company for different practical placements and learn from experienced employees during such placements.

Employee satisfaction

In 2016, Swisscom developed a new employee survey which is even better suited to the organisation's requirements. Employees submit their evaluations three times a year with respect to seven questions revolving around their personal work situation. The results are available for everyone to access in real time and allow individual employees, individual teams and the entire organisation to respond to feedback and make improvements. The new survey promotes a culture of feedback, which creates the basis for the whole company to develop together. 66% of the workforce participated in the first survey in October 2016, a very satisfactory response rate given the new survey mode. The findings revealed that Swisscom employees rate Swisscom very highly as an employer, particularly compared to other companies in the sector.

Employment law in Italy

Employment agreement for the telecoms sector in Italy

Statutory terms and conditions of employment in Italy are based on the Contratto collettivo nazionale di lavoro (CCNL), a state collective employment agreement. The CCNL defines the terms and conditions of employment between Swisscom's Italian subsidiary Fastweb and its employees. It also contains provisions governing relations between Fastweb and the unions.

Employee representation and relations with the unions

Fastweb engages in dialogue with the unions and the employee representatives and, in the event of major operational changes, involves them at an early stage.

Industry-wide collective agreement for employees

The working week for employees covered by the CCNL is 40 hours. Benefits include five weeks' annual leave, 20 weeks' maternity leave and one day of paternity leave. In the event of incapacity for work due to illness or accident, Fastweb guarantees full payment of the employee's salary for 180 days and half the salary for a further 185 days.

Working time model

Fastweb supports the work-life balance of its staff. The company's terms and conditions of employment enable employees to achieve a healthy balance between their working and private lives. These include in particular the following measures agreed with the unions in the Conciliazione famiglia e lavoro in 2001: flexible office working hours, choice of shifts for mothers and temporary part-time work for mothers.

Employee remuneration

Fastweb offers competitive salary packages aimed at attracting and retaining highly qualified specialists and managers. The company's salary system comprises a basic salary, a collective variable profit-sharing bonus for non-managerial staff and a variable performance-related component for managerial staff which is contingent on meeting individual goals and company targets. The basic salary is determined according to function, individual performance and the situation in the labour market. The variable profit-sharing bonus is based on the Premio di risultato agreed separately with the unions. Fastweb respects the legal minimum salary defined by the CCNL.

Innovation and development

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

Environment, objectives and management approach

Innovation is an important driver in the bid to enter new markets and partake in up-and-coming technologies. Due to the rapidly changing nature of Swisscom's business environment, innovation and development, in other words the commercially successful implementation of new ideas, are becoming increasingly important. Innovation is an important lever in remaining relevant in the core business, in generating growth in new markets and in digitising internal work processes. Swisscom strives to anticipate the strategic challenges, new growth areas and future customer needs early on, so as to help actively shape the future of telecommunications and the Internet. At Swisscom, innovation takes place in all areas of the company as well as beyond.

Open innovation: a success factor

Swisscom recognises the importance of maintaining a dialogue with customers, employees, suppliers and other partners, as this enables a continuous, open process of innovation with the focus on customers and their needs. When developing new products and services, Swisscom consistently adopts human-centred design methods, i.e. the user-oriented design of simple, inspiring experiences that help customers find their way in the networked world.

Within the company, Swisscom practises and promotes decentralised product development. As a result, new ideas are generated throughout the company. Various events and platforms provide employees with the opportunity to exchange trendsetting ideas and familiarise themselves with best practice examples. One example of this is the Innovation Week held twice a year, during which teams of employees from different divisions implement a new idea that addresses a specific customer need, is of business relevance and has potential on the market. Moreover, Swisscom supports internal pioneers through the Kickbox programme, which provides interested employees with the tools (including starting credit, a timeframe as well as the contact details of innovation experts) required for developing an idea into a prototype.

Outside the company, Swisscom promotes innovation throughout the industry. In particular, Swisscom is committed to supporting young companies that offer new, progressive solutions in the fields of IT, communications and entertainment. Swisscom participates in start-ups as a project partner and investor, supports them by providing tailored products and services, and offers them access to infrastructures and markets. Since 2013, Swisscom has held the StartUp Challenge competition, where winners are sent on a one-week mentoring programme in Silicon Valley. In June 2016, Swisscom announced that it was stepping up its collaboration with FinTech start-ups: a FinTech cluster within Swisscom institutionalises the cooperation with start-up companies in the financial industry. Swisscom Ventures is also being expanded with a dedicated FinTech fund of over CHF 10 million. Using this fund, Swisscom is making targeted investments in promising FinTech start-ups and is pressing ahead with collaborations in innovative digital banking services. In autumn of this year, Swisscom launched the "Call for Innovation", as part of which it contracted out specific ICT questions for the international start-up community to answer. Selected start-ups have the opportunity to present their solutions to a panel of experts, and the winning project will work on a joint test project with Swisscom.

See
www.swisscom.ch/innovation

Swisscom has been operating in Silicon Valley since 1998, with its branch offices running targeted trend and technology scouting operations and helping to remain at the forefront of technological development via collaborations with start-ups.

Innovation platforms

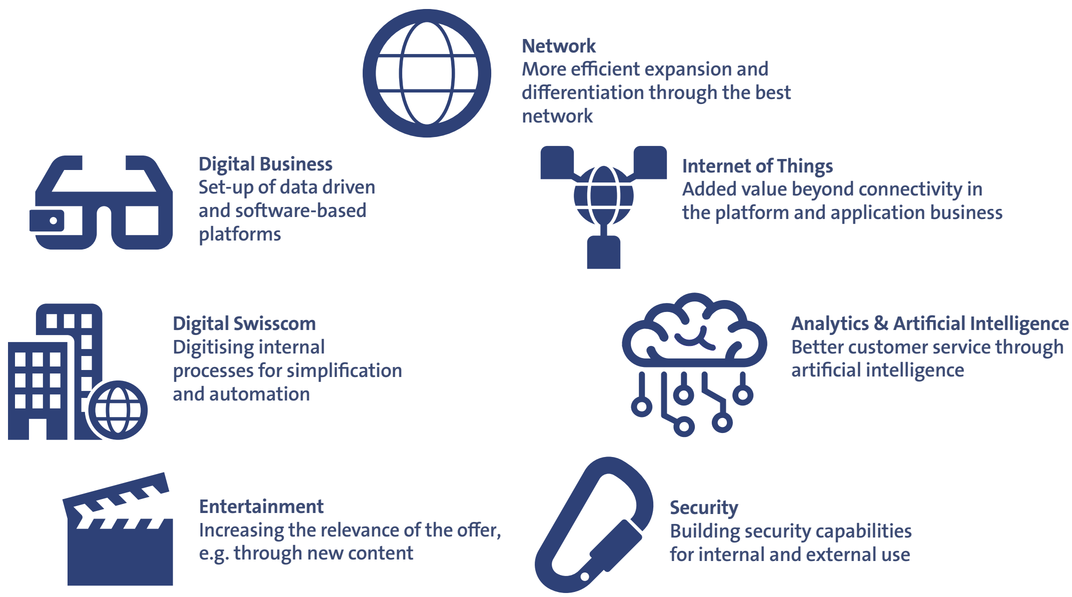
Swisscom plays an active role in shaping Switzerland's future. Its commitment to fostering an innovative and competitive Switzerland is reflected in the backing it gives to a whole variety of projects. Swisscom supports Switzerland's role as a research centre by making investments and engaging in partnerships with universities and institutions. For example, it funds the chair of Professor Adrian Perrig, head of the network security group at the Federal Institute of Technology in Zurich, thereby making an important contribution to information security in Switzerland.
As a partner of the Federal Institute of Technology Lausanne (EPFL), Swisscom enables research work to be performed in the areas of human activity and the smart home ("intelligent living") as well as "5G for Switzerland". The partnership involves the provision of financial support for selected projects, the establishment of the "Digital Lab" (a competence centre for digitisation at the EPFL Innovation Park), and various other campus activities, such as events dealing with digitisation.
Swisscom is also a partner of the Swiss Innovation Park and is closely involved in guiding this long-term project as a member of the Board of Trustees. Through its participation in the regional innovAARE Park, Swisscom is supporting research in the field of energy.
Finally, Swisscom is a founding member of the Digital Switzerland initiative (previously known as Digital Zurich 2025), the aim of which is to position Switzerland as an attractive location for start-ups. Swisscom also supports initiatives such as Impact Hub Zurich as well as incubators such as Base-Camp4HighTech, and in doing so cultivates a dynamic environment for start-ups.

Enabling services

Swisscom hopes to make its software technologies and infrastructure elements internally available by means of a strongly service-oriented procedure. It is confident of pressing ahead with the development of future software solutions through standardisation and a self-service approach. By offering its developers all of the key working bases – from programming interfaces and hosting all the way to technical support – "as a service", Swisscom is making its internal processes considerably more streamlined, faster and cost-effective.

Focused innovation

Swisscom is focusing its innovation activities on the following seven areas of innovation, which in turn directly help the Group achieve its goals:



Swisscom continually invests in progressive solutions in these areas of innovation. The aim is to provide the best ICT infrastructure for a digital Switzerland, tap new growth markets and offer its customers the best services and products:

Network

- **5G for Switzerland:** As part of the "5G for Switzerland" programme, Swisscom and Ericsson are making preparations for the new generation of mobile technology. Working together with the Federal Institute of Technology Lausanne (EPFL) as a research partner, their aim is to advance the development of 5G. They are also planning to work together with industrial partners on developing and testing the potential applications in a wide range of different areas, such as smart transportation and virtual reality. The research results will influence the definition of the global 5G standard.
- **G.fast:** At the end of 2016, Swisscom became the first telecommunications company in Europe to integrate the innovative G.fast (pronounced "gee dot fast") transmission standard into its fixed network. G.fast is an important element of Swisscom's fixed network strategy and accommodates the continuous data growth within the network. Thanks to G.fast, customers can benefit from bandwidths of up to 500 Mbps.

Internet of Things

- **Swisscom Low Power Network:** This network is used for applications in combination with "autonomous" devices that only transmit a small amount of data. The devices in the field require less power and can therefore function without a power supply or large batteries. Manufacturing and maintenance are relatively cost-effective. Swisscom is providing Switzerland's first national LPN for the Internet of Things.

See
www.swisscom.ch/lpn

- **Smart City:** In Pully, Canton of Vaud, and other pilot cities, anonymised, aggregated mobile phone data is helping to improve traffic flows in the town and relieve the burden on the town centre by displaying exact movement patterns. The project is intended to act as a pilot: Swisscom is helping towns and cities to plan their infrastructure in a more systematic manner and find easier ways to manage it.

Analytics & Artificial Intelligence

- **Voiceprint:** Customers who call the hotline can now be identified through their voice. The so-called voiceprint makes the identity verification process faster and more reliable. Voiceprint thus helps agents to serve customers even faster and with a more personal service.

Security

- **Security with artificial intelligence:** The number of threats from the Internet continues to grow and the threats themselves are becoming increasingly intelligent. Swisscom plans to use algorithms and artificial intelligence to automatically identify attacks and threats as well as to initiate the corresponding countermeasures. This could make a considerable contribution towards ensuring a safe and secure network.

Entertainment

- **UHD TV-Box for a new era of picture quality and voice recognition:** In April 2016, Swisscom launched a new TV-Box. It is smaller, quicker, more economical and offers images in amazing ultra-high definition quality (UHD). The new box comes equipped with a new remote control with a built-in microphone to enable customers to perform voice-activated searches, thus eliminating the need to type in search terms and making it much easier to find film or programme titles, actors, sports clubs or other key words.

Digital Swisscom

- **Swisscom Friends – neighbourly help:** The aim of Swisscom Friends is to encourage customers to discover the opportunities available in the digital world. As part of the neighbourly help service, people provide support to other people from their neighbourhood with any technical concerns they may have. The service comes with the benefit that support can also be provided outside of office hours. Swisscom Friends are volunteers and are compensated by customers directly.

Digital Business

- **siroop:** Through its participation in Eos Commerce AG – a start-up founded by Coop – and the launch of the siroop online marketplace, Swisscom is driving digitisation, offering customers and Swiss retailers a secure and attractive platform and leveraging the trend in favour of online retailing, which is increasingly growing in importance for Swisscom as well. Coop and Swisscom are contributing their expertise in digitisation, e-commerce, marketing and retailing to start-up companies.

In addition to the activities it carries out in innovation fields, Swisscom is constantly investigating the opportunities offered by new technologies. In 2016, it focused on the potential of blockchain disruptive technology as well as virtual/augmented reality.
The aim is for Swisscom to provide the best infrastructure for a digital Switzerland, tap new growth markets and offer its customers the best services and products.

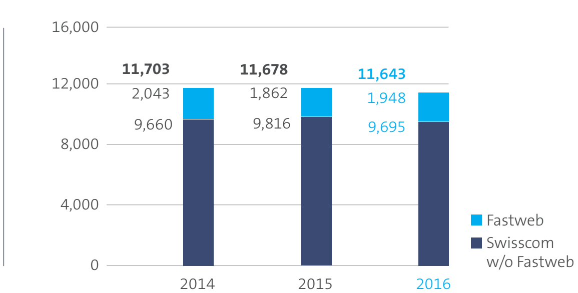
Financial review

Drop in net revenue (–0.3%). Increase in EBITDA (+4.8%) and net income (+17.8%). On a like-for-like basis, decrease in net revenue (–0.5%) and EBITDA (–1.2%). Customer base decline in Switzerland (–0.8%) and growth in Italy (+7.0%). Payment of an unchanged dividend of CHF 22 per share will be proposed for the 2016 financial year.

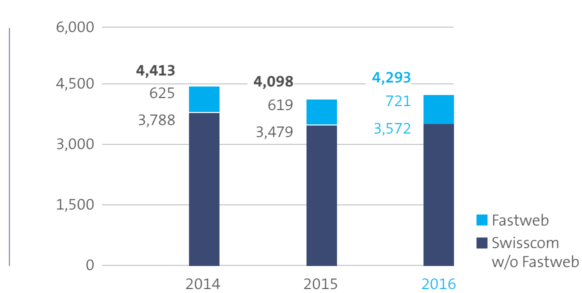
Key financial figures

In CHF million, except where indicated	2016	2015	Change
Net revenue	11,643	11,678	–0.3%
Operating income before depreciation and amortisation (EBITDA)	4,293	4,098	4.8%
EBITDA as % of net revenue	36.9	35.1	
Operating income (EBIT)	2,148	2,012	6.8%
Net income	1,604	1,362	17.8%
Share of net income attributable to equity holders of Swisscom Ltd	1,604	1,361	17.9%
Earnings per share (in CHF)	30.97	26.27	17.9%
Operating free cash flow	1,791	1,844	–2.9%
Capital expenditure in property, plant and equipment and other intangible assets	2,416	2,409	0.3%
Net debt at end of year	7,846	8,042	–2.4%
Full-time equivalent employees at end of year	21,127	21,637	–2.4%

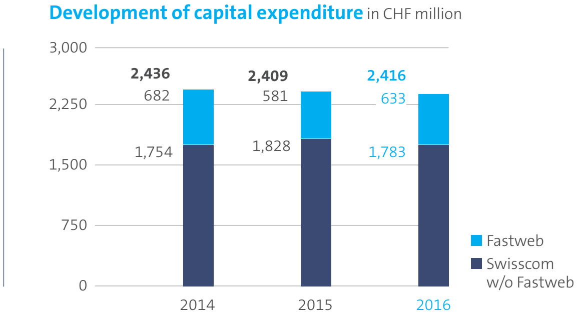
Development of net revenue in CHF million



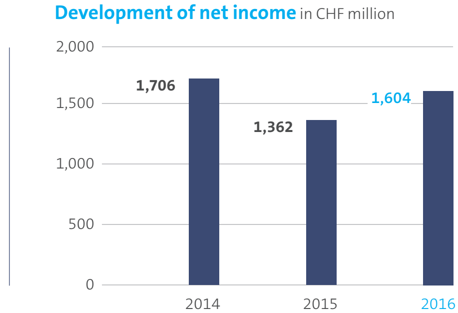
Development of EBITDA in CHF million



Development of capital expenditure in CHF million



Development of net income in CHF million



Summary

Swisscom's net revenue declined by CHF 35 million or 0.3% year-on-year to CHF 11,643 million. Revenue in the Swiss core business decreased by CHF 105 million or 1.1% to CHF 9,440 million. While revenue from telecommunications services fell by CHF 124 million or 1.8% as a result of increasing competitive pressure and falling roaming prices, revenue in the solutions business with corporate customers reported an increase of CHF 31 million or 2.9%. The number of revenue generating units (RGU) in Swiss core business fell by 96,000 or 0.8% to 12.4 million as a result of market saturation. Nevertheless, the company maintained or, as in the case of Swisscom TV, even increased its market shares. As a result of customer growth, the revenue of Italian subsidiary Fastweb was EUR 59 million or 3.4% higher at EUR 1,795 million. The number of subscribers to Fastweb's broadband business grew by 154,000 or 7.0% year-on-year to 2.4 million.

Operating income before depreciation and amortisation (EBITDA) was CHF 195 million or 4.8% higher at CHF 4,293 million. Excluding non-recurring items and on the basis of constant exchange rates, EBITDA fell by CHF 54 million or 1.2%. On a like-for-like basis, EBITDA in the Swiss core business decreased by CHF 125 million or 3.2%, and at Fastweb it rose by EUR 45 million or 8.0%. Net income increased by CHF 242 million or 17.8% to CHF 1,604 million, largely due to non-recurring items. Payment of an unchanged dividend of CHF 22 per share for the 2016 financial year will be proposed to the Annual General Meeting.

At CHF 2,416 million, capital expenditure was nearly on a par with the previous year (+0.3%). In Switzerland, capital expenditure declined by CHF 48 million or 2.6% to CHF 1,774 million. At the end of 2016, more than 3.5 million homes and businesses had been connected to ultrafast broadband (speeds in excess of 50 Mbps). At Fastweb, capital expenditure increased by EUR 40 million or 7.4% to EUR 581 million due to the continuing expansion of the broadband network.

Operating free cash flow declined by CHF 53 million or 2.9% to CHF 1,791 million. This decline was mainly due to the payment of the Competition Commission penalty of CHF 186 million imposed as part of the ongoing proceedings regarding broadband services. Excluding this payment, operating free cash flow would have risen by CHF 133 million or 7.2%. Net debt decreased by CHF 196 million or 2.4% to CHF 7,846 million as compared to the end of 2015. The ratio of net debt to EBITDA declined from 2.0 to 1.8.

Headcount at Swisscom was reduced by 510 full-time equivalent positions or 2.4% year-on-year to 21,127 FTEs. The workforce in Switzerland declined by 593 FTEs or 3.1% to 18,372 FTEs, with the reduction attributable to efficiency measures more than offsetting the increase in the number of positions in the solutions business with corporate customers as well as the recruitment of external workforce. Fastweb increased its workforce by 2.8% to 2,468 FTEs.

For 2017, Swisscom expects net revenue of around CHF 11.6 billion, EBITDA of around CHF 4.2 billion and capital expenditure of some CHF 2.4 billion. For Swisscom (excluding Fastweb), a slight decline in revenue is expected due to high competition and price pressure. A slight increase in revenue is expected for Fastweb. EBITDA for Swisscom, excluding Fastweb, is expected to be around CHF 100 million lower year-on-year. The reduction in EBITDA is attributable to price pressure and declines in the number of fixed-line telephony connections. In addition, the costs for roaming are expected to increase. EBITDA will be positively affected by cost savings. Fastweb's EBITDA is expected to be slightly higher. Capital expenditure in Switzerland and at Fastweb is expected to be on a par with the prior year. Subject to achieving its targets, Swisscom will propose payment of an unchanged dividend of CHF 22 per share for the 2017 financial year at the 2018 Annual General Meeting.

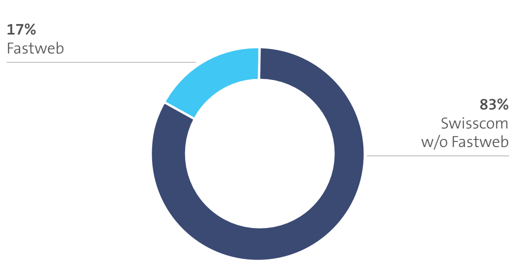
Results of operations

Income statement

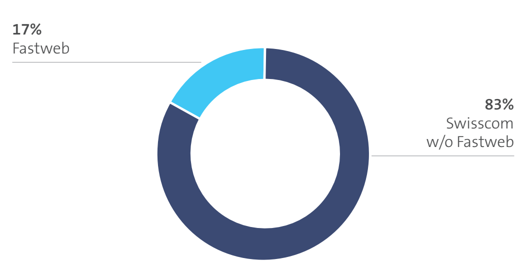
In CHF million, except where indicated	2016	2015	Change
Swisscom Switzerland	9,374	9,475	–1.1%
Fastweb	1,948	1,862	4.6%
Other Operating Segments	320	340	–5.9%
Group Headquarters	1	1	0.0%
Revenue from external customers	**11,643**	**11,678**	**–0.3%**
Swisscom Switzerland	3,686	3,601	2.4%
Fastweb	721	619	16.5%
Other Operating Segments	94	69	36.2%
Group Headquarters	(114)	(117)	–2.6%
Reconciliation pension cost [1]	(72)	(60)	20.0%
Intersegment elimination	(22)	(14)	57.1%
Operating income before depreciation and amortisation (EBITDA)	**4,293**	**4,098**	**4.8%**
Net revenue	**11,643**	**11,678**	**–0.3%**
Goods and services purchased	(2,323)	(2,342)	–0.8%
Personnel expense	(2,947)	(3,019)	–2.4%
Other operating expense	(2,548)	(2,697)	–5.5%
Capitalised costs of self-constructed assets and other income	468	478	–2.1%
Operating expenses	**(7,350)**	**(7,580)**	**–3.0%**
Operating income before depreciation and amortisation (EBITDA)	**4,293**	**4,098**	**4.8%**
Depreciation, amortisation and impairment losses	(2,145)	(2,086)	2.8%
Operating income (EBIT)	**2,148**	**2,012**	**6.8%**
Net interest expense	(155)	(189)	–18.0%
Other financial result	–	(83)	–100.0%
Share of results of associates	(3)	23	
Income before income taxes	**1,990**	**1,763**	**12.9%**
Income tax expense	(386)	(401)	–3.7%
Net income	**1,604**	**1,362**	**17.8%**
Share of net income attributable to equity holders of Swisscom Ltd	1,604	1,361	17.9%
Share of net income attributable to non-controlling interests	–	1	–100.0%
Average number of shares outstanding (in millions of shares)	51.800	51.802	0.0%
Earnings per share (in CHF)	30.97	26.27	17.9%

[1] Operating income of segments includes ordinary employer contributions as pension fund expense. The difference to the pension cost according to IAS 19 is recognised as a reconciliation item.

Share in net revenue in %



Share in EBITDA in %



Operating results

Net revenue

Swisscom's net revenue declined by CHF 35 million or 0.3% year-on-year to CHF 11,643 million, of which Swisscom Switzerland accounted for 81%, Fastweb for 17% and Other Operating Segments for 2%. At constant exchange rates and excluding company acquisitions and disposals, Swisscom's net revenue decreased by CHF 55 million or 0.5%. Revenue from external customers at Swisscom Switzerland contracted by CHF 101 million or 1.1%, due primarily to lower revenue from telecommunications services. By contrast, the revenue of Italian subsidiary Fastweb increased on the back of customer growth by EUR 59 million or 3.4% to EUR 1,795 million (measured in local currency). Adjusted for the sale of companies, the net revenue from external customers of Other Operating Segments was CHF 9 million or 2.9% higher due to a rise in construction services performed by cablex. At Swisscom Switzerland, the number of revenue generating units (RGU) dropped by 96,000 or 0.8% to 12.4 million as a result of market saturation. The increase in Swisscom TV and broadband was offset by a decline in connections for fixed-line telephony. The number of mobile lines remained on a par with the previous year. The number of Fastweb broadband customers rose by 154,000 or 7.0% to 2.4 million.

Operating expense

Operating expense of Swisscom fell by CHF 230 million or 3.0% year-on-year to CHF 7,350 million. The prior year's operating expense included the recognition of provisions for the ongoing Competition Commission proceedings on broadband services (CHF 186 million) and for headcount reduction (CHF 70 million). Adjusted for these provisions and other non-recurring items such as gains from the sale of real estate, non-cash pension expenses in accordance with IAS 19, compensation from legal proceedings, company acquisitions and disposals and the provisions created in 2016 for termination benefits and regulatory risks, and on the basis of constant exchange rates, operating expense remained stable. Higher costs at Swisscom Switzerland for subscriber acquisition and retention activities and higher costs in the solutions business for corporate customers and in relation with the parallel operation of networks were offset by cost savings of CHF 50 million as a result of efficiency gains.

Operating income before depreciation and amortisation (EBITDA)

Operating income before depreciation and amortisation (EBITDA) was CHF 195 million or 4.8% higher at CHF 4,293 million. In the previous year in particular, one-off expenses significantly impacted operating income. On a like-for-like basis, EBITDA fell by CHF 54 million or 1.2%. At Swisscom Switzerland, the adjusted decline amounted to CHF 125 million or 3.2% and was attributable to a drop in revenue from telecommunications services and to higher costs for subscriber acquisition and retention. At Fastweb, EBITDA rose by EUR 45 million or 8.0% on a like-for-like basis, mainly due to higher revenue as a result of customer growth. On an adjusted basis, Swisscom's profit margin decreased 0.3 percentage points to 36.9%.

Net revenue
declined by 0.3% year-on-year
Net revenue in 2016 amounted to

11.6 billion Swiss francs

EBITDA
increased by 4.8% year-on-year
EBITDA in 2016 amounted to

4.3 billion Swiss francs

Depreciation and amortisation, non-operating results

Depreciation, amortisation and impairment losses

Swisscom's depreciation, amortisation and impairment losses increased by CHF 59 million or 2.8% to CHF 2,145 million year-on-year, mainly reflecting an increase in depreciation and amortisation at Swisscom Switzerland because of the high level of capital expenditure. Intangible assets resulting from business combinations were capitalised for purchase price allocation purposes. Depreciation and amortisation includes scheduled amortisation of intangible assets deriving from business combinations (e.g. brands and customer relationships) totalling CHF 104 million (prior year: CHF 125 million).

Net interest expense and other financial result

Net interest expense declined by CHF 34 million to CHF 155 million as a result of lower average interest costs. The other financial result for 2016 was a break-even result after posting a net expense of CHF 83 million in the previous year. In 2016, the other financial result included a gain of CHF 41 million from the sale of associate Metroweb S.p.A. The prior-year other financial result includes foreign exchange losses of CHF 40 million due to the Swiss National Bank's lifting of the minimum exchange rate.

Investments in associates

The share of results of associates primarily involves Belgacom International Carrier Services Ltd, siroop Ltd, Zanox AG and Admeira Ltd. The result includes the initial costs for companies currently being built up. Dividends of CHF 17 million (prior year: CHF 22 million) mainly resulted from dividend payments made by Belgacom International Carrier Services Ltd.

Income tax expense

Income tax expense was CHF 386 million (prior year: CHF 401 million), corresponding to an effective income tax rate of 19.4% (prior year: 22.7%). The above-average income tax rate in 2015 is mainly attributable to the fact that no income tax effects were recognised on the provision created in 2015 for the ongoing Competition Commission proceedings regarding broadband services. Excluding non-recurring items, Swisscom expects the income tax rate to remain around 21% in the long term.

Net income

Net income increased by CHF 242 million or 17.8% to CHF 1,604 million year-on-year, largely due to non-recurring items. Earnings per share increased accordingly from CHF 26.27 to CHF 30.97.

EBIT
rose 6.8% year-on-year
EBIT in 2016 amounted to

2.15 billion Swiss francs

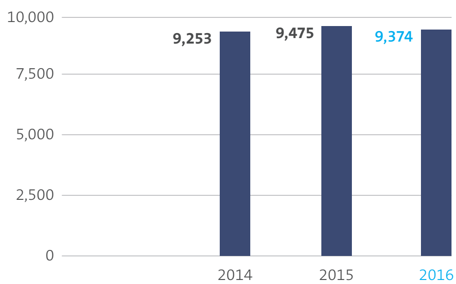
Net income
grew 17.8% year-on-year
Net income in 2016 amounted to

1.60 billion Swiss francs

Segment revenue and results

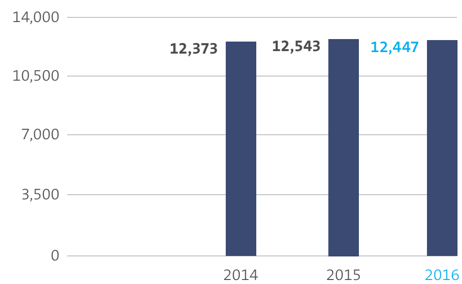
Swisscom's financial reporting focuses on the three operating divisions Swisscom Switzerland, Fastweb and Other Operating Segments, and Group Headquarters. Swisscom Switzerland is the Swiss market leader in the field of telecommunications. Fastweb is one of the largest broadband telecom companies in Italy. Other Operating Segments mainly comprises Participations, Health and Connected Living. Group Headquarters largely comprises the Group divisions. Swisscom Switzerland consists of the customer segments Residential Customers, Small & Medium-Sized Enterprises, Enterprise Customers and Wholesale as well as IT, Network & Innovation.

Development of revenue from external customers Swisscom Switzerland in CHF million



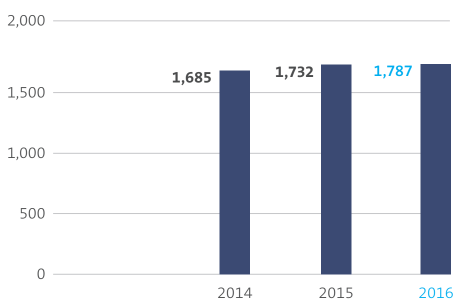
	2014	2015	2016
Revenue mobile single subscriptions	2,776	2,729	2,614
Revenue fixed-line single subscriptions	1,967	1,731	1,466
Revenue bundled subscriptions	1,921	2,234	2,502
Revenue others	2,589	2,781	2,792
Total	**9,253**	**9,475**	**9,374**

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



	2014	2015	2016
Fixed telephony access lines	2,778	2,629	2,367
Broadband access lines retail	1,890	1,958	1,992
Swisscom TV access lines	1,165	1,331	1,476
Mobile access lines	6,540	6,625	6,612
Total revenue generating units (RGU)	**12,373**	**12,543**	**12,447**

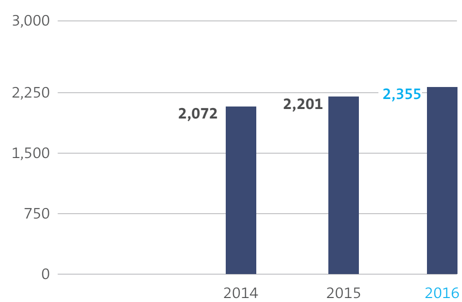
Development of revenue from external customers Fastweb* in EUR million



	2014	2015	2016
Residential Customers	753	878	906
Corporate Business	789	711	706
Wholesale hubbing	28	26	19
Wholesale others	115	117	156
External revenue	**1,685**	**1,732**	**1,787**

*New revenue structure since 2015. Figures 2014 not restated.

Development of broadband access lines Fastweb in thousand



Swisscom Switzerland

In CHF million, except where indicated	2016	2015	Change
Net revenue and results			
Residential Customers	5,160	5,224	–1.2%
Small and Medium-Sized Enterprises	1,367	1,370	–0.2%
Enterprise Customers	2,611	2,654	–1.6%
Wholesale	989	956	3.5%
IT, Network & Innovation	129	130	–0.8%
Elimination	(816)	(789)	3.4%
Net revenue	**9,440**	**9,545**	**–1.1%**
Residential Customers	2,870	2,933	–2.1%
Small and Medium-Sized Enterprises	892	907	–1.7%
Enterprise Customers	839	910	–7.8%
Wholesale	388	198	96.0%
IT, Network & Innovation	(1,304)	(1,347)	–3.2%
Elimination	1	–	100.0%
Segment result before depreciation and amortisation (EBITDA)	**3,686**	**3,601**	**2.4%**
Margin as % of net revenue	39.0	37.7	
Depreciation, amortisation and impairment losses	(1,489)	(1,383)	7.7%
Segment result	**2,197**	**2,218**	**–0.9%**
Capital expenditure and headcount			
Capital expenditure in property, plant and equipment and other intangible assets	1,743	1,799	–3.1%
Full-time equivalent employees at end of year	16,573	17,199	–3.6%

Net revenue of Swisscom Switzerland declined by CHF 105 million or 1.1% year-on-year to CHF 9,440 million. While revenue from telecommunications services for end customers declined by CHF 124 million or 1.8% as a result of greater competitive pressure and falling roaming prices, revenue in the solutions business with business customers increased by CHF 31 million or 2.9%. The number of revenue generating units (RGU) in Swiss core business fell by 96,000 or 0.8% to 12.4 million as a result of market saturation. Nevertheless, the company maintained or, as in the case of Swisscom TV, even increased its market shares. Swisscom TV is market leader, with a market share of 32% (prior year: 29%). In the fixed-line business the number of RGUs fell by 83,000. The increase in the TV and broadband business was more than offset by a drop in fixed-line telephony connections. In the mobile communications business, the number of connections was down by 13,000.

Operating income before depreciation and amortisation (EBITDA) was CHF 85 million or 2.4% higher at CHF 3,686 million. Operating income in 2015 was heavily impacted by one-off expenses, such as an addition to provisions for the ongoing Competition Commission proceedings on broadband services. Adjusted for these provisions and other non-recurring items such as provisions for headcount reduction and regulatory risks and gains from the sale of real estate, EBITDA decreased by CHF 125 million or 3.2%. At CHF 1,743 million, capital expenditure was CHF 56 million or 3.1% lower year-on-year. A rise in capital expenditure for the expansion of broadband networks was offset in other areas. Headcount fell year-on-year by 626 FTEs or 3.6% to 16,573 FTEs. Excluding company acquisitions, the number of FTEs decreased by 687 or 4.0%.

Swisscom Switzerland / net revenue

In CHF million, except where indicated	2016	2015	Change
Revenue by services			
Revenue mobile single subscriptions	2,614	2,729	–4.2%
Revenue fixed-line single subscriptions	1,466	1,731	–15.3%
Revenue bundles	2,502	2,234	12.0%
Other net revenue	2,792	2,781	0.4%
Revenue from external customers	**9,374**	**9,475**	**–1.1%**
Intersegment revenue	66	70	–5.7%
Net revenue	**9,440**	**9,545**	**–1.1%**
Operational data at end of period in thousand			
Fixed telephony access lines	2,367	2,629	–10.0%
Broadband access lines retail	1,992	1,958	1.7%
Swisscom TV access lines	1,476	1,331	10.9%
Mobile access lines	6,612	6,625	–0.2%
Revenue generating units (RGU)	12,447	12,543	–0.8%
Bundles	1,672	1,416	18.1%
Unbundled fixed access lines	128	128	0.0%
Broadband access lines wholesale	364	315	15.6%

Revenue from external customers at Swisscom Switzerland contracted by CHF 101 million or 1.1% to CHF 9,374 million. In the Residential Customers unit, revenue fell by CHF 64 million or 1.2% to CHF 5,160 million, mainly as a result of lower roaming prices. In the Small and Medium-Sized Enterprises unit, revenue remained fairly stable (–0.2%). The effect of lower roaming prices was offset by additional revenue generated from the takeover of search.ch with effect from mid-2015. Revenue in the Enterprise Customers unit decreased by CHF 43 million or 1.6% to CHF 2,611 million. While revenue from telecommunications services fell due to price pressure, revenue in the solutions business increased, albeit with a lower margin. Incoming orders in the Enterprise Customers unit fell by 5.1% to CHF 2,515 million as a result of strong competition.

The huge demand for bundled offerings with flat-rate tariffs continues. By the end of 2016, the number of customers using bundled packages had increased year-on-year by 256,000 or 18.1% to 1.67 million. Revenue from bundled contracts increased year-on-year by CHF 268 million or 12.0% to CHF 2,502 million. The number of revenue generating units (RGU) fell by 96,000 or 0.8% to 12.4 million. Despite the tough competition, the number of Swisscom TV connections increased in 2016 by 145,000 or 10.9% to 1.48 million, with fixed-fee subscriptions accounting for 1.18 million. Over 80% of customers use the cloud-based Swisscom TV 2.0 service. Broadband lines with end customers grew by 34,000 or 1.7% to 1.99 million in 2016. The number of fixed-line telephony connections fell by 262,000 or 10.0% to 2.37 million, mainly due to a shift to mobile telephony.

In the area of mobile telecommunications, the increasingly saturated market is impacting the development of customer numbers. The number of mobile communications connections remained stable year-on-year at 6.6 million (–0.2%). The number of postpaid lines including bundled offerings rose by 51,000, while the number of prepaid access lines declined by 64,000. In the roaming business, a drop in roaming fees and the inclusion of roaming in the Natel infinity 2.0 subscription packages has driven roaming volumes up at an even faster pace. The associated price reduction in 2016 was around CHF 100 million. Mobile data traffic increased by 78% year-on-year and voice traffic by 11%. With the introduction of Natel infinity 2.0 in March 2016, customers benefit from much higher speeds, more roaming options and unlimited online storage. By the end of 2016, 1.0 million customers had opted for the new infinity subscriptions. The number of customers for all Natel infinity subscriptions is 2.4 million, which equates to 70% of postpaid lines (excluding corporate customers).

Swisscom Switzerland / operating expenses and segment result

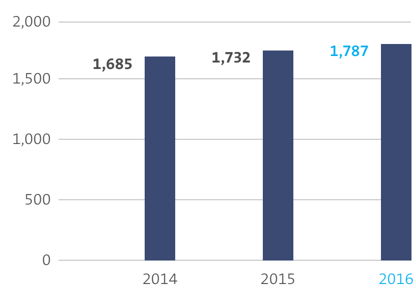
In CHF million, except where indicated	2016	2015	Change
Segment expenses by nature of cost			
Traffic fees	(459)	(440)	4.3%
Subscriber acquisition and retention costs	(504)	(459)	9.8%
Other direct costs	(1,074)	(1,114)	–3.6%
Direct costs	**(2,037)**	**(2,013)**	**1.2%**
Personnel expense	(2,413)	(2,502)	–3.6%
Other indirect costs	(1,601)	(1,744)	–8.2%
Capitalised costs of self-constructed assets and other income	297	315	–5.7%
Indirect costs	**(3,717)**	**(3,931)**	**–5.4%**
Segment expenses	**(5,754)**	**(5,944)**	**–3.2%**
Segment result			
Segment result before depreciation and amortisation (EBITDA)	**3,686**	**3,601**	**2.4%**
Margin as % of net revenue	39.0	37.7	
Depreciation, amortisation and impairment losses	(1,489)	(1,383)	7.7%
Segment result	**2,197**	**2,218**	**–0.9%**
Capital expenditure and headcount			
Capital expenditure in property, plant and equipment and other intangible assets	1,743	1,799	–3.1%
Full-time equivalent employees at end of year	16,573	17,199	–3.6%

Segment expense fell by CHF 190 million or 3.2% to CHF 5,754 million. At CHF 2,037 million, direct costs were CHF 24 million or 1.2% higher than a year earlier. The costs for subscriber acquisition and retention rose by CHF 45 million or 9.8% to CHF 504 million, partly as a result of the TV box for high-definition television being offered to customers at a preferential rate and thus no longer remaining the property of Swisscom. Traffic fees increased due to higher roaming traffic volumes. Indirect costs fell by CHF 214 million or 5.4% to CHF 3,717 million. Adjusted for the recognition of provisions in the prior year for the ongoing Competition Commission proceedings on broadband services and for other non-recurring items such as the recognition of provisions for headcount reduction and regulatory risks, gains from the sale of properties and company acquisitions, indirect costs fell by 0.7%. Higher costs in the solutions business for corporate customers and in relation to the parallel operation of networks were more than offset by cost savings as a result of efficiency gains. Swisscom Switzerland achieved cost savings totalling CHF 50 million in 2016. Personnel expense declined by CHF 89 million or 3.6% to CHF 2,413 million, and by 2.1% on a like-for-like basis. Headcount decreased year-on-year by 626 FTEs or 3.6% to 16,573 FTEs. Excluding company acquisitions, the number of staff fell by 687 FTEs or 4.0% due to efficiency measures. The segment result before depreciation and amortisation (EBITDA) rose by CHF 85 million or 2.4% to CHF 3,686 million. On a like-for-like basis, EBITDA dropped by CHF 125 million or 3.2% due to lower roaming prices, price pressure in the corporate customer business and higher costs for subscriber acquisition and retention. Depreciation and amortisation increased year-on-year by CHF 106 million or 7.7% to CHF 1,489 million. This increase is mainly due to higher investing activity. The segment result ended the year CHF 21 million or 0.9% lower at CHF 2,197 million.

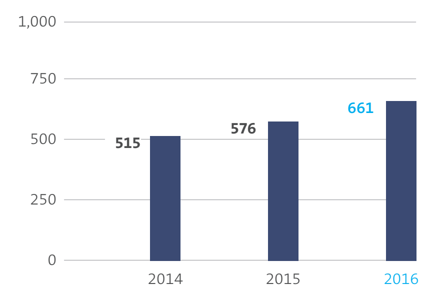
Fastweb

In EUR million, except where indicated	2016	2015	Change
Residential Customers	906	878	3.2%
Corporate Business	706	711	−0.7%
Wholesale	175	143	22.4%
Revenue from external customers	**1,787**	**1,732**	**3.2%**
Intersegment revenue	8	4	100.0%
Net revenue	**1,795**	**1,736**	**3.4%**
Segment expenses	(1,134)	(1,160)	−2.2%
Segment result before depreciation and amortisation (EBITDA)	**661**	**576**	**14.8%**
Margin as % of net revenue	36.8	33.2	
Capital expenditure in property, plant and equipment and other intangible assets	581	541	7.4%
Full-time equivalent employees at end of year	2,468	2,401	2.8%
Broadband access lines at end of year in thousand	2,355	2,201	7.0%

Development of revenue from external customers in EUR million



Development of EBITDA in EUR million



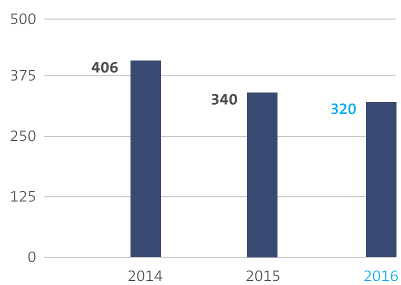
Fastweb's net revenue rose by EUR 59 million or 3.4% year-on-year to EUR 1,795 million. Despite difficult market conditions, Fastweb's broadband customer base grew by 154,000 or 7.0% to 2.36 million in 2016. Fierce competition reduced average revenue per residential broadband customer by around 3% over the prior year. Nevertheless, this decline was outweighed by customer growth. Revenue from residential customers rose accordingly by EUR 28 million or 3.2% to EUR 906 million. Fastweb held its strong position in the market for business customers, with revenue from business customers falling only slightly by EUR 5 million or 0.7% year-on-year to EUR 706 million. Revenue from wholesale business increased by EUR 32 million or 22.4% to EUR 175 million.

The segment result before depreciation and amortisation (EBITDA) rose by EUR 85 million or 14.8% to EUR 661 million. In 2016, Fastweb received compensation from Telecom Italia in the amount of EUR 55 million as a result of an out-of-court settlement following a legal dispute. In the previous year, compensation as a result of legal proceedings amounted to EUR 15 million. Excluding compensation from legal proceedings, EBITDA rose by EUR 45 million or 8.0% and the profit margin by 1.5 percentage points to 33.8%. The headcount at Fastweb rose by 67 FTEs or 2.8% to 2,468 FTEs, driven primarily by the appointment of external workforce in the technical areas and the reinforcement of resources in the mobile communications business. Fastweb continues to make progress on network expansion. 810,000 customers were connected to the company's own ultrafast broadband network at the end of 2016 (+25% year-on-year), which represents around one-third of all Fastweb broadband customers. The Fastweb network now extends to around 100 towns and cities in Italy, thus covering 30% of the population or 7.5 million households. Capital expenditure at Fastweb increased by EUR 40 million or 7.4% to EUR 581 million due to accelerated broadband expansion.

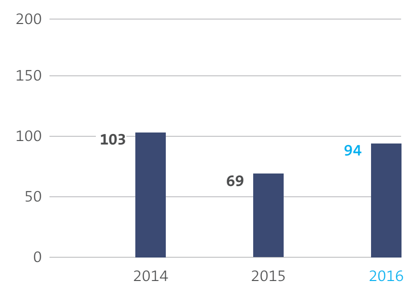
Other Operating Segments

In CHF million, except where indicated	2016	2015	Change
Revenue from external customers	320	340	–5.9%
Intersegment revenue	274	263	4.2%
Net revenue	**594**	**603**	**–1.5%**
Segment expenses	(500)	(534)	–6.4%
Segment result before depreciation and amortisation (EBITDA)	**94**	**69**	**36.2%**
Margin as % of net revenue	15.8	11.4	
Capital expenditure in property, plant and equipment and other intangible assets	61	48	27.1%
Full-time equivalent employees at end of year	1,796	1,723	4.2%

Development of revenue from external customers in CHF million



Development of EBITDA in CHF million



The development of Other Operating Segments is mainly affected by the sale of companies in the previous year. In the first half of 2015, Swisscom sold Alphapay Ltd and the Swisscom Hospitality division. This is the main reason for the decline in revenue and segment expense.
The net revenue of the Other Operating Segments fell year-on-year by CHF 9 million or 1.5% to CHF 594 million. Adjusted for the sale of companies, net revenue rose by CHF 20 million or 3.5%, mainly as a result of higher revenue for construction services at cablex. The segment result before depreciation and amortisation (EBITDA) increased by CHF 25 million or 36.2% to CHF 94 million, mainly as a result of higher revenue as well as one-off charges at cablex in the prior year. The profit margin improved by 4.4 percentage points to 15.8%. The headcount rose by 73 FTEs or 4.2% to 1,796 FTEs, driven primarily by the appointment of external workforce at cablex.

Group Headquarters and reconciliation of pension cost

Operating income before depreciation and amortisation improved by CHF 3 million or 2.6% year-on-year to CHF –114 million. Headcount declined by 7.6% year-on-year to 290 FTEs.
An expense of CHF 72 million (prior year: CHF 60 million) was recognised as a pension cost reconciliation item under IAS 19.

Quarterly review 2015 and 2016

In CHF million, except where indicated	1. quarter	2. quarter	3. quarter	4. quarter	2015	1. quarter	2. quarter	3. quarter	4. quarter	2016
Income statement										
Net revenue	**2,893**	**2,865**	**2,893**	**3,027**	**11,678**	**2,885**	**2,884**	**2,874**	**3,000**	**11,643**
Goods and services purchased	(568)	(553)	(533)	(688)	(2,342)	(544)	(558)	(580)	(641)	(2,323)
Personnel expense	(756)	(757)	(703)	(803)	(3,019)	(765)	(743)	(695)	(744)	(2,947)
Other operating expenses	(609)	(577)	(785)	(726)	(2,697)	(597)	(600)	(613)	(738)	(2,548)
Capitalised costs and other income	91	104	94	189	478	102	163	94	109	468
Operating income (EBITDA)	**1,051**	**1,082**	**966**	**999**	**4,098**	**1,081**	**1,146**	**1,080**	**986**	**4,293**
Depreciation and amortisation	(507)	(521)	(517)	(541)	(2,086)	(546)	(546)	(524)	(529)	(2,145)
Operating income (EBIT)	**544**	**561**	**449**	**458**	**2,012**	**535**	**600**	**556**	**457**	**2,148**
Net interest expense	(47)	(49)	(51)	(42)	(189)	(39)	(42)	(31)	(43)	(155)
Other financial result	(57)	16	(6)	(36)	(83)	(40)	(24)	(5)	69	–
Result of associates	5	8	5	5	23	–	–	1	(4)	(3)
Income before income taxes	**445**	**536**	**397**	**385**	**1,763**	**456**	**534**	**521**	**479**	**1,990**
Income tax expense	(94)	(103)	(123)	(81)	(401)	(92)	(110)	(112)	(72)	(386)
Net income	**351**	**433**	**274**	**304**	**1,362**	**364**	**424**	**409**	**407**	**1,604**
Share attributable to equity holders of Swisscom Ltd	351	433	274	303	1,361	365	424	410	405	1,604
Share attributable to non-controlling interests	–	–	–	1	1	(1)	–	(1)	2	–
Earnings per share (in CHF)	6.78	8.35	5.29	5.85	26.27	7.05	8.20	7.90	7.82	30.97
Net revenue										
Swisscom Switzerland	2,355	2,342	2,375	2,473	9,545	2,345	2,337	2,340	2,418	9,440
Fastweb	468	453	457	489	1,867	482	483	476	516	1,957
Other Operating Segments	144	156	149	154	603	129	146	149	170	594
Group Headquarters	–	1	–	1	2	–	1	–	1	2
Intersegment elimination	(74)	(87)	(88)	(90)	(339)	(71)	(83)	(91)	(105)	(350)
Total net revenue	**2,893**	**2,865**	**2,893**	**3,027**	**11,678**	**2,885**	**2,884**	**2,874**	**3,000**	**11,643**
Segment result before depreciation and amortisation (EBITDA)										
Swisscom Switzerland	955	969	833	844	3,601	966	946	936	838	3,686
Fastweb	130	148	156	185	619	144	223	169	185	721
Other Operating Segments	16	19	24	10	69	22	27	27	18	94
Group Headquarters	(29)	(29)	(22)	(37)	(117)	(30)	(27)	(27)	(30)	(114)
Reconciliation pension cost	(17)	(19)	(18)	(6)	(60)	(18)	(17)	(20)	(17)	(72)
Intersegment elimination	(4)	(6)	(7)	3	(14)	(3)	(6)	(5)	(8)	(22)
Total segment result (EBITDA)	**1,051**	**1,082**	**966**	**999**	**4,098**	**1,081**	**1,146**	**1,080**	**986**	**4,293**
Capital expenditure in property, plant and equipment and other intangible assets										
Swisscom Switzerland	388	453	459	499	1,799	425	447	409	462	1,743
Fastweb	160	138	133	150	581	169	145	156	163	633
Other Operating Segments	6	6	8	28	48	6	11	15	29	61
Intersegment elimination	(5)	(4)	(5)	(5)	(19)	(4)	(6)	(5)	(6)	(21)
Total capital expenditure	**549**	**593**	**595**	**672**	**2,409**	**596**	**597**	**575**	**648**	**2,416**
Full-time equivalent employees at end of year										
Swisscom Switzerland	16,964	17,062	17,176	17,199	17,199	17,155	16,969	16,767	16,573	16,573
Fastweb	2,373	2,377	2,381	2,401	2,401	2,407	2,422	2,457	2,468	2,468
Other Operating Segments	1,940	1,722	1,725	1,723	1,723	1,769	1,743	1,771	1,796	1,796
Group Headquarters	322	325	321	314	314	314	309	297	290	290
Total headcount	**21,599**	**21,486**	**21,603**	**21,637**	**21,637**	**21,645**	**21,443**	**21,292**	**21,127**	**21,127**
Operating free cash flow	344	401	684	415	1,844	184	604	616	387	1,791
Net debt	7,895	8,760	8,320	8,042	8,042	8,108	8,856	8,310	7,846	7,846

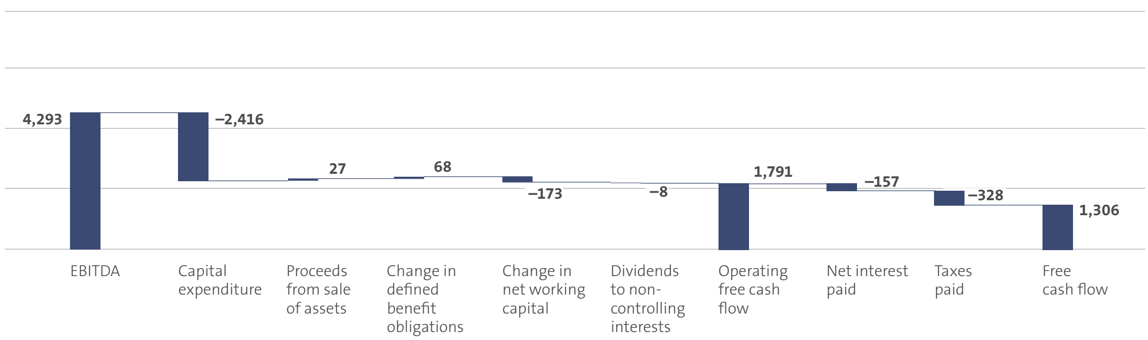
In CHF million, except where indicated	1. quarter	2. quarter	3. quarter	4. quarter	2015	1. quarter	2. quarter	3. quarter	4. quarter	2016
Swisscom Switzerland										
Net revenue and results										
Residential Customers	438	449	460	433	1,780	426	428	441	432	1,727
Small and Medium-Sized Enterprises	101	102	102	98	403	95	93	90	91	369
Enterprise Customers	132	140	140	134	546	128	128	130	132	518
Revenue mobile single subscriptions	**671**	**691**	**702**	**665**	**2,729**	**649**	**649**	**661**	**655**	**2,614**
Residential Customers	207	191	185	178	761	159	147	131	108	545
Small and Medium-Sized Enterprises	106	103	103	101	413	100	99	94	89	382
Enterprise Customers	139	141	140	137	557	138	136	131	134	539
Revenue fixed-line single subscriptions	**452**	**435**	**428**	**416**	**1,731**	**397**	**382**	**356**	**331**	**1,466**
Residential Customers	461	476	496	513	1,946	524	528	546	566	2,164
Small and Medium-Sized Enterprises	69	71	73	75	288	78	80	85	88	331
Enterprise Customers	–	–	–	–	–	1	2	2	2	7
Revenue bundles	**530**	**547**	**569**	**588**	**2,234**	**603**	**610**	**633**	**656**	**2,502**
Total revenue single subscriptions and bundles	**1,653**	**1,673**	**1,699**	**1,669**	**6,694**	**1,649**	**1,641**	**1,650**	**1,642**	**6,582**
Solution business	261	260	253	294	1,068	277	273	262	287	1,099
Hardware sales	148	128	124	202	602	136	123	125	162	546
Wholesale	148	140	145	146	579	139	148	149	155	591
Revenue other	126	124	137	145	532	128	136	137	155	556
Total revenue from external customers	**2,336**	**2,325**	**2,358**	**2,456**	**9,475**	**2,329**	**2,321**	**2,323**	**2,401**	**9,374**
Residential Customers	1,252	1,247	1,267	1,309	5,075	1,252	1,236	1,254	1,278	5,020
Small and Medium-Sized Enterprises	320	332	344	343	1,339	328	334	334	338	1,334
Enterprise Customers	607	598	594	650	2,449	605	597	574	624	2,400
Wholesale	148	140	145	146	579	139	148	149	155	591
IT, Network & Innovation	9	8	8	8	33	5	6	12	6	29
Revenue from external customers	**2,336**	**2,325**	**2,358**	**2,456**	**9,475**	**2,329**	**2,321**	**2,323**	**2,401**	**9,374**
Segment result before depreciation and amortisation (EBITDA)										
Residential Customers	730	742	756	705	2,933	755	729	710	676	2,870
Small and Medium-Sized Enterprises	217	232	239	219	907	224	228	225	215	892
Enterprise Customers	219	226	237	228	910	212	205	209	213	839
Wholesale	101	92	(86)	91	198	93	100	105	90	388
IT, Network & Innovation	(312)	(323)	(312)	(400)	(1,347)	(318)	(316)	(313)	(357)	(1,304)
Intersegment elimination	–	–	(1)	1	–	–	–	–	1	1
Segment result (EBITDA)	**955**	**969**	**833**	**844**	**3,601**	**966**	**946**	**936**	**838**	**3,686**
Margin as % of net revenue	40.6	41.4	35.1	34.1	37.7	41.2	40.5	40.0	34.7	39.0
Fastweb, in EUR million										
Residential Customers	216	219	218	225	878	223	227	225	231	906
Corporate Business	168	177	171	195	711	171	177	169	189	706
Wholesale hubbing	7	7	6	6	26	6	5	4	4	19
Wholesale other	37	29	28	23	117	38	30	36	52	156
Revenue from external customers	**428**	**432**	**423**	**449**	**1,732**	**438**	**439**	**434**	**476**	**1,787**
Segment result (EBITDA)	120	140	145	171	576	131	204	155	171	661
Margin as % of net revenue	28.0	32.4	34.2	38.0	33.2	29.8	46.3	35.5	35.8	36.8
Capital expenditure	147	132	124	138	541	154	132	144	151	581
Broadband access lines in thousand	2,124	2,157	2,172	2,201	2,201	2,241	2,257	2,295	2,355	2,355

In thousand, except where indicated	1. quarter	2. quarter	3. quarter	4. quarter	2015	1. quarter	2. quarter	3. quarter	4. quarter	2016
Swisscom Switzerland Operational data										
Access lines										
Single subscriptions	1,763	1,695	1,632	1,573	1,573	1,500	1,412	1,303	1,155	1,155
Bundles	972	1,002	1,027	1,056	1,056	1,082	1,106	1,155	1,212	1,212
Fixed telephony access lines	**2,735**	**2,697**	**2,659**	**2,629**	**2,629**	**2,582**	**2,518**	**2,458**	**2,367**	**2,367**
Single subscriptions	650	615	581	542	542	503	463	397	320	320
Bundles	1,258	1,307	1,356	1,416	1,416	1,465	1,515	1,588	1,672	1,672
Broadband access lines retail	**1,908**	**1,922**	**1,937**	**1,958**	**1,958**	**1,968**	**1,978**	**1,985**	**1,992**	**1,992**
Single subscriptions	200	182	165	148	148	127	111	98	84	84
Bundles	1,001	1,056	1,110	1,183	1,183	1,240	1,289	1,342	1,392	1,392
Swisscom TV access lines	**1,201**	**1,238**	**1,275**	**1,331**	**1,331**	**1,367**	**1,400**	**1,440**	**1,476**	**1,476**
Prepaid single subscriptions	2,149	2,131	2,125	2,124	2,124	2,123	2,112	2,085	2,060	2,060
Postpaid single subscriptions	3,888	3,910	3,920	3,905	3,905	3,877	3,882	3,854	3,841	3,841
Mobile access lines single subscriptions	**6,037**	**6,041**	**6,045**	**6,029**	**6,029**	**6,000**	**5,994**	**5,939**	**5,901**	**5,901**
Bundles	531	551	573	596	596	615	629	674	711	711
Mobile access lines	**6,568**	**6,592**	**6,618**	**6,625**	**6,625**	**6,615**	**6,623**	**6,613**	**6,612**	**6,612**
Revenue generating units (RGU)	**12,412**	**12,449**	**12,489**	**12,543**	**12,543**	**12,532**	**12,519**	**12,496**	**12,447**	**12,447**
Broadband access lines wholesale	278	291	301	315	315	329	342	351	364	364
Unbundled fixed access lines	162	150	139	128	128	120	125	128	128	128
Bundles										
2play bundles	302	301	301	287	287	280	281	279	281	281
3play bundles	680	712	741	790	790	826	856	889	930	930
4play bundles	266	278	291	304	304	313	319	349	375	375
nplay bundles	10	16	23	35	35	46	59	71	86	86
Total bundles	**1,258**	**1,307**	**1,356**	**1,416**	**1,416**	**1,465**	**1,515**	**1,588**	**1,672**	**1,672**
Swisscom Group Information by geographical regions										
Net revenue in Switzerland	2,407	2,395	2,431	2,531	9,764	2,398	2,396	2,393	2,478	9,665
Net revenue in other countries	486	470	462	496	1,914	487	488	481	522	1,978
Total net revenue	**2,893**	**2,865**	**2,893**	**3,027**	**11,678**	**2,885**	**2,884**	**2,874**	**3,000**	**11,643**
EBITDA Switzerland	914	932	804	811	3,461	936	923	908	805	3,572
EBITDA in other countries	137	150	162	188	637	145	223	172	181	721
Total EBITDA	**1,051**	**1,082**	**966**	**999**	**4,098**	**1,081**	**1,146**	**1,080**	**986**	**4,293**
Capital expenditure in Switzerland	388	454	460	520	1,822	425	451	416	482	1,774
Capital expenditure in other countries	161	139	135	152	587	171	146	159	166	642
Total capital expenditure	**549**	**593**	**595**	**672**	**2,409**	**596**	**597**	**575**	**648**	**2,416**
Full-time equivalent employees in Switzerland	18,776	18,828	18,936	18,965	18,965	18,960	18,754	18,551	18,372	18,372
Full-time equivalent employees in other countries	2,823	2,658	2,667	2,672	2,672	2,685	2,689	2,741	2,755	2,755
Total headcount	**21,599**	**21,486**	**21,603**	**21,637**	**21,637**	**21,645**	**21,443**	**21,292**	**21,127**	**21,127**

Cash flows

In CHF million	2016	2015	Change
Operating income before depreciation and amortisation (EBITDA)	4,293	4,098	195
Capital expenditure in property, plant and equipment and other intangible assets	(2,416)	(2,409)	(7)
Change in net working capital and other cash flows from operating activities	(86)	155	(241)
Operating free cash flow	**1,791**	**1,844**	**(53)**
Net interest paid	(157)	(188)	31
Income taxes paid	(328)	(350)	22
Free cash flow	**1,306**	**1,306**	**–**
Net expenditures for company acquisitions and disposals	47	(64)	111
Other cash flows from investing activities, net	(87)	63	(150)
Issuance and repayment of financial liabilities, net	(101)	(132)	31
Dividends paid to equity holders of Swisscom Ltd	(1,140)	(1,140)	–
Other cash flows	(18)	(5)	(13)
Net increase in cash and cash equivalents	**7**	**28**	**(21)**

Free cash flow in CHF million



At CHF 1,306 million, free cash flow remained at the previous-year level. Operating free cash flow was down by CHF 53 million or 2.9% year-on-year to CHF 1,791 million. Operating income before depreciation and amortisation (EBITDA) and the change in net working capital of the prior year includes the recognition of a provision of CHF 186 million for the ongoing Competition Commission proceedings on broadband services. Swisscom does not consider the sanction justified and has lodged an appeal with the Federal Court. Swisscom paid the penalty of CHF 186 million, as no suspensive effect was granted. Excluding this payment, operating free cash flow would have risen by CHF 133 million or 7.2% versus the previous year. Capital expenditure increased year-on-year by CHF 7 million or 0.3% to CHF 2,416 million. The high level of capital expenditure is attributable to the ongoing expansion of broadband networks in Switzerland and Italy. In 2016 Swisscom issued three debenture bonds with a total nominal amount of CHF 700 million with coupons of between 0.125% and 0.375% and maturities of 11 to 16 years. The funds raised were used to repay outstanding debts. In addition, a private placement for CHF 150 million that fell due in 2016 was extended by a further 15 years at a fixed interest rate of 0.56%. Swisscom paid a dividend of CHF 22 per share in 2016, which corresponds to an overall payout of CHF 1,140 million.

Capital expenditure

See report
pages 48—51

Swisscom remains committed to maintaining the high quality and availability of its network infrastructures. In Switzerland this involves making targeted investments in ultrafast broadband network expansion, migrating to an All-IP-based infrastructure, and ensuring a mobile network with latest mobile network standards.
In Italy, Fastweb operates a network comprising a proprietary fibre-optic network and a copper-based broadband access infrastructure. Fastweb is also systematically expanding this network infrastructure.

In CHF million, except where indicated	2016	2015	Change
Fixed access & infrastructure	500	509	–1.8%
Expansion of the fibre-optic network	476	435	9.4%
Mobile access	231	210	10.0%
Customer driven	189	251	–24.7%
Projects and others [1]	347	394	–11.9%
Swisscom Switzerland	**1,743**	**1,799**	**–3.1%**
Fastweb	633	581	9.0%
Other Operating Segments	61	48	27.1%
Group Headquarters and elimination	(21)	(19)	10.5%
Total capital expenditure	**2,416**	**2,409** [2]	**0.3%**
Thereof Switzerland	1,774	1,822	–2.6%
Thereof other countries	642	587	9.4%
Total capital expenditure as % of net revenue	20.8	20.6	

[1] Including All IP migration.
[2] Excluding capital expenditure of CHF 18 million in real estate projects, for which sales contracts were concluded and the purchasers made payments in the same amount.

Capital expenditure incurred by Swisscom increased year-on-year by CHF 7 million or 0.3% to CHF 2,416 million, corresponding to 20.8% of net revenue (prior year: 20.6%). Swisscom Switzerland accounted for 72% of 2016 capital expenditure, while Fastweb accounted for 26% and Other Operating Segments for 2%.
Capital expenditure incurred by Swisscom Switzerland declined year-on-year by CHF 56 million or 3.1% to CHF 1,743 million, corresponding to 18.5% of net revenue (prior year: 18.8%). The increase in capital expenditure for the expansion of broadband networks with latest technologies was more than offset by a drop in customer-driven investment and investment in the development of service platforms. At the end of 2016, Swisscom had connected over 3.5 million households and businesses to ultrafast broadband (speeds in excess of 50 Mbps). Of these, over 2.5 million were equipped with latest technologies – from fibre to the home (FTTH) to the latest fibre-optic technologies such as fibre to the street (FTTS), fibre to the building (FTTB) and vectoring technology. By the end of 2016, Swisscom had extended state-of-the-art 4G/LTE coverage, which enables broadband access to the Internet, to 99% of the Swiss population.
Fastweb increased its capital expenditure year-on-year by CHF 52 million or 9.0% to CHF 633 million. In local currency the rise amounted to EUR 40 million or 7.4% to EUR 581 million. The main reason for this rise was an increase in capital expenditure for broadband networks. In July 2016, Fastweb and Telecom Italia announced plans to cooperate on the rollout of fibre to the home (FTTH). The aim is for about half of all homes and businesses in Italy (i.e. 13 million), to be connected to the ultrafast broadband network by 2020. The ratio of capital expenditure to revenue was 32.4% (2015: 31.2%), with around 30% of total capital expenditure being directly related to customer growth.

Net asset position

Balance sheet

In CHF million	31.12.2016	31.12.2015	Change
Assets			
Cash and cash equivalents and current financial assets	506	409	23.7%
Trade and other receivables	2,532	2,535	–0.1%
Property, plant and equipment	10,177	9,855	3.3%
Goodwill	5,156	5,161	–0.1%
Other intangible assets	1,756	1,861	–5.6%
Associates and non-current financial assets	455	461	–1.3%
Income tax assets	299	375	–20.3%
Other current and non-current assets	573	492	16.5%
Total assets	**21,454**	**21,149**	**1.4%**
Liabilities and equity			
Financial liabilities	8,496	8,593	–1.1%
Trade and other payables	1,896	1,768	7.2%
Defined benefit obligations	1,850	2,919	–36.6%
Provisions	962	1,139	–15.5%
Income tax liabilities	746	436	71.1%
Other current and non-current liabilities	982	1,052	–6.7%
Total liabilities	**14,932**	**15,907**	**–6.1%**
Share of equity attributable to equity holders of Swisscom Ltd	6,514	5,237	24.4%
Share of equity attributable to non-controlling interests	8	5	60.0%
Total equity	**6,522**	**5,242**	**24.4%**
Total liabilities and equity	**21,454**	**21,149**	**1.4%**
Equity ratio at end of year	30.4%	24.8%	

Total liabilities and equity rose by CHF 0.3 billion or 1.4% to CHF 21.5 billion, which was primarily due to higher capital expenditure.

In CHF million	31.12.2016	31.12.2015	Change
Property, plant and equipment	10,177	9,855	322
Goodwill	5,156	5,161	(5)
Other intangible assets	1,756	1,861	(105)
Other operating assets	3,105	3,027	78
Provisions	(962)	(1,139)	177
Other operating liabilities	(2,878)	(2,820)	(58)
Net operating assets	**16,354**	**15,945**	**409**
Cash and cash equivalents and financial assets	506	409	97
Financial liabilities	(8,496)	(8,593)	97
Defined benefit obligations	(1,850)	(2,919)	1,069
Income tax assets and liabilities, net	(447)	(61)	(386)
Investments in associates	193	223	(30)
Other assets, net	262	238	24
Equity	**6,522**	**5,242**	**1,280**

Fastweb

As at 31 December 2016, the carrying amount of Fastweb in Swisscom's consolidated financial statements amounted to EUR 2.8 billion (CHF 3.0 billion; CHF/EUR year-end exchange rate of 1.074). This includes goodwill with a net carrying amount of EUR 0.5 billion. Swisscom raised financing in EUR, of which it designated EUR 1.24 billion as an instrument for hedging Fastweb's net assets. Fastweb's cumulative currency translation losses of CHF 1.8 billion (after tax) at the end of 2016 are recognised in equity in Swisscom's consolidated financial statements.

Goodwill

The net carrying value of goodwill is CHF 5,156 million, the bulk of which relates to Swisscom Switzerland (CHF 4,582 million). This goodwill arose primarily in 2007 in connection with the repurchase of the 25% stake in Swisscom Mobile Ltd sold to Vodafone in 2001. Following the repurchase, the mobile, fixed-network and solutions businesses were organisationally combined and merged to create the new company Swisscom (Switzerland) Ltd. The valuation risk of this goodwill item is extremely low. The net carrying amount of Fastweb's goodwill is EUR 492 million (CHF 529 million). Goodwill in respect of Other Operating Segments amounts to CHF 45 million.

Post-employment benefits

Defined benefit obligations presented in the consolidated financial statements are measured in accordance with International Financial Reporting Standards (IFRS). Net defined benefit obligations amount to CHF 1,850 million, which represents a CHF 1,069 million decline year-on-year. This is attributable primarily to the fact that IFRS now takes account of the division of funding gaps between employer and employee (risk sharing). The positive effect of the first-time application of risk sharing is CHF 0.9 billion. In accordance with the Swiss accounting standards applicable to the pension fund (Swiss GAAP ARR), the surplus amounts to CHF 0.1 billion, corresponding to a coverage ratio of around 101%. The main reasons for the difference compared with IFRS of CHF 1.9 billion are the application of differing actuarial assumptions with regard to the discount rate, life expectancy or risk sharing (CHF 1.0 billion), as well as a different actuarial measurement method (CHF 0.9 billion). Unlike Swiss GAAP, IFRS measurement takes into account future salary, contribution and pension increases and early retirements.

Equity

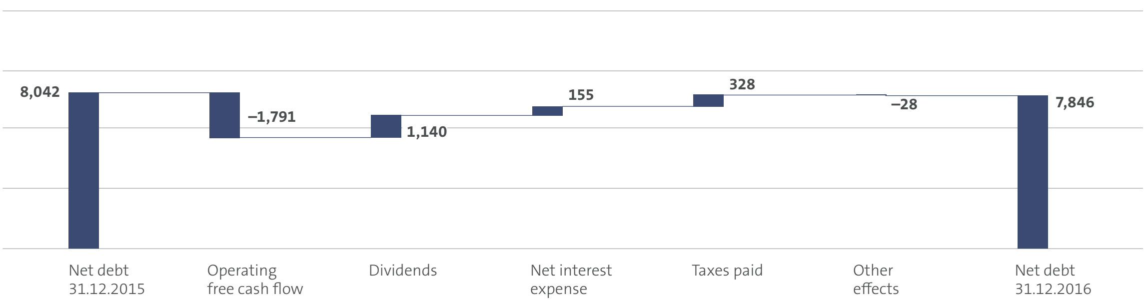
Equity increased by CHF 1,280 million or 24.4% to CHF 6,522 million. The ratio of equity to total assets rose from 24.8% to 30.4%. The CHF 1,604 million in net income and net gains of CHF 831 million recognised directly in equity exceeded dividend payments of CHF 1,140 million to the shareholders of Swisscom Ltd. Net gains recognised directly in equity include non-cash actuarial gains from pension plans totalling CHF 1,162 million as well as unrealised losses of CHF 21 million resulting from currency translation of foreign Group companies. The CHF/EUR exchange rate fell from 1.084 at the end of 2015 to 1.074 at the end of 2016. On 31 December 2016, cumulative currency translation losses recognised in equity amounted to CHF 1,834 million (after tax).
Distributable reserves are calculated on the basis of equity reported in the separate financial statements of Swisscom Ltd in accordance with Swiss company-law financial-reporting standards, rather than on the basis of equity as disclosed in the consolidated balance sheet prepared in accordance with International Financial Reporting Standards (IFRS). On 31 December 2016, the equity of Swisscom Ltd totalled CHF 6,255 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. On 31 December 2016, Swisscom Ltd held distributable reserves of CHF 6,193 million.

Net debt

Swisscom targets a net debt / EBITDA ratio of around 1.9. Net debt comprises financial liabilities less cash and cash equivalents, current financial assets and non-current, fixed-interest-bearing financial assets.

In CHF million, except where indicated	31.12.2014	31.12.2015	31.12.2016
Net debt	8,120	8,042	7,846
Ratio total liabilities / total assets	73.8%	75.2%	69.6%
Ratio net debt / equity	1.5	1.5	1.2
Ratio net debt / EBITDA	1.8	2.0	1.8

Development of net debt in CHF million



The ratio of net debt to EBITDA was 1.8 at the end of 2016 (prior year: 2.0). 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 interest-bearing financial liabilities amounts to 21%.

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 table below shows the maturity profile of interest-bearing financial liabilities at nominal value as at 31 December 2016:

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	198	64	345	–	101	708
Debenture bonds	600	1,425	1,074	1,987	1,010	6,096
Private placements	250	72	278	–	150	750
Finance lease liabilities	16	16	24	36	416	508
Other financial liabilities	1	23	1	9	–	34
Total interest-bearing financial liabilities	**1,065**	**1,600**	**1,722**	**2,032**	**1,677**	**8,096**

Statement of added value

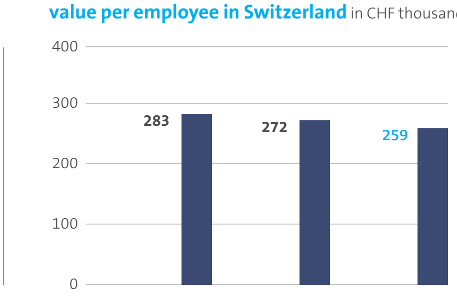
Operating added value is equivalent to net revenue less goods and services purchased, other operating expenses, and depreciation and amortisation. Personnel expense is treated as use of added value rather than as an intermediate input. Swisscom generates the bulk of its added value in Switzerland, with activities abroad accounting for 7% of the Group's added value from operations in the year under review (prior year: 6%).

			2016			2015
In CHF million	Switzerland	Abroad	Total	Switzerland	Abroad	Total
Added value						
Net revenue	**9,665**	**1,978**	**11,643**	**9,764**	**1,914**	**11,678**
Capitalised self-constructed assets and other income	325	143	468	339	139	478
Goods and services purchased	(1,851)	(472)	(2,323)	(1,829)	(513)	(2,342)
Other operating expenses[1]	(1,819)	(718)	(2,537)	(1,800)	(697)	(2,497)
Depreciation and amortisation[2]	(1,493)	(548)	(2,041)	(1,404)	(540)	(1,944)
Intermediate inputs	**(4,838)**	**(1,595)**	**(6,433)**	**(4,694)**	**(1,611)**	**(6,305)**
Operating added value	**4,827**	**383**	**5,210**	**5,070**	**303**	**5,373**
Other non-operating result[3]			(107)			(388)
Total added value			**5,103**			**4,985**
Allocation of added value						
Employees[4]	2,651	224	2,875	2,748	216	2,964
Public sector[5]	308	13	321	513	5	518
Shareholders (dividends)			1,148			1,147
Third-party lenders (net interest expense)			155			189
Company (retained earnings)[6]			604			167
Total added value			**5,103**			**4,985**

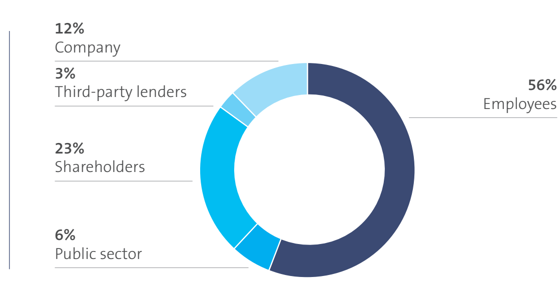
1 Other operating expense: excluding taxes on capital and other taxes not based on income.
2 Depreciation and amortisation: excluding amortisation of acquisition-related intangible assets such as brands or customer relations.
3 Other non-operating result: financial result excluding net interest expense, share of profits of investments in associates, and depreciation and amortisation of acquisition-related intangible assets.
4 Employees: employer contributions are reported as pension cost, rather than as expenses according to IFRS.
5 Public sector: current income taxes, taxes on capital and other taxes not based on income, as well as ComCo sanctions.
6 Company: including changes in deferred income taxes and defined benefit obligations.

In 2016, operating added value amounted to CHF 5,210 million, 3.0% more than in 2015. Some 93% of operating added value was generated in Switzerland (prior year: 94%). Added value from international operations increased by CHF 80 million to CHF 383 million.
Operating added value in Switzerland fell 4.8% year-on-year to CHF 4,827 million, while added value from operations per FTE was 4.8% lower at CHF 259,000 (prior year: 272,000).

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



Allocation of added value in %



Energy efficiency and CO_2 emissions in Switzerland

In %, except where indicated	2016	2015	Change
Energy consumption (in GWh)	536	521	2.9%
Increase of the efficiency of energy to 1 January 2010	35.9	29.6	
Increase of the efficiency of energy to 1 January 2016	8.9	–	
Direct CO_2 emissions (in tonnes)	19,837	20,116	–1.4%
Ratio CO_2 reduction to CO_2 emmissions	0.99	0.81	

Swisscom is striving to boost energy efficiency and rely more on renewable energies in order to minimise the environmental impact of its business activities. In Switzerland, Swisscom has set itself the goal of increasing its energy efficiency by a further 35% by the end of 2020 compared with 1 January 2016. The increase will be achieved primarily by measures in the network infrastructure area. Together with its customers, Swisscom is also aiming to save twice as much CO_2 as it emits throughout the entire company including the supply chain by 2020. Swisscom intends to achieve this target on the one hand by reducing emissions, and on the other by promoting and marketing a sustainable product portfolio.

In 2016, total energy consumption in Switzerland rose by 15 GWh or 2.9% to 536 GWh. The efficiency measures introduced to improve cooling in telephone exchanges and cut energy consumption in data centres partly offset the additional energy consumption attributable to network expansion. Swisscom achieved an average PUE (power usage effectiveness) value of 1.47 across all of its data centres in 2016 (prior year: 1.50). In 2016, as in previous years, Swisscom once again used 100% renewable energy. Energy efficiency improved versus 1 January 2010 to 35.9% (prior year: 29.6%), and versus 1 January 2016 by 8.9%. In 2016, direct CO_2 emissions in Switzerland decreased by 279 tonnes or 1.4% to 19,837, chiefly due to lower consumption of fossil fuels. The ratio of savings among customers to emissions climbed from 0.81 to 0.99 in 2016.

Outlook for net revenue
Expectation for 2017 of around

11.6 billion Swiss francs

Outlook for EBITDA
Expectation for 2017 of around

4.2 billion Swiss francs

Financial outlook

In CHF million	2016 reported	Adjustment	2016 pro forma	2017 Change Swisscom w/o Fastweb	2017 Change Fastweb	2017 outlook
Net revenue	11,643			< 0	> 0	~ 11,600
Operating income before depreciation and amortisation (EBITDA)	4,293	(20)[1]	4,273	~ –100	> 0	~ 4,200
Capital expenditure	2,416			0	0	~ 2,400

[1] Fastweb litigation of CHF –60 million and provisions (for restructuring and other risks) of CHF +40 million.

For 2017, Swisscom expects net revenue of around CHF 11.6 billion, EBITDA of around CHF 4.2 billion and capital expenditure of some CHF 2.4 billion. For Swisscom (excluding Fastweb), a slight decline in revenue is expected due to high competition and price pressure. A slight increase in revenue is expected for Fastweb. EBITDA for Swisscom, excluding Fastweb, is expected to be around CHF 100 million lower year-on-year. The reduction in EBITDA is attributable to price pressure and declines in the number of fixed-line telephony connections. In addition, the costs for roaming are expected to increase. EBITDA will be positively affected by cost savings. Fastweb's EBITDA is expected to be slightly higher. Capital expenditure in Switzerland and at Fastweb is expected to be on a par with the prior year. Subject to achieving its targets, Swisscom will propose payment of an unchanged dividend of CHF 22 per share for the 2017 financial year at the 2018 Annual General Meeting.

Outlook for capital expenditure
Expectation for 2017 of around

2.4 billion Swiss francs

Dividend per share
If 2017 targets are met

22 Swiss francs

Capital market

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

Swisscom share

Swisscom's market capitalisation as at 31 December 2016 amounted to CHF 23.6 billion (previous year: CHF 26.1 billion). The number of shares outstanding remained the same at 51.8 million. Par value per registered share is CHF 1. Each share entitles the holder to one vote. Voting rights can only be exercised if the shareholder is entered in the share register of Swisscom Ltd with voting rights. The Board of Directors may refuse to enter a shareholder with voting rights if such voting rights exceed 5% of the company's share capital.

Ownership structure

			31.12.2016			31.12.2015
	Number of Shareholders	Number of Shares	Share in %	Number of Shareholders	Number of Shares	Share in %
Confederation	1	26,394,000	51.0%	1	26,394,000	51.0%
Natural persons	74,224	5,497,806	10.6%	69,929	4,929,030	9.5%
Institutions	3,205	19,910,137	38.4%	3,094	20,478,913	39.5%
Total	**77,430**	**51,801,943**	**100.0%**	**73,024**	**51,801,943**	**100.0%**

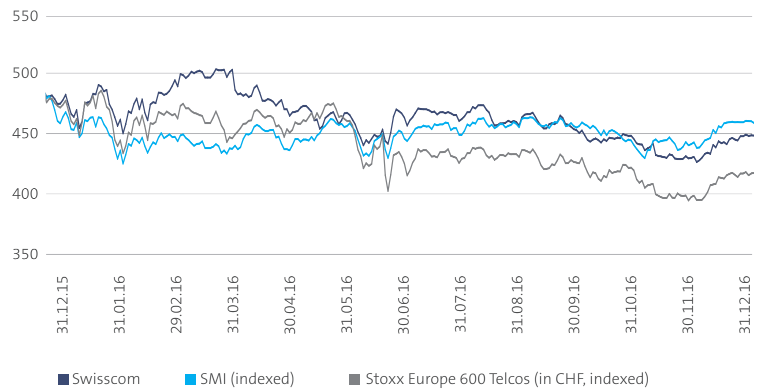
The majority shareholder as at 31 December 2016 was the Swiss Confederation, with 51.0% of the voting rights and capital. The Confederation is obligated by current law to hold the majority of the capital and voting rights. As at 31 December 2016, some 21% of the shares were held in unregistered shareholdings.

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

Share performance 2016 in CHF



See
www.swisscom.ch/
shareprice

The Swiss Market Index (SMI) declined by 6.8% compared with the previous year. The Swisscom share price fell by 9.3% to CHF 456.10, outperforming the Stoxx Europe 600 Telecommunications Index (–16.9% in CHF; –15.8% in EUR). Average daily trading volume fell by 2.9% year-on-year to 133,566 shares. Total trading volume of Swisscom shares in 2016 amounted to CHF 16 billion.

Shareholder return

On 12 April 2016, Swisscom paid out an ordinary dividend of CHF 22 per share. Based on the closing price at the end of 2015, this equates to a return of 4.4%. Taking into account the fall in share price, the total shareholder return (TSR) of the Swisscom share was –5.4% in 2016. The TSR for the SMI was –3.4% and for the Stoxx Europe 600 Telecommunications Index –12.8% in CHF and –11.7% in EUR.

Swisscom share performance indicators

		2012	2013	2014	2015	2016
Par value per share at end of year	CHF	1.00	1.00	1.00	1.00	1.00
Number of issued shares at end of period	in thousand	51,802	51,802	51,802	51,802	51,802
Market capitalisation at end of year	in CHF million	20,400	24,394	27,067	26,056	23,627
Closing price at end of period	CHF	393.80	470.90	522.50	503.00	456.10
Closing price highest	CHF	400.00	474.00	587.50	580.50	528.50
Closing price lowest	CHF	334.40	390.20	467.50	471.10	426.80
Earnings per share	CHF	34.90	32.53	32.70	26.27	30.97
Ordinary dividend per share	CHF	22.00	22.00	22.00	22.00	22.00 [1]
Ratio payout / earnings per share	%	63.04	67.63	67.27	83.75	71.04
Equity per share at end of year	CHF	79.77	115.30	105.29	101.10	125.75

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

Analysts' recommendations

Investment specialists analyse Swisscom's business performance, results and market situation on an ongoing basis. Their findings and recommendations offer valuable indicators for investors. 25 analysts regularly publish studies on Swisscom. At the end of 2016, 16% of the analysts recommended a buy rating for the Swisscom share, 48% a hold rating and 36% a sell rating. The average price target at 31 December 2016, according to the analysts' estimates, was CHF 480 per share.

Payout policy

Swisscom pursues a stable dividend policy that is focused on cash flow generation and capital allocation. At the forthcoming Annual General Meeting on 3 April 2017, the Board of Directors will propose an ordinary dividend of CHF 22 per share for the financial year 2016 (prior year: CHF 22 per share). This is equivalent to a total dividend payout of CHF 1,140 million.
Since going public in 1998, Swisscom has distributed a total of CHF 29.5 billion to its shareholders: CHF 17.5 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 345 per share since the initial public offering. Together with the overall increase in share price of CHF 116 per share, this amounts to an average annual total return of 5.2%.

Indebtedness

Level of indebtedness

Swisscom aims to have a net debt of around 1.9 times EBITDA (operating income before depreciation and amortisation). Net debt comprises financial liabilities less cash and cash equivalents, current financial assets and non-current, fixed-interest-bearing financial assets.
As at 31 December 2016, net debt amounted to CHF 7.8 billion (prior year: CHF 8.0 billion), corresponding to a net debt/EBITDA ratio of 1.8 (prior year: 2.0).

Dividend per share
in the 2016 reporting year

22 CHF

Dividend yield of the Swisscom share
Based on share price as at end of 2016

4.8 %

Credit ratings and financing

With a rating of A (stable) and A2 (stable) respectively, Swisscom enjoys good ratings from the Standard & Poor's and Moody's rating agencies. To avoid structural downgrading, Swisscom endeavours to raise financing at the level of Swisscom Ltd. Swisscom aims to have a broadly diversified debt portfolio. This involves paying particular attention to balancing maturities and a diversification of financing instruments, markets and currencies. Swisscom's solid financial standing enabled unrestricted access to money and capital markets again in 2016.
As at 31 December 2016, Swisscom's financial liabilities amounted to CHF 8.5 billion. Around 87% of the financial liabilities have a residual term to maturity of more than one year. Financial liabilities with a term of one year or less amounted to CHF 1.1 billion at 31 December 2016. In 2016, the average interest expense on all financial liabilities was 1.9% (prior year: 2.3%), and the average residual term to maturity was 4.8 years. A large proportion of the financial liabilities will fall due for repayment if a shareholder other than the Swiss Confederation gains majority control over Swisscom.

Listed debenture bonds

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

Bonds listed on the Six Swiss Exchange

In CHF million	Coupon	Payment	Maturity	Security number
Par value				
600	3.75%	19.07.2007 22.10.2007 [1]	19.07.2017	3,225,473
1,425	3.25%	14.09.2009	14.09.2018	10,469,162
500	2.63%	31.08.2010	31.08.2022	11,469,537
250	0.25%	17.04.2015	17.04.2023	26,898,817
500	1.75%	10.07.2012	10.07.2024	188,335,365
200	1.50%	14.07.2014	14.07.2026	24,777,613
200	0.375%	15.12.2016	15.12.2027	34,458,378
200	0.375%	31.03.2016	31.03.2028	31,792,166
160	1.50%	30.09.2014	28.09.2029	25,414,750
300	0.125%	15.09.2016	15.09.2032	33,635,277
150	1.00%	17.04.2015	17.04.2035	26,898,818

[1] Reopening.

Bonds listed on the Irish Stock Exchange (ISE)

In EUR million	Coupon	Payment	Maturity	ISIN no.
Par value				
500	2.00%	30.09.2013 [1]	30.09.2020	XS0972165848
500	1.88%	08.04.2014 [1]	08.09.2021	XS1051076922
500	1.75%	15.09.2015 [1]	15.09.2025	XS1288894691

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

Risks

Swisscom's risk management system is aimed at safeguarding the company's enterprise value.

Risk management system

Swisscom's enterprise risk management (ERM) applies Group-wide and takes both internal and external events into account. Swisscom complies with the established COSO II and ISO 31000 risk management standards and thus has a risk management system in place that meets the requirements of its own corporate governance policy as well as those of Swiss law.

Objectives

Swisscom's risk management system is aimed at safeguarding the company's enterprise value. This is assured by having in place a recognised and appropriate Group-wide risk management system as well as comprehensive, fit-for-purpose reporting at each level of management, suitable documentation and a risk and opportunity-aware corporate culture.

Organisation

The Board of Directors delegates responsibility for implementing the risk management system to the CEO Swisscom Ltd. A central Risk Management unit reports to the CFO Swisscom Ltd. It coordinates all organisational units charged with risk management tasks and oversees these insofar as this is required for reporting purposes. This ensures comprehensive, Group-wide coordinated risk management and reporting. As part of their remit, employees entrusted with risk management tasks have an unrestricted right to information and are authorised to access and view all relevant documents and records.
Swisscom employs special instruments in individual risk areas. In financial risk management, for example, quantitative tools (sensitivity analyses) are used to assess interest rate and currency risks. Specialised organisational units monitor the legal compliance risks and financial reporting risks (internal control system, ICS).

Process

The main risks and opportunities for Swisscom are identified in a comprehensive analysis. Each topic is assigned an owner. To enable the early identification, assessment and management of risks and opportunities and their inclusion in strategic planning, the central Risk Management unit works closely with the Controlling and Strategy department and other relevant departments. Risk management covers risks and opportunities in the areas of strategy (including market), operations (including finance), compliance and financial reporting. The risks are assessed according to 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 key performance indicators reported by Swisscom. The risk profile is reviewed and updated on a quarterly basis. The Board of Directors' Audit Committee and the Swisscom Group Executive Board are informed about significant risks, their potential effects and the status of measures on a semi-annual basis, and the Board of Directors on a semi-annual basis. The effectiveness of the risk strategies and measures taken is assessed quarterly.
Information on the internal control system, compliance management and internal auditing is provided in the Corporate Governance Report, Section 4.10, Controlling instruments of the Board of Directors vis-à-vis the Group Executive Board.

See report
page 118

General statement on the risk situation

Risks are driven by changes in markets, competition, customer behaviour, technology, the regulatory environment and government policy. The importance of established telecoms services is continuing to decline. New services in the areas of digitisation and IT services, such as cloud services, security products and the communication between machines, should compensate for the loss of revenue from the traditional core business. Over the long term, the trend in the ICT market will necessitate fundamental changes in the approach to risks related to the business model, technology and human capital. Forthcoming regulatory decisions pose a latent risk which could impact Swisscom's financial development, as illustrated by the following selected key risk factors. The main risk factors in the supply chain are reported separately in the Sustainability Report.

Risk factors

Telecommunications market

Increasing competition driven by national infrastructure providers and service providers who do not have their own telecoms infrastructure (e.g. OTTs) is exerting transformation pressure on the business. During this transformation, the complexity resulting from the parallel operation of old and new technologies has to be reduced so as to enable new, attractive services. Here there is a risk that the revenue from the classic telecoms business will not be secured sustainably during the transformation process, while at the same time technical complexity remains undiminished. Moreover, a trend can currently be observed towards national and international cooperation among telecommunications providers, the purpose of which is to provide low-cost services internationally and exploit major synergies and economies of scale. There is thus a risk that Swisscom will not be able to align its cost structures with its current and future competitors, which would narrow the scope for investment, innovation and price reductions.
If such risks materialise, this could delay implementation of the strategy or have a detrimental effect on customer satisfaction. Swisscom has initiated measures in various areas to manage these risks.

Politics and regulation

The manner in which regulations are implemented (e.g. telecommunications and antitrust legislation) entails risks for Swisscom which could have an adverse impact on the company's financial position and results of operations. The main risks concern the possibility of price regulation being extended to mobile communications (mobile termination) and broadband (optical fibre) which would further reduce Swisscom's income and restrict the company's room for manoeuvre, as well as sanctions by the Competition Commission which could reduce Swisscom's operating results and cause reputational damage to the company. The forthcoming revision of the Telecommunications Act also heightens regulatory risk. Finally, excessively high political demands (e.g. those imposed on universal service provision) threaten to fundamentally undermine the current competitive system.

See report
page 36

Increased bandwidth in the access network

Customer demand for broadband access is growing rapidly, as is the popularity of mobile devices and IP-based services (smartphones, IP TV, OTTs, etc.). Swisscom faces tough competition from cable companies and other network operators as it strives to meet current and future customer needs and defend its own market share. The network expansion that this necessitates calls for major investments. To mitigate financial risks and ensure optimum network coverage, expansion is determined by population density and customer demand. Substantial risks would arise if Swisscom were forced to spend more on network expansion than planned, or if projected long-term earnings were to fall. Swisscom minimises the risks by adapting the broadband expansion of the access network to changing conditions as well as technical opportunities on an ongoing basis.

Employees

Constant changes in background conditions and markets mean that corporate culture needs to adapt. 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 and renew their skills and ensuring that Swisscom remains an attractive employer.

Competitive dynamics, regulation and the recoverability of Fastweb's assets

The competitive dynamics carry risks which could have a detrimental impact on Fastweb's strategy and jeopardise projected revenue growth. The impairment test performed in 2016 confirmed the recoverable value of Fastweb's assets. The recoverability of Fastweb's net assets recognised in the consolidated financial statements is contingent above all on achieving the financial targets set out in the business plan (revenue growth, improvement in EBITDA margin and reduction in capital expenditure ratio). If future growth is lower than projected, there is a risk that this will result in a further impairment loss. Major uncertainty also surrounds the future interest rate trend and the country risk premium. An increase in interest rates or the country risk premium could lead to an impairment loss. Fastweb's business operations are also influenced by the European and Italian telecommunications legislation. Regulatory risks can jeopardise the achievement of targets and reduce the enterprise value.

Business interruption

Usage of Swisscom's services is heavily dependent on technical infrastructure such as communications networks and IT platforms. Any major disruption to business operations poses a high financial risk as well as a substantial reputational risk. Force majeure, natural disasters, human error, hardware or software failure, criminal acts by third parties (e.g. computer viruses or hacking) and the ever-growing complexity and interdependence of modern technologies can cause damage or interruption to operations. Built-in redundancy, contingency plans, deputising arrangements, alternative locations, careful selection of suppliers and other measures are designed to ensure that Swisscom can deliver the level of service that customers expect at all times.

Information and security technologies

Swisscom is in the midst of a transformation from line-switched TDM technology to IP technology. This transformation should enable Swisscom to produce more flexibly and efficiently than before. The experience acquired with IP technology to date has been positive. Swisscom's complex IT architecture entails risks during both the implementation and operating phases. These risks have the potential to delay the rollout of new services, increase costs and impact competitiveness. The transformation is being monitored by the Group Executive Board.

The area of Internet security has developed and changed with immense speed with respect to technology, economics and society and their interdependencies. These new innovations and capabilities go hand in hand with new opportunities as well as new risks.

The wider the variety of opportunities for attack, the more difficult prevention becomes. This means it is even more important for potential threats to be recognised at an early stage, systematically understood and quickly averted.

Environment and health

Electromagnetic radiation (e.g. 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 the precautionary principle and introduced limits for base stations which are ten times stricter than the EU's limits. The public's wary attitude to mobile antenna sites in particular is impeding Swisscom's network expansion. Even without stricter legislation, public concerns about the effects of electromagnetic radiation on the environment and health could further hamper the construction of wireless networks in the future and drive up costs.

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

See
www.cdp.net

Michelle Bösiger
First-year
commercial apprentice

Lias Hess
First-year mediamatics apprentice

In their role as sustainability ambassadors, apprentices attend internal team meetings and report on how Swisscom supports sustainability. The apprentices then work together with their team on their contribution towards sustainability.

43,236

pupils, parents and teachers were trained in media skills by Swisscom in 2016.

900 team meetings

in total are attended by apprentices.

Timon Wüthrich
First-year mediamatics apprentice

“We can make a difference by passing on our knowledge. Our commitment to sustainability therefore certainly pays off at Swisscom.”

Corporate Governance and Remuneration Report

Taking advantage of new opportunities to generate sustainable growth.

Corporate Governance

Corporate governance is a fundamental component of Swisscom's corporate policy. Swisscom is committed to practising effective and transparent corporate governance as part of its effort to deliver long-term value. In particular, Swisscom complies with the recommendations of the Swiss Code of Best Practice for Corporate Governance 2014 issued by economiesuisse and meets the requirements of the Ordinance Against Excessive Compensation in Listed Stock Companies.

1 Principles

1.1 General principles

In performing their activities, the Board of Directors and Group Executive Board of Swisscom are guided by the objective of long-term and sustainable business management. They incorporate in their decisions the legitimate interests of Swisscom shareholders, customers, employees and other interest groups. To this end, the Board of Directors practises effective and transparent corporate governance, which is characterised by clearly assigned responsibilities and based on recognised standards. In particular, Swisscom complies with

- the recommendations of the Swiss Code of Best Practice for Corporate Governance 2014 issued by economiesuisse, the umbrella organisation representing Swiss business
- the Corporate Governance Directive of 1 September 2014 issued by SIX Swiss Exchange, which also forms the basis of this report
- the requirements of the Ordinance Against Excessive Compensation in Listed Stock Companies (OaEC) of 20 November 2013
- legal requirements pursuant to the Swiss Code of Obligations

The interaction of investors, proxy advisors and other stakeholder groups with the respective specialist divisions allows the Board of Directors to identify new standards at an early stage and to adjust its corporate governance activities to new requirements as and when necessary.

1.2 Internal governance framework

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. 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.

See www.swisscom.ch/basicprinciples

The latest version of these documents as well as revised or superseded versions can be viewed online on the Swisscom website under "Basic principles".

2 Group structure and shareholders

2.1 Group structure

2.1.1.Operational group structure

Swisscom Ltd is the holding company responsible for overall management of the Swisscom Group. It comprises the five Group divisions Group Business Steering, Group Human Resources, Group Strategy & Board Services, Group Communications & Responsibility and Group Security. The Board of Directors delegates the day-to-day business management to the CEO of Swisscom Ltd. The CEO, together with the heads of the Group divisions Group Business Steering (CFO) and Group Human Resources (CPO) as well as the heads of the business divisions Sales & Services, Products & Marketing, Enterprise Customers and IT, Network & Infrastructure, form the Group Executive Board. The Group further operates a Digital Business division. Strategic and financial management of the Group companies is assured through the rules governing the assignment of powers and responsibilities by the Board of Directors of Swisscom Ltd. The Group companies are divided into three categories: strategic, important and other. Swisscom (Switzerland) Ltd and the Italian subsidiary Fastweb S.p.A. are classified as strategic Group companies. The Board of Directors of Swisscom (Switzerland) Ltd comprises the CEO of Swisscom Ltd as Chairman, the CFO of Swisscom Ltd and the Head of IT, Network & Infrastructure. The operations of Swisscom (Switzerland) Ltd are managed by the CEO of Swisscom Ltd. Seats on the Board of Directors of Fastweb S.p.A. are held by the CEO of Swisscom Ltd as Chairman together with the CFO of Swisscom Ltd and other representatives of Swisscom. The Board of Directors also includes an external member. The Board of Directors of Fastweb S.p.A. has empowered the delegate of the Board of Directors with the executive management of the company. In the "important" Group companies, the responsibilities of the Chairman of the Board of Directors are fulfilled by the CEO of Swisscom Ltd, the CEO of a "strategic" Group company, the head of a Group or business division or other persons appointed by the CEO. Other representatives of Swisscom and, in some cases, external parties also serve as members of the Board of Directors.

See report page 26

Further information on the Group structure can be found in the Management Commentary in the section on Group structure and organisation.

See report pages 218—219

A list of Group companies, including company name, registered office, percentage of shares held and share capital, is provided in Note 40 to the consolidated financial statements.

For financial reporting purposes, the business divisions of Swisscom are allocated to individual segments, which during the year under review were based on the management structure employed up until the end of 2015. For practical reasons, the segment reporting for 2016 has not been changed versus the previous year. The 2016 financial reporting is thus structured according to the areas Swisscom Switzerland, Fastweb and Other Operating Segments. Swisscom Switzerland covers the segments Residential Customers, Small and Medium-Sized Enterprises, Enterprise Customers, Wholesale and IT, Network & Innovation. Other Operating Segments mainly comprises Participations, Health and Connected Living. Group Headquarters, which primarily includes the Group divisions as well as the employment company Worklink, continues to be reported separately. Further information on segment reporting can be found in the Management Commentary.

See report page 28

2.1.2 Listed company

The Swisscom Group comprises only one listed company, Swisscom Ltd, a company governed by Swiss law with its registered office in Ittigen (canton of Berne, Switzerland) and is listed in the Standard for Equity Securities, Sub-Standard International Reporting, of SIX Swiss Exchange (Securities No.: 874251; ISIN: CH0008742519; Ticker Symbol: SCMN).
Trading in the United States is conducted over-the-counter (OTC) as a Level 1 programme (Symbol: SCMWY; ISIN: CH008742519; CUSIP for ADR: 871013108). Within the framework of the programme, The Bank of New York Mellon Corporation issues the American Depository Shares (ADS). ADS are American securities which represent Swisscom shares. Ten ADS correspond to one share. The ADS are evidenced by American Depositary Receipts (ADR).
As at 31 December 2016, the stock market capitalisation of Swisscom Ltd was CHF 23,627 million.

2.2 Major shareholders

Pursuant to Article 120 of the Federal Act on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading (FMIA), there is a duty to disclose shareholdings whenever 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.
In February 2016, BlackRock, Inc., New York, reported a shareholding of 3% in Swisscom Ltd; a few days later it reported a shareholding of 3.01%. The shareholding disclosures can be viewed on the website of SIX Exchange Regulation at https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html.
On 31 December 2016, the Swiss Confederation (“the Confederation”), as majority shareholder, continued to hold 50.95% of the issued share capital of Swisscom Ltd, which is unchanged from the previous year. The Telecommunications Enterprises Act (TEA) provides that the Confederation shall hold the majority of the share capital and voting rights of Swisscom Ltd.

2.3 Cross-participations

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

3 Capital structure

3.1 Capital

At 31 December 2016 the share capital of Swisscom Ltd amounted to CHF 51,801,943, divided into registered shares with a nominal value of CHF 1 per share. The shares are fully paid up.

3.2 Authorised and conditional capital

There is no authorised or conditional share capital.

3.3 Changes in capital

The share capital was unchanged in the years 2014 to 2016. During this period, changes in shareholders' equity of Swisscom Ltd in the individual financial statements drawn up under Swiss commercial law were as follows:

In CHF million	Share capital	Legal capital reserves	Voluntary retained earnings	Treasury shares	Total equity
Balance at 1 January 2014	**52**	**21**	**4,170**	**–**	**4,243**
Net income	–	–	2,472	–	2,472
Dividends paid	–	–	(1,140)	–	(1,140)
Balance at 31 December 2014	**52**	**21**	**5,502**	**–**	**5,575**
Net income	–	–	279	–	279
Dividends paid	–	–	(1,140)	–	(1,140)
Balance at 31 December 2015	**52**	**21**	**4,641**	**–**	**4,714**
Net income	–	–	2,682	–	2,682
Dividends paid	–	–	(1,140)	–	(1,140)
Purchase and sale of treasury shares	–	–	–	(1)	(1)
Balance at 31 December 2016	**52**	**21**	**6,183**	**(1)**	**6,255**

The Annual General Meetings held on 7 April 2014, 8 April 2015 and 6 April 2016 each approved an ordinary dividend of CHF 22 per share.

3.4 Shares and participation certificates

Each registered share of Swisscom Ltd has a par value of CHF 1. Each share entitles the holder to one vote. Shareholders may only exercise their voting rights, however, if they have 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.
Registered shares of Swisscom Ltd are not issued in certificate form, but are held as book-entry securities in the depositary holdings of SIX SIS AG, up to a maximum limit determined by the Swiss Confederation. Shareholders may at any time request confirmation of the registered shares they hold. However, they have no right to request the printing and delivery of certificates for their shares (registered shares with no right to printed certificates).
The holder of an ADR possesses the rights listed in the Deposit Agreement (e.g. the right to issue instructions for the execution of voting rights and the right to dividends). The Bank of New York Mellon Corporation, which acts as the ADR depository, is listed as the shareholder in the share register. ADR holders are therefore unable to directly enforce and exercise shareholder rights. The Bank of New York Mellon Corporation exercises the voting rights in accordance with the instructions it receives from the ADR holders.
See report **page 126**
See report **page 88**
For further details on the shares, see section 7 "Shareholders' participation rights" and the Management Commentary.

Swisscom Ltd has issued no participation certificates.

3.5 Profit-sharing certificates

Swisscom Ltd has issued no profit-sharing certificates.

3.6 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. In accordance with Article 3.5.1 of the Articles of Incorporation, 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, exceeds 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. The other statutory provisions on restricted transferability are described in section 7.1 of this report, "Voting right restrictions and proxies".
See **www.swisscom.ch/basicprinciples**
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 by trustees and nominees in excess of the 5% threshold, provided they 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 that they are 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. This provision of the Articles of Incorporation may be changed by resolution of the Annual General Meeting; an absolute majority of valid votes cast is required. In accordance with this provision, the Board of Directors has issued regulations governing the entry of trustees and nominees in the Swisscom Ltd 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 any given individual beneficial owner for no more than 0.5% of the registered share capital of Swisscom Ltd entered in the commercial register.

3.7 Convertible bonds, debenture bonds and options

See report page 194

Swisscom has no convertible bonds outstanding. Details of the debenture bonds are given in Note 26 to the consolidated financial statements.

See report page 180

Swisscom does not issue options on registered shares of Swisscom Ltd to its employees. The equity-share-based payments made by Swisscom Ltd are described in Note 11 to the consolidated financial statements.

4 Board of Directors

Frank Esser

Barbara Frei

Alain Carrupt

Theophil Schlatter

Hansueli Loosli | Valérie Berset Bircher | Catherine Mühlemann | Hans Werder | Roland Abt

4.1 Members of the Board of Directors

The Board of Directors consists of nine members. Hugo Gerber, Michel Gobet and Torsten Kreindl stepped down from the Board of Directors at the Annual General Meeting held on 6 April 2016. Roland Abt, Valérie Berset Bircher and Alain Carrupt were elected as new members of the Board of Directors. The representative of the Swiss Confederation, Hans Werder, will step down from the Board of Directors at the Annual General Meeting on 3 April 2017. The Swiss Confederation has delegated Renzo Simoni as his successor. Renzo Simoni (born 1961), a Swiss national, has a doctorate in civil engineering from the Swiss Federal Institute of Technology and has been Chairman of the Management Board at AlpTransit Gotthard AG since 2007.
Members of the Board of Directors at 31 December 2016 are as follows:

Name	Nationality	Year of birth	Function	Taking office at the Annual General Meeting	Appointed until Annual General Meeting
Hansueli Loosli [1]	Switzerland	1955	Chairman	2009	2017
Roland Abt	Switzerland	1957	Member	2016	2017
Valérie Berset Bircher	Switzerland	1976	Member, representative of the employees	2016	2017
Alain Carrupt	Switzerland	1955	Member, representative of the employees	2016	2017
Frank Esser	Germany	1958	Member	2014	2017
Barbara Frei	Switzerland	1970	Member	2012	2017
Catherine Mühlemann	Switzerland	1966	Member	2006	2017
Theophil Schlatter	Switzerland	1951	Deputy Chairman	2011	2017
Hans Werder [2]	Switzerland	1946	Member, representative of the Confederation	2011	2017

[1] Since 1 September 2011 Chairman.
[2] Designated by the Swiss Confederation.

4.2 Education, professional activities and affiliations

Details on the education and professional career of each member of the Board of Directors are provided below. This section also discloses the mandates each Board member holds outside the Group as well as other significant activities such as permanent functions in important interest groups.
Pursuant to the Articles of Incorporation, Board members may perform no more than three additional mandates in listed companies and no more than ten additional mandates in non-listed companies. In total, they may not perform more than ten such additional mandates. These restrictions on the number of mandates do not apply to mandates performed by a Board member by order of Swisscom or to mandates in interest groups, charitable associations, institutions and foundations or employee retirement-benefit foundations. However, the total number of these mandates is also limited to ten and seven respectively. Prior to accepting new mandates outside the Swisscom Group, the Board members are obligated to consult the Chairman of the Board of Directors. Details on the regulation of external mandates, in particular the definition of the term “mandate” and information on other mandates that do not fall under the aforementioned numerical restrictions for listed and non-listed companies, are set out in Article 8.3 of the Articles of Incorporation. No member of the Board of Directors exceeds the limits set for mandates.

See
www.swisscom.ch/
basicprinciples

Hansueli Loosli

Education: Commercial apprenticeship; Swiss Certified Expert in Financial Accounting and Controlling

Career history: 1982–1985 Mövenpick Produktions AG, Adliswil, Controller and Deputy Director; 1985–1992 Waro AG, Volketswil, most recently as Managing Director; 1992–1996 Coop Switzerland, Wangen, Director of Non-Food Product Procurement; 1992–1997 Coop Zurich, Zurich, Managing Director; 1997–2000 Coop Switzerland, Basel, Chairman of the Executive Committee and Coop Group Executive Committee; January 2001–August 2011 Coop Genossenschaft, Basel, Chairman of the Executive Committee

Mandates in listed companies: Mandate of the Coop Group: Chairman of the Board of Directors, Bell AG, Basel

Mandates in non-listed companies: Mandates of the Coop Group: Chairman of the Board of Directors, Coop Group Association, Basel; Chairman of the Board of Directors, Transgourmet Holding AG, Basel; Chairman of the Board of Directors, Coop Mineraloel AG, Allschwil. Other mandates: Member of the Advisory Board Deichmann SE, Essen; member of the Board of Directors, Heinrich Benz AG, Weiach, until December 2016

Mandates by order of Swisscom: Member of the Board of Directors and Executive Committee of economiesuisse

Mandates in interest groups, charitable associations, institutions and foundations, and employee benefit foundations: –

Other significant activities: –

Roland Abt

Education: Doctorate in business administration (Dr. oec.)

Career history: 1985–1987 CFO of a group of companies with operations in the areas of IT and real estate; 1987–1996 Eternit Group (currently Nueva Group): 1987–1991 Head of Group Controlling, 1991–1993 CEO, Industrias Plycem, Venezuela, 1993–1996 Division Manager, Fibre Cement Activities; 1996–2016 Georg Fischer Group: 1996–1997 Chief Financial Officer (CFO), Georg Fischer Piping Systems, 1997–2004 CFO, Agie Charmilles Group (currently Georg Fischer Machine Tools), 2004–December 2016 CFO, Georg Fischer AG, and Member of the Group Executive Board

Mandates in listed companies: Member of the Board of Directors of Conzzeta AG in Zurich

Mandates in non-listed companies: Member of the Board of Directors, Raiffeisenbank, Zufikon

Mandates by order of Swisscom: –

Mandates in interest groups, charitable associations, institutions and foundations, and employee benefit foundations: –

Other significant activities: Member of the Regulatory Board and Issuers Committee of SIX Swiss Exchange, Zurich

Valérie Berset Bircher

Education: Doctorate in law (Dr. iur.)

Career history: 2005 Office of the International Labour Organization (ILO), specialist in employment law in the Department of International Labour Standards; 2006–2007 International Organization for Standardization (ISO), Human Resources Department; since 2007 Deputy Head of the International Labour Affairs section of the State Secretariat for Economic Affairs (SECO) in which role she has served on committees of the United Nations (UN) and the International Labour Organization (ILO) addressing economics, finance and development issues and as a member of the Federal Advisory Committee for the National Contact Points on OECD Guidelines for Multinational Companies and the tripartite ILO Committee; 2011–2014 Member of the ILO Board of Directors.

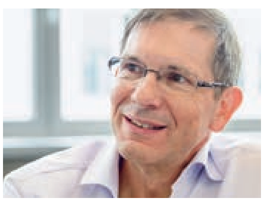
Mandates in listed companies: –

Mandates in non-listed companies: –

Mandates by order of Swisscom: –

Mandates in interest groups, charitable associations, institutions and foundations, and employee benefit foundations: –

Other significant activities: –



Alain Carrupt

Education: Swiss school-leaving certificate in economics

Career history: 1978–1994 PTT companies, most recently as Head of Administration at the telecoms directorate in Sion; 1994–2000 PTT Union, Central Secretary of the Telecommunications sector; 2000–2010 Communications Union: 2000–2002 Deputy General Secretary and Head of Personnel, 2003–2008 Vice Chairman, 2008–2010 Chairman; 2011–2016 syndicom Trade Union: 2011–2013 Joint Chairman, 2013–February 2016 Chairman

Mandates in listed companies: –

Mandates in non-listed companies: Member of the SUVA Board of Directors until June 2016

Mandates by order of Swisscom: –

Mandates in interest groups, charitable associations, institutions and foundations, and employee benefit foundations: –

Other significant activities: –

Frank Esser

Education: PhD in business administration, Dr. rer. pol.

Career history: 1988–2000 Mannesmann Deutschland, most recently from 1996 as a member of the Executive Board of Mannesmann Eurokom; 2000–2012 Société Française Radiotéléphonie (SFR): 2000–2002 Chief Operating Officer (COO), 2002–2012 CEO, in this function from 2005–2012 also a member of the Group Executive Board of the Vivendi Group

Mandates in listed companies: Member of the Board of Directors, AVG Technologies N.V., Amsterdam, until September 2016; member of the Supervisory Board, Dalenys Group S.A (formerly Rentabiliweb Group S.A.S.), Brussels; member of the Board of Directors, InterXion Holding N.V., Amsterdam

Mandates in non-listed companies: –

Mandates by order of Swisscom: –

Mandates in interest groups, charitable associations, institutions and foundations, and employee benefit foundations: –

Other significant activities: –

Barbara Frei

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

Career history: 1998–November 2016 ABB Group in various managerial positions, including, in particular, 2008–2010 ABB s.r.o., Prague, Country Manager; 2010–2013 ABB S.p.A., Sesto San Giovanni (Italy), Country Manager and Regional Manager Mediterranean; November 2013–December 2015 Drives and Control Unit, Managing Director; 2016 Head of Strategic Portfolio Reviews for the Power Grids division; since December 2016 Schneider Electric, Paris: Zone President Germany and Chairman of the Executive Committee of Schneider Electric GmbH, Germany

Mandates in listed companies: –

Mandates in non-listed companies: –

Mandates by order of Swisscom: –

Mandates in interest groups, charitable associations, institutions and foundations, and employee benefit foundations: –

Other significant activities: –

Catherine Mühlemann

Education: Lic. phil I; Swiss Certified PR Consultant

Career history: 1994–1997 Swiss Television DRS, Head of Media Research; 1997–1999 SF1 and SF2, Programme Researcher; 1999–2001 TV3, Programme Director; 2001–2003 MTV Central, Managing Director; 2003–2005 MTV Central & Emerging Markets, Managing Director; 2005–2008 MTV Central & Emerging Markets and Viva Media AG (Viacom), Managing Director; since 2008 Andmann Media Holding GmbH, Baar, partner, until December 2012 owner

Mandates in listed companies: Member of the Supervisory Board, Tele Columbus AG, Berlin

Mandates in non-listed companies: Vice-Chair of Switzerland Tourism

Mandates by order of Swisscom: –

Mandates in interest groups, charitable associations, institutions and foundations, and employee benefit foundations: –

Other significant activities: –

Theophil Schlatter

Education: Degree in business administration (lic. oec. HSG); qualified public accountant

Career history: 1979–1985 STG Coopers & Lybrand, public accountant; 1985–1991 Holcim Management und Beratung AG, controller; 1991–1995 Sihl Papier AG, CFO and member of the Executive Committee; 1995–1997 Holcim (Switzerland) Ltd, Head of Finance/Administration and member of the Executive Committee; 1997–2011 Holcim Ltd., CFO and member of the Group Executive Board

Mandates in listed companies: –

Mandates in non-listed companies: Chairman of the Board of Directors, PEKAM AG, Mägenwil until April 2016; member of the Board of Directors, Schweizerische Cement-Industrie-Aktiengesellschaft, Rapperswil-Jona

Mandates by order of Swisscom: –

Mandates in interest groups, charitable associations, institutions and foundations, and employee benefit foundations: –

Other significant activities: –

Hans Werder

Education: Doctorate in social science (Dr. rer. soc.); law degree (lic. iur.)

Career history: 1987–1996 Berne Directorate of Public Works, Transport and Energy (BVE), General Secretary; 1996–2010 Federal Department of the Environment, Transport, Energy and Communications (DETEC), General Secretary

Mandates in listed companies: –

Mandates in non-listed companies: Member of the Board of Directors, BLS AG, Berne

Mandates by order of Swisscom: –

Mandates in interest groups, charitable associations, institutions and foundations, and employee benefit foundations: –

Other significant activities: –

4.3 Election and term of office

Under the terms of the Articles of Incorporation, the Board of Directors comprises between seven and nine members and, if necessary, the number can be increased temporarily. It currently comprises nine members. 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 Swiss Confederation's sole representative. Under the terms of the Telecommunications Enterprise Act (TEA), employees must also be granted appropriate representation on the Board of Directors of Swisscom Ltd. The Articles of Incorporation also stipulate that the Board of Directors must include two employee representatives. These have been Valérie Berset Bircher and Alain Carrupt since the Annual General Meeting of April 2016. Valérie Berset Bircher was nominated by the transfair staff association and Alain Carrupt was nominated by the syndicom trade union. With the exception of the representative of the Swiss Confederation, the Board of Directors of Swisscom Ltd is elected by the shareholders at the Annual General Meeting. The Annual General Meeting elects the members and the Chairman of the Board of Directors and the members of the Compensation Committee individually for a term of one year. The term of office runs until the conclusion of the following Annual General Meeting. Re-election is permitted. If the office of the Chairman is vacant or the number of members of the Compensation Committee falls below the minimum number of three members, the Board of Directors nominates a chairman from among its members or appoints the missing member(s) of the Compensation Committee to serve until the conclusion of the next Annual General Meeting. Otherwise, the Board of Directors constitutes itself.

The maximum term of office for members elected by the Annual General Meeting, as a rule, is a total of twelve years. This flexible arrangement makes it possible for shareholders to extend the maximum term of office in exceptional cases if special circumstances exist. Members who reach the age of 70 retire from the Board as of the date of the next Annual General Meeting. The maximum term of office and age limit for the Federal representative are determined by the Federal Council.

4.4 Independence

In order to determine independence, the Board of Directors applies the criteria set out in the Swiss Code of Best Practice for Corporate Governance. Independent members shall thus mean non-executive members of the Board of Directors who never were or were more than three years ago a member of the executive management and who have no or comparatively minor business relations with the company. The term of office of a member of the Board of Directors is not a criterion that can be used to assess independence. No members of the Board of Directors hold an executive role within the Swisscom Group or have held such a role in any of the three business years prior to the reporting year. 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, holds the majority of the capital and voting rights in Swisscom. Customer and supplier relationships exist between the Swiss Confederation and Swisscom. Details of these are provided in Note 37 to the consolidated financial statements.

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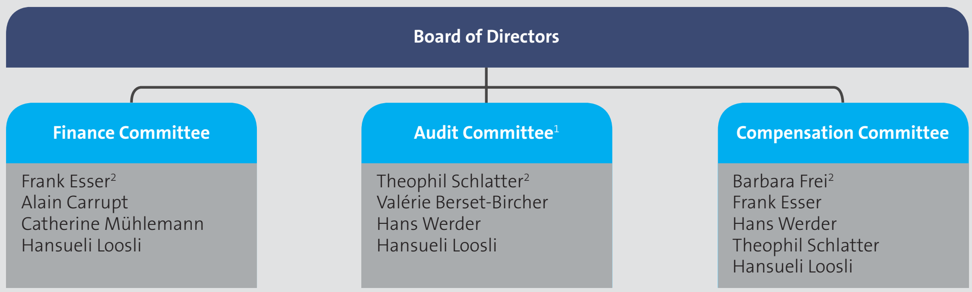
page 215

4.5 Internal organisation and modus operandi

The Board of Directors is responsible for the strategic and financial management of Swisscom and for supervising the company's executive management. As the supreme governing body of the Company, it has decision-making authority unless such authority is granted to the Annual General Meeting by law. The Board of Directors has delegated individual tasks to committees. The Board of Directors and the standing committees of the Board of Directors of Swisscom Ltd were organised as follows as at 31 December 2016:



[1] Roland Abt, participation as guest
[2] Chairman of the Board of Directors' committees

The Board of Directors is convened by the Chairman and meets as often as business requires. In the event that the Chairman is unavailable, the meeting is convened by the Vice-Chairman. The CEO, the CFO and the Head of Group Strategy & Board Services regularly attend 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. To further ensure appropriate reporting to the members of the Board, the Board of Directors invites members of the Group Executive Board, senior employees of Swisscom, auditors and other internal and external experts, as appropriate, to attend its meetings on specific issues. 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 measures that have been implemented. The duties, responsibilities and modus operandi of the Board of Directors as well as its conduct with respect to conflicts of interest are defined in the Organisational Rules and those of the standing committees are defined in the relevant committee regulations.

See www.swisscom.ch/basicprinciples

The Board of Directors attaches great importance to the ongoing development and continuing education of the Board and its individual members. The Board of Directors and the committees conduct self-assessments, usually once a year and most recently in January 2016. A one-day mandatory training course was held at the beginning of 2016. Each quarter, the members of the Board of Directors also have the opportunity to explore in-depth the upcoming challenges facing the Group and business divisions as part of "company experience days". The majority of members of the Board of Directors regularly take advantage of these opportunities. In addition, individual members of the Board of Directors attended selected presentations and seminars during the year. New Board members are given a task-specific introduction to their new activity. At this one-day introduction they are provided with an overview of Group management and the current operational challenges; they are also given an in-depth look at topics related to Fastweb and attend task-related training sessions. Whenever possible, the Board of Directors attends the Swisscom Group's annual management meeting.

The following table gives an overview of the Board of Directors' meetings, conference calls and circular resolutions in 2016.

	Meetings [1]	Conference calls	Circular resolutions
Total	11	3	–
Average duration (in hours)	5:30	1:15	–
Participation:			–
Hansueli Loosli, Chairman	11	3	–
Roland Abt [2]	6	3	–
Valérie Berset Bircher [2]	8	3	–
Alain Carrupt [2]	8	3	–
Frank Esser	11	3	–
Barbara Frei	11	2	–
Hugo Gerber [3]	3	–	–
Michel Gobet [3]	3	–	–
Torsten Kreindl [3]	3	–	–
Catherine Mühlemann	11	3	–
Theophli Schlatter, Deputy Chairman	11	3	–
Hans Werder	11	3	–

[1] Two meetings were held over two days.
[2] Elected to the Board of Directors as of 6 April 2016.
[3] Resigned from the Board of Directors as of 6 April 2016.

4.6 Chairman of the Board of Directors

See
www.swisscom.ch/
basicprinciples

Hansueli Loosli has been a member of the Board of Directors since 2009 and its Chairman since September 2011. The powers and responsibilities of the Chairman are defined in the Organisational Rules. In the event that the Chairman of the Board of Directors is unavailable, the Vice-Chairman, Theophil Schlatter, assumes his powers and responsibilities.

4.7 Committees of the Board of Directors

The Board of Directors has three standing committees (Audit, Finance and Compensation) and one ad-hoc committee (Nomination) tasked with carrying out detailed examinations of matters of importance. The committees usually consist of three to six members. As a rule, every member of the Board of Directors always also sits on at least one of the standing committees. Roland Abt, in office since April 2016, did not sit on any committees during the year under review due to his operational role as CFO of Georg Fischer AG until the end of 2016. He did, however, sit in as a guest on individual meetings of the Audit Committee. Subject to being appointed to the Compensation Committee (without voting rights), the Chairman of the Board of Directors is a member of all the standing committees. The committees are chaired by other members, however, who must provide the Board of Directors with an oral report on the activities of the previously held committee meetings at the next meeting of the Board of Directors. All members of the Board of Directors also receive copies of all Finance and Audit Committee meeting minutes. The minutes of the Compensation Committee are provided to the other members of the Board of Directors upon request.

Finance Committee

On behalf of the Board of Directors, the Finance Committee prepares information on corporate transactions, for example, in connection with setting up or dissolving important Group companies, acquiring or disposing of significant shareholdings, and 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 & Acquisitions and Corporate Venturing. Details of the Committee's activities are set out in the Finance Committee rules of procedure.

See www.swisscom.ch/basicprinciples

The Finance Committee is convened by the Chairman or at the request of a Committee member as often as business requires. The CEO, the CFO and the Head of Group Strategy and Board Services usually attend meetings of the Finance Committee. Depending on the agenda, other members of the Group Executive Board, the Management Boards of the strategic Group companies and project managers are called upon, as appropriate, to also attend the meetings.
The following table gives an overview of the Finance Committee's composition, meetings, conference calls and circular resolutions in 2016.

	Meetings	Conference calls	Circular resolutions
Total	2	–	–
Average duration (in hours)	3:20	–	–
Participation:			
Frank Esser, Chairman	2	–	–
Alain Carrupt [1]	2	–	–
Michel Gobet [2]	–	–	–
Torsten Kreindl [3]	–	–	–
Catherine Mühlemann	1	–	–
Hansueli Loosli	2	–	–

[1] Elected to the Board of Directors as of 6 April 2016.
[2] Resigned from the Board of Directors as of 6 April 2016.
[3] Chairman, resigned from the Board of Directors as of 6 April 2016.

Audit Committee

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 (dividend policy, for example). The Committee is the Board of Directors' most important controlling instrument and is responsible for monitoring the Group-wide assurance functions. It formulates positions 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.

See www.swisscom.ch/basicprinciples

The Chairman of the Audit Committee, Theophil Schlatter, is a financial expert. Since April of 2016, half of the Committee's members have possessed experience in finance and accounting. Roland Abt, financial expert, sat in on two meetings as a guest in the year under review and has been a member of the Committee since 2017.

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The members of the Audit Committee neither work for Swisscom in an executive capacity at present nor have they done so in the past, nor do they have any significant commercial links with Swisscom Ltd or the Swisscom Group. Customer and supplier relationships exist between the Swiss Confederation and Swisscom. Details of these are provided in Note 37 to the consolidated financial statements.

The Audit Committee is convened by the Chairman or at the request of a Committee member as often as business requires, but at least four times a year. The CEO, CFO, Head of Group Strategy & Board Services, Head of Accounting, Head of Internal Audit and the external auditors attend the Audit Committee meetings. Depending on the agenda, other Swisscom management members are called upon to attend. The Audit Committee can also involve independent third parties such as lawyers, public accountants and tax experts as required.

The following table gives an overview of the Audit Committee's composition, meetings, conference calls and circular resolutions in 2016.

	Meetings	Conference calls	Circular resolutions
Total	5	–	–
Average duration (in hours)	5:25	–	–
Participation: [1]			
Theophil Schlatter, Chairman [2]	5	–	–
Valérie Berset Bircher [3]	4	–	–
Hugo Gerber [4]	1	–	–
Hans Werder	5	–	–
Hansueli Loosli	5	–	–

1 Roland Abt, financial expert has attended two meetings as guest.
2 Financial expert.
3 Elected to the Board of Directors as of 6 April 2016.
4 Resigned from the Board of Directors as of 6 April 2016.

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Compensation Committee

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

Nomination Committee

The Nomination 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 when needed. The Committee is presided over by the Chairman and its 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 appoints the members of the Group Executive Board or decides upon the motion to be submitted to the Annual General Meeting for the election and approval of members of the Board of Directors. No Nomination Committee was formed in the 2016 financial year. In 2015 and in January 2016, the Chairman and one or two other members of the Board of Directors examined and interviewed suitable candidates for Board of Director elections which took place in April 2016. They provided periodic reports on these activities to the Board of Directors. The candidates evaluated were also introduced in person to the other members of the Board of Directors at Board meetings.

4.8 Assignment of powers of authority

The Telecommunications Enterprise Act (TEA) makes reference to the Swiss Code of Obligations regarding 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. The Board of Directors 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 Swiss Confederation in its role as principal shareholder.

See
www.swisscom.ch/ targets_2014-2017

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 Rules. In addition to those duties which are incumbent on it by virtue of law, 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 and capital expenditures 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 Rules (see function table in Rules of Procedure and Accountability).

See
www.swisscom.ch/ basicprinciples

4.9 Information instruments of the Board of Directors vis-à-vis the Group Executive Board

The Board of Directors is briefed comprehensively in order to enable it to fulfil its powers and responsibilities. The Chairman of the Board of Directors and the CEO meet at least once a month to discuss fundamental issues concerning Swisscom Ltd and its Group companies. The Chairman also meets in person with each member of the Group Executive Board as well as the heads of other Group and business divisions once a year for an in-depth discussion of topical issues.

At every ordinary meeting of the Board of Directors, the CEO also provides the Board of Directors with detailed information on the course of business, major projects and events, and any measures adopted. Every month, the Board of Directors receives a report containing all key performance indicators relating to the Group and the segments. In addition, the Board of Directors receives a quarterly report on the course of business, financial position, results of operations, cash flows and risk position of the Group and the segments. It also receives projections for operational and financial developments for the current financial year. The management reporting is carried out in accordance with the same accounting principles and standards as external financial reporting. It also includes key non-financial information that is important for controlling and steering purposes. Every member of the Board of Directors is entitled to request information on all matters relating to the Group at any time, provided this does not conflict with the provisions regarding the exclusion of a member from Board deliberations or confidentiality obligations. The Board of Directors is informed immediately of any events of an exceptional nature.

The Board of Directors addresses the verbal and written reports of the assurance functions of risk management, the financial reporting internal control system (ICS) and compliance management once a year. The Audit Committee examines the reports of the Risk Management unit, the ICS and Internal Audit on a quarterly basis. 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 estimated 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 are currently being investigated.

4.10 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, internal control system, compliance and internal audit.

4.10.1 Risk management

The Board of Directors has set the objective of protecting the company's enterprise value through the implementation of Group-wide risk management. A corporate culture that is conscious of risks and opportunities facilitates the achievement of this objective. Swisscom has thus implemented a Group-wide, central risk management system. This takes account of external and internal events and is based on the established standards COSO II and ISO 31000. It covers risks in the areas of strategy (including market risks), operations (including finance risks), compliance and financial reporting. Swisscom engages in level-appropriate, comprehensive reporting and maintains appropriate documentation. The objective is to identify, assess and address significant risks and opportunities in good time. To this end, the central Risk Management unit, which reports to both the CFO and the Controlling department, collaborates closely with the Controlling department, the Strategy department, other assurance functions and line functions. Swisscom assesses its risks and their quantitative effects in the event of occurrence. The risks are managed on the basis of a risk strategy. The risks are evaluated in terms of their impact on key performance indicators. Swisscom reviews and updates its risk profile on a quarterly basis. The Audit Committee and the Group Executive Board are informed about significant risks, their potential effects and the status of remedial measures on a quarterly basis, and the Board of Directors on a semi-annual basis. Significant risk factors are described in the Risks section of the Management Commentary.

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pages 92—95

4.10.2 Financial reporting internal control system

The internal control system (ICS) ensures the reliability of financial reporting with an appropriate degree of assurance. It acts to prevent, uncover and correct substantial errors in the consolidated financial statements, the financial statements of the Group companies and the Remuneration Report. The ICS encompasses the following internal control components: control environment, assessment of financial statement accounting risks, control activities, monitoring activities, information and communication. The Accounting unit, which is attached to Group Business Steering, and Internal Audit periodically monitor the functioning and effectiveness of the ICS. Significant shortcomings in the ICS identified during the monitoring activities are reported together with the corrective measures in a status report to the Audit Committee on a quarterly basis and to the Board of Directors on an annual basis. Corrective measures to remedy the shortcomings are monitored centrally. The Audit Committee assesses the performance and reliability of the ICS on the basis of the periodic reporting.

4.10.3 Compliance management

The Board of Directors has set the objective of protecting the Swisscom Group and its executive bodies and employees against legal sanctions, financial losses and reputational damage by ensuring Group-wide compliance. A corporate culture which promotes willingness to behave in a way that complies with the relevant regulations facilitates the achievement of this objective. Swisscom has therefore implemented a Group-wide, central compliance system. Within the framework of this system, every year Group Compliance, a specialist unit of the Group legal department, applies a risk-based approach to identifying areas of legal compliance that require monitoring by the central system. Within these areas of legal compliance, the business activities of the Group companies are reviewed periodically in a proactive manner in order to identify risks in good time and determine the required measures. The employees affected are informed of these measures and the measures' implementation is monitored. Group Compliance reviews the suitability and effectiveness of the system annually. Within the Swisscom Health AG business division and in the area of billing for added-value services of Swisscom Switzerland Ltd, an annual audit of the implemented measures is also performed by external auditors (financial intermediation) in accordance with the Money Laundering Act. Group Compliance informs the Risk Management unit on a quarterly basis of any significant risks that are identified and reports to the Audit Committee and the Board of Directors once per year on its activities and risk assessments. Should there be significant changes in the risk assessment or if serious breaches are identified, the Chairman of the Audit Committee is informed in a timely manner.

4.10.4 Internal audit

Internal auditing is carried out by the Internal Audit unit. Internal Audit supports the Swisscom Ltd Board of Directors and its Audit Committee in fulfilling their statutory and regulatory supervisory and controlling obligations. Internal Audit also supports management by highlighting areas of potential for improving business processes. It documents the audit findings and monitors the implementation of measures.

Internal Audit is responsible for planning and performing audits throughout the Group in compliance with professional auditing standards. It conducts an objective evaluation and audit of the appropriateness, efficiency and effectiveness of, in particular, the governance and control systems of the operational processes as well as the assurance functions of risk management, the internal control system and compliance management in all organisational units of the Swisscom Group.

Internal Audit possesses maximum independence. It is under the direct control of the Chairman of the Board of Directors and reports to the Audit Committee. At its meetings, which are held at least on a quarterly basis, 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. At the administrative level, Internal Audit provides reports to the Head of Group Strategy & Board Services.

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. Internal Audit closely coordinates audit planning with the external auditors. The integrated strategic audit plan, which includes the coordinated annual plan of both the internal and external auditors, is prepared annually on the basis of a risk analysis and presented to the Audit Committee for approval. Independently of this audit, the Audit Committee can commission special audits based on information received on the whistle-blowing platform operated by Internal Audit. This reporting procedure approved by the Audit Committee ensures the anonymous and confidential receipt and handling of objections raised 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 on a quarterly basis for the Audit Committee.

5 Group Executive Board

Visiting the innovation centre «La Werkstadt» in Biel

Christian Petit | Dirk Wierzbitzki | Marc Werner | Mario Rossi

Urs
Schaeppi

Heinz
Herren

Hans C.
Werner

5.1 Members of the Group Executive Board

In accordance with the Articles of Incorporation, the Group Executive Board shall comprise one or more members who may not simultaneously be members of the Board of Directors of Swisscom Ltd. Temporary exceptions are 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.

As at 31 December 2016, the Group Executive Board was composed of the CEO of Swisscom Ltd, the heads of the Group divisions Group Business Steering and Group Human Resources, and the heads of the business divisions Sales & Services, Products & Marketing, Enterprise Customers and IT, Network & Infrastructure.

See report pages 26—28

An overview of the composition of the Group Executive Board as at 31 December 2016 is given in the table below.

Name	Nationality	Year of birth	Function	Appointed to the Group Executive Board as of
Urs Schaeppi [1]	Switzerland	1960	CEO Swisscom Ltd	March 2006
Mario Rossi	Switzerland	1960	CFO Swisscom Ltd	January 2013
Hans C. Werner	Switzerland	1960	CPO Swisscom Ltd	September 2011
Marc Werner	Switzerland and France	1967	Head of Sales & Services	January 2014
Christian Petit	France	1963	Head of Enterprise Customers	April 2014
Heinz Herren	Switzerland	1962	Head of IT, Network & Infrastructure	January 2014
Dirk Wierzbitzki	Germany	1965	Head of Products & Marketing	January 2016

[1] Since November 2013 CEO.

5.2 Education, professional activities and affiliations

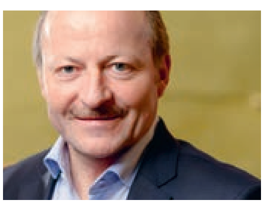
Details of career and qualifications are provided below for each member of the Group Executive Board. This section also discloses the mandates of each Group Executive Board member outside the Group as well as other significant activities such as permanent functions in important interest groups. Pursuant to the Articles of Incorporation, the Group Executive Board members may perform no more than one additional mandate in listed companies and no more than two additional mandates in non-listed companies. In total, they may not perform more than two such additional mandates. These restrictions on the number of mandates do not apply to mandates performed by an Executive Board member by order of Swisscom or to mandates in interest groups, charitable associations, institutions and foundations or employee retirement-benefit foundations. However, the total number of these mandates is limited to ten and seven respectively. Prior to accepting new mandates outside the Swisscom Group, the members of the Group Executive Board are obligated to obtain the approval of the Chairman of the Board of Directors. Details on the regulation of external mandates, in particular the definition of the term “mandate” and information on other mandates that do not fall under the aforementioned numerical restrictions for listed and non-listed companies, are set out in Article 8.3 of the Articles of Incorporation.

See www.swisscom.ch/basicprinciples

No member of the Group Executive Board exceeds the set limits for mandates.

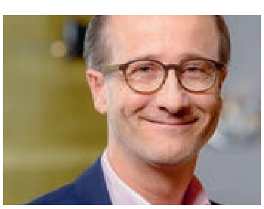
Urs Schaeppi

Education: Degree in engineering (Dipl. Ing. ETH) and business administration (lic. oec. HSG)
Career history: 1994–1998 plant manager at Biberist paper factory; 1998–2006 Head of Commercial Business, Swisscom Mobile Ltd; 2006–2007 CEO, Swisscom Solutions Ltd; 2007–August 2013 Head of Enterprise Customers, Swisscom (Switzerland) Ltd; since January 2013 Head of Swisscom (Switzerland) Ltd; 23 July–6 November 2013 acting CEO, Swisscom Ltd, since 7 November 2013 CEO
Since March 2006 member of the Swisscom Group Executive Board
Mandates in listed companies: –
Mandates in non-listed companies: –
Mandates by order of Swisscom: Member of the Executive Board, Association Suisse des Télécommunications (asut), Berne; member of the Foundation Board, IMD International Institute for Management Development, Lausanne; member of the Foundation Council, Swiss Innovation Park Foundation, Berne; member of the Steering Committee, digital-switzerland, Zurich (formerly Digital Zurich 2025); member of the Board of Directors, Admeira Ltd, Berne
Mandates in interest groups, charitable associations, institutions and foundations, and employee benefit foundations: –
Other significant activities: Member of the Board of Directors, Swiss-American Chamber of Commerce, Zurich; member of the Executive Board, Glasfasernetz Schweiz, Berne; member of the Advisory Board of the Department of Economics of the University of Zurich, since May 2016



Mario Rossi

Education: Commercial apprenticeship; Swiss Certified Public Accountant
Career history: 1998–2002 Swisscom Ltd, Head of Group Controlling; 2002–2006 Swisscom Fixnet Ltd, Chief Financial Officer (CFO); 2006–2007 Swisscom Ltd, CFO and member of the Group Executive Board; 2007–2009 Fastweb S.p.A., CFO; 2009–2012 Swisscom (Switzerland) Ltd, CFO; since January 2013 Swisscom Ltd, CFO
Since January 2013 member of the Swisscom Group Executive Board again
Mandates in listed companies: –
Mandates in non-listed companies: –
Mandates by order of Swisscom: President of the Board of Trustees, comPlan, Baden
Mandates in interest groups, charitable associations, institutions and foundations, and employee benefit foundations: Member of the Hasler Foundation, Berne, since December 2016
Other significant activities: Member of the Sanctions Committee, SIX Swiss Exchange Ltd, Zurich



Hans C. Werner

Education: Graduate in business management, PhD in business administration (Dr. oec.)
Career history: 1997–1999 Kantonsschule Büelrain, Winterthur, Rector; 1999–2000 Swiss Re, Head of Technical Training and Business Training; 2001 Swiss Re, Divisional Operation Officer, Reinsurance & Risk Division; 2002–2003 Swiss Re, Head of HR Corporate Centre and HR Shared Services; 2003–2007 Swiss Re, Head of Global Human Resources; 2007–2009 Schindler Aufzüge AG, Head of HR and Training; 2010–2011 Europe North and East Schindler, HR Vice President; since September 2011 Swisscom Ltd, Chief Personnel Officer (CPO)
Since September 2011 member of the Swisscom Group Executive Board
Mandates in listed companies: –
Mandates in non-listed companies: –
Mandates by order of Swisscom: Member of the Board, Swiss Employer's Association, Zurich; member of the Board of Trustees, comPlan, Basel
Mandates in interest groups, charitable associations, institutions and foundations, and employee benefit foundations: –
Other significant activities: President of the Institute Council and member of the Advisory Board of the International Institute of Management in Technology (iimt)

Marc Werner

Education: Technical apprenticeship with Maturity Certificate, Swiss Certified Marketing Executive; Senior Management Programme (Graduate School of St. Gallen); Senior Executive Programme at London Business School

Career history: 1997–2000 Minolta (Schweiz) AG, Head of Marketing and Sales and member of the Executive Management; 2000–2004 Bluewin AG, Head of Marketing & Sales, member of the Executive Board; 2005–2007 Swisscom Fixnet Ltd, Head of Marketing & Sales Residential Customers; 2008–2011 Swisscom (Switzerland) Ltd, Head of Marketing & Sales Residential Customers and Deputy Head of Residential Customers; 2012–2013 Swisscom (Switzerland) Ltd, Head of Customer Service Residential Customers and Deputy Head of Residential Customers; September 2013–December 2015 Swisscom, Head of Residential Customers division; since January 2016 Swisscom, Head of Sales & Services
Since January 2014 member of the Swisscom Group Executive Board

Mandates in listed companies: –

Mandates in non-listed companies: Member of the Board of Directors of Net-Metrix AG, Zurich

Mandates by order of Swisscom: Chairman of the Board of Directors of siroop Ltd, Zurich

Mandates in interest groups, charitable associations, institutions and foundations, and employee benefit foundations: Member of the Board of Directors of simsa – Swiss Internet Industry Association, Zurich

Other significant activities: Member of the Communications Council of KS/CS – Communication Switzerland (formerly the Verband SW Schweizer Werbung), Zurich; member of the Executive Board of the SWA-ASA – Association of Swiss Advertisers, Zurich, since March 2016; member of the Executive Board of the SVC Swiss Venture Club since September 2016

Christian Petit

Education: MBA ESSEC, Cergy-Pontoise

Career history: 1993–1999 debitel France; 2000–2003 Head of Operations, Swisscom Mobile AG; 2003–2006 Head of Product Marketing, Swisscom Mobile AG; 2006–June 2007 CEO, Hospitality Services Plus SA; August 2007–December 2012 member of the Group Executive Board, Swisscom; August 2007–August 2013 Head of Residential Customers, Swisscom (Switzerland) Ltd; September 2013–December 2013 Head of Corporate Business, Swisscom (Switzerland) Ltd; January–March 2014 Head of Enterprise Solution Center, Swisscom (Switzerland) Ltd; since April 2014 Head of Enterprise Customers (formerly Corporate Business), Swisscom
Since April 2014 member of the Swisscom Group Executive Board again

Mandates in listed companies: –

Mandates in non-listed companies: –

Mandates by order of Swisscom: Member of the Board of Trustees, Stiftung IT Berufsbildung Schweiz, Berne

Mandates in interest groups, charitable associations, institutions and foundations, and employee benefit foundations: –

Other significant activities: –

Heinz Herren

Education: Degree in electronic engineering (HTL)

Career history: 1994–2000 3Com Corporation; 2000 Inalp Networks Inc.; 2001–2005 Head of Marketing Wholesale, Swisscom Fixnet Ltd; 2005–2007 Head of Small and Medium-Sized Enterprises, Swisscom Fixnet Ltd; 2007–2010 Head of Small and Medium-Sized Enterprises, Swisscom (Switzerland) Ltd; 2011–2013 Head of Network & IT, Swisscom (Switzerland) Ltd; August 2007–December 2012 Member of the Group Executive Board, Swisscom; since January 2014 Head of IT, Network & Infrastructure (formerly IT, Network & Innovation), Swisscom

Since January 2014 member of the Swisscom Group Executive Board again

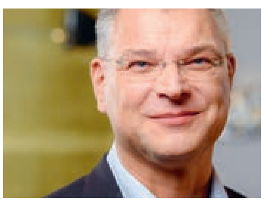
Mandates in listed companies: –

Mandates in non-listed companies: –

Mandates by order of Swisscom: Member of the Board of Directors, Belgacom International Carrier Services Ltd, Brussels

Mandates in interest groups, charitable associations, institutions and foundations, and employee benefit foundations: –

Other significant activities: –



Dirk Wierzbitzki

Education: Degree in electrical engineering (Dipl. Ing.)

Career history: 1994–2001 Mannesmann (now Vodafone Germany): various management roles in the area of product management; 2001–2010 Vodafone Group: 2001–2003 Director for Innovation Management, Vodafone Global Products and Services, 2003–2006 Director for Commercial Terminals, 2006–2008 Director for Consumer Internet Services and Platforms, 2008–2010 Director for Communications Services; 2010–2012 Head of Customer Experience Design for Residential Customers, Swisscom (Switzerland) Ltd; 2013–2015 Head of Fixed-network Business & TV for Residential Customers, Swisscom (Switzerland) Ltd; 2010–2015 member of Management Residential Customers, Swisscom (Switzerland) Ltd; since January 2016 Head of Products & Marketing, Swisscom

Since January 2016 member of the Swisscom Group Executive Board

Mandates in listed companies: –

Mandates in non-listed companies: –

Mandates by order of Swisscom: Member of the Board of Directors, SoftAtHome, Paris

Mandates in interest groups, charitable associations, institutions and foundations, and employee benefit foundations: –

Other significant activities: –

5.3 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.

6 Remuneration, shareholdings and loans

See report page 131

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.

7 Shareholders' participation rights

7.1 Voting restrictions and proxies

Each registered share entitles the holder to one vote. Voting rights can only be exercised if the shareholder is entered in the share register of Swisscom Ltd with voting rights. The Board of Directors may refuse to 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, exceeds 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 of Swisscom Ltd.
The Board of Directors may also 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 cementing 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 person acquiring shares who fails to expressly declare upon request that he/she has acquired the shares in his/her own name and for his/her own account or as beneficial holder. Should an acquirer of shares refuse to make such a declaration, he/she will be entered as a shareholder without voting rights.
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 him/her as a shareholder without voting rights. The acquirer must be notified of the deletion immediately.
This provision of the Articles of Incorporation may be changed by resolution by the Annual General Meeting, for which an absolute majority of valid votes cast would be required.
During the year under review, the Board of Directors did not recognise any acquirers of shares with more than 5% of all registered shares as a shareholder or beneficial holder with voting rights, did not reject any requests for recognition or registration and did not remove any shareholders with voting rights from the share register due to the provision of false data.

7.2 Statutory quorum requirements

The Annual General Meeting of Shareholders of Swisscom Ltd adopts its resolutions and holds its elections by the absolute majority of valid votes cast. Abstentions are not deemed to be 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

7.3 Convocation of the Annual General Meeting

The Board of Directors must convene the Annual General Meeting at least 20 calendar 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. One or more shareholders who together represent at least 10% of the share capital can demand in writing that an extraordinary general meeting be convened, stating the agenda item and the proposal and, in the case of elections, the names of the proposed candidates.

7.4 Agenda items

The Board of Directors is responsible for defining the agenda. 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.

7.5 Representation at the Annual General Meeting

Shareholders may be represented at the Annual General Meeting by another shareholder with voting rights or by the independent proxy elected by the Annual General Meeting. Partnerships and legal entities may also be represented by authorised signatories, while minors and wards may be represented by their legal representative even if the latter is not a shareholder. Authorisation may be granted in writing or via the Sherpany Internet platform once a shareholder has opened a shareholder account on this platform. Shareholders who are represented by a proxy may issue instructions for each agenda item and also for all unannounced agenda items and motions, stating whether they wish to vote for or against the motion or abstain. The independent proxy must cast the votes entrusted to him by shareholders according to their instructions. If it receives no instructions, it shall abstain. Abstentions are not deemed to be cast votes (Article 5.7.4 of the Articles of Incorporation).
The Articles of Incorporation do not include any regulations that differ from the provisions of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (OaEC) regarding the appointment of the independent proxy or any statutory regulations on the issuing of instructions to the independent proxy or on electronic participation in the Annual General Meeting.

7.6 Entries in the share register

Shareholders entered in the share register with voting rights are entitled to vote at the Annual General Meeting. To ensure due procedure, the Board of Directors defines a cut-off date for determining voting entitlements, which is a few business days before the respective Annual General Meeting. Entries into and deletions from the share register are possible at any time regardless of the cut-off date. The cut-off date is announced with the invitation to the Annual General Meeting and also published in the financial calendar on the Swisscom website. Shareholders entered in the share register with voting rights as of 4 p.m. on 1 April 2016 were entitled to vote at the Annual General Meeting of 6 April 2016.

8 Change of control and defensive measures

8.1 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 thus 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.

8.2 Clause on change of control

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page 131

Details on clauses on change of control are given in the section “Remuneration Report”.

9 Auditor

9.1 Selection process, duration of mandate and term of office of the Auditor-in-charge

The statutory auditor is appointed annually by the Annual General Meeting following a proposal submitted by the Board of Directors. Re-election is permitted.
The principles for appointing the statutory auditor have been set forth in a policy by the Board of Directors. A new tender is issued for the statutory auditor’s mandate at least every 10 to 14 years. The statutory auditor’s tenure is limited to 20 years. The Audit Committee steers the selection process, defines transparent selection criteria and submits two proposals accompanied by a substantiated recommendation in favour of one audit firm to the Board of Directors. The last tendering process was launched in 2007 with effect from the 2008 financial year. The next tendering process will be launched by 2021 at the latest with effect from the 2022 financial year.
KPMG AG, Muri bei Bern, has acted as the statutory auditor of Swisscom Ltd and its Group companies (with the exception of Fastweb S.p.A, which is audited by PriceWaterhouseCoopers S.p.A.) since 1 January 2004. Hanspeter Stocker of KPMG AG has been responsible for the mandate as Auditor-in-charge since 2015.

9.2 Audit fees

Fees for auditing services provided by KPMG AG in 2016 amounted to CHF 3,239 thousand (prior year: CHF 3,413 thousand). PricewaterhouseCoopers S.p.A. as auditors for Fastweb received remuneration of CHF 768 thousand in 2016 (prior year: CHF 678 thousand).

9.3 Supplementary fees

Fees of KPMG AG for additional audit-related services amounted to CHF 283 thousand (prior year: CHF 201 thousand) and the fees for other services came to CHF 127 thousand (prior year: CHF 1,533 thousand). The supplementary fees primarily comprise tax advisory services. Fees of PricewaterhouseCoopers S.p.A. for additional audit-related services for Fastweb amounted to CHF 112 thousand (prior year: CHF 155 thousand).

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

The Audit Committee verifies the qualifications and independence of the statutory auditors as a licensed, state-supervised auditing firm as well as the quality of the audit services performed on behalf of the Board of Directors. It is also responsible for observing the statutory rotation principle for the Auditor-in-charge and for reviewing and issuing the new tender for the audit mandate. The Audit Committee approves the integrated strategic audit plan, which includes the annual audit plan of both the internal and external auditors, and the annual fee for the auditing services provided to the Group and Group companies. The Audit Committee has defined guidelines for additional service mandates (including a list of prohibited services). It has also set a threshold for fees charged for additional services, which is defined as a percentage of the audit fees. In order to ensure the independence of the auditors, additional assignments must be approved by the CFO of the local Group company or by the Audit Committee (where the fee exceeds CHF 300,000). The Audit Committee is reported to quarterly by the CFO and annually by the auditors on current mandates being performed by the auditors, broken down according to audit services, audit-related services and non-audit services. The statutory auditors, represented by the Auditor-in-charge and his deputy, 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 annual financial statement audit. They submit a written report to the Board of Directors and the Audit Committee on the conduct and results of the audit of the annual financial statements, as well as on their findings with regard to accounting and the internal control system. The Chairman of the Audit Committee liaises closely with the Auditor-in-charge beyond the meetings of the Committee and regularly reports to the Board of Directors.

10 Information policy

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

See www.swisscom.ch/financialreports

The interim reports and 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

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

See www.swisscom.ch/generalmeeting
See report page 251

The minutes of the Annual General Meeting of 6 April 2016 and minutes from past meetings are available on the Swisscom website.
Those responsible for investor relations can be contacted via the website, e-mail, telephone or by post. Contact details are provided in the legal notice on the site.

10.1 Publication of results for the 2017 financial year

- Interim report: 3 May 2017
- Interim report: 17 August 2017
- Interim report: 2 November 2017
- Annual report: February 2018

10.2 Annual General Meeting for the 2016 financial year

- On 3 April 2017 in the Hallenstadion in Zurich-Oerlikon

Remuneration Report

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

1 Principles

1.1 General principles

This Remuneration Report outlines the principles underlying, and the elements of, the remuneration paid to the Board of Directors and Group Executive Board (Executive Board as defined in Article 4 of the Articles of Incorporation) of Swisscom Ltd, as well as the decision-making powers. It discloses information as to the amount of remuneration paid to the Board of Directors and Group Executive Board and the shares they hold in Swisscom Ltd. The Remuneration Report is based on sections 3.5 and 5 of the annex to the Corporate Governance Directive issued by SIX Swiss Exchange and Art. 13 to 16 of the Ordinance against Excessive Compensation in Listed Stock Companies (OaEC). Swisscom is implementing the requirements of the OaEC. Swisscom also complies with the recommendations of the Swiss Code of Best Practice for Corporate Governance 2014 issued by economiesuisse, the umbrella organisation representing Swiss business.
As in previous years, the Remuneration Report will be put to a consultative vote at the Annual General Meeting on 3 April 2017.

1.2 Internal principles for remuneration

See www.swisscom.ch/basicprinciples

Swisscom's internal principles for determining the level of remuneration are primarily set out in the Articles of Incorporation, the Organisational Rules and the Regulations of the Compensation Committee. The latest version of these documents as well as revised or superseded versions can be viewed online on the Swisscom website under "Basic principles".

2 Decision-making powers

2.1 Division of tasks between the Annual General Meeting, the Board of Directors and the Compensation Committee

The Annual General Meeting approves the maximum total remuneration amounts payable to the Board of Directors and the Group Executive Board for the following financial year upon the motion proposed by the Board of Directors. Details of the relevant regulation and the consequences of a negative decision by the Annual General Meeting are set out in Articles 5.7.7 and 5.7.8 of the Articles of Incorporation. Article 7.2.2 of the Articles of Incorporation also defines the requirements for and the maximum level of the additional amount that can be paid to a member of the Group Executive Board who is newly appointed during a period for which the Annual General Meeting has already approved the remuneration.

The Board of Directors approves, inter alia, 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 sets the remuneration of the Board of Directors and decides on the remuneration of the CEO as well as the total remuneration for the Group Executive Board. In doing so, it takes into account the maximum amounts approved by the Annual General Meeting for the remuneration to be paid to the Board of Directors and the Group Executive Board for the financial year in question.

The Compensation Committee handles all business matters of the Board of Directors concerning remuneration, submits proposals to the Board of Directors in this context, and, within the framework of the approved total remuneration, is empowered to decide upon the remuneration of the individual Group Executive Board members (with the exception of the CEO). Neither the CEO nor the other members of the Group Executive Board are entitled to participate in meetings at which their remuneration is discussed or decided. The conduct of the members of the Board of Directors with respect to conflicts of interest is defined in section 2.6 of the Organisational Rules.

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

The decision-making powers are governed by the Articles of Incorporation, the Organisational Rules of the Board of Directors and the Regulations of the Compensation Committee. The Articles of Incorporation and the relevant rules and regulations can be accessed on the Swisscom website under "Basic principles".

The table below shows the division of responsibilities between the Annual General Meeting, the Board of Directors and the Compensation Committee.

Subject	Remuneration Committee	Board of Directors	Annual General Meeting
Maximum total amounts for remuneration of the Board of Directors and Group Executive Board	V [1]	A [2]	G [3]
Additional amount for remuneration of newly appointed members of the Group Executive Board	V	A	G
Principles for performance-related and participation schemes	V	A	G
Personnel and remuneration policy	V	G [4]	–
Principles for benefit plans and social security services	V	G	–
Concept of remuneration to members of the Board of Directors	V	G [4]	–
Equity-share and performance-based participation plans of the Group	V	G [4]	–
General terms of employment of the Group Executive Board	V	G [4]	–
Determination of the targets for the variable performance-related salary component	V	G [4]	–
Remuneration of the Board of Directors	V	G [5]	–
Remuneration of the CEO Swisscom Ltd	V	G [5]	–
Total remuneration of the Group Executive Board	V	G [5]	–
Remuneration of the members of the Group Executive Board (excl. CEO)	G [5,6]	–	–

[1] V stands for preparation and proposal to the Board of Directors.
[2] A stands for proposal to the Annual General Meeting.
[3] G stands for approval.
[4] In the framework of the Articles of Incorporation.
[5] In the framework of the maximum total remuneration defined by the Annual General Meeting.
[6] In the framework of the total remuneration defined by the Board of Directors.

2.2 Election, composition and modus operandi of the Compensation Committee

The Compensation Committee consists of three to six members. They are elected individually each year by the Annual General Meeting. If the number of members falls below three, the Board of Directors appoints the missing member(s) from its midst until the conclusion of the next Annual General Meeting. The Board of Directors appoints the Chairman of the Compensation Committee, which constitutes itself. If the Annual General Meeting elects the Chairman of the Board of Directors to the Compensation Committee, he has no voting rights. The Chairman of the Board of Directors does not participate in meetings in which discussions take place or decisions are made with regard to his own remuneration. The CEO, CPO, Head of Group Strategy & Board Services and Head of Rewards & HR Analytics attend the meetings in an advisory capacity, unless agenda items exclusively concern the Board of Directors or the CEO and CPO themselves, in which case the CEO and CPO are not present. Other members of the Board of Directors, auditors or experts may be called upon to attend the meetings in an advisory capacity. Minutes are kept of the meetings, which are provided to the members of the Committee and to other members of the Board of Directors on request. The meetings of the Compensation Committee are generally held in February, June and December. Further meetings can be convened as and when required. The Chairman reports verbally on the activities of the Compensation Committee at the next meeting of the Board of Directors.

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

The details are governed by Article 6.5 of the Articles of Incorporation, as well as by the Organisational Rules of the Board of Directors and the Regulations of the Compensation Committee.

The members of the Compensation Committee neither work nor have worked for Swisscom in an executive capacity, nor do they maintain any significant commercial links with Swisscom Ltd or the Swisscom Group. Customer and supplier relationships exist between the Swiss Confederation and Swisscom. Details of these are provided in Note 37 to the consolidated financial statements.

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The following table gives an overview of the composition of the Committee, the Committee meetings, conference calls and circular resolutions held or taken in 2016.

	Meetings	Conference calls	Circular resolutions
Total	3	–	–
Average duration (in hours)	1:20	–	–
Participation:			
Barbara Frei, Chairwoman	3	–	–
Frank Esser [1]	2	–	–
Torsten Kreindl [2]	1	–	–
Theophil Schlatter	3	–	–
Hans Werder [3]	3	–	–
Hansueli Loosli [4]	3	–	–

1 Elected to the Compensation Committee as of 6 April 2016.
2 Resigned from the Board of Directors as of 6 April 2016.
3 Representative of the Confederation.
4 Participation without voting rights.

3 Remuneration paid to the Board of Directors

3.1 Principles

The remuneration system for the members of the Board of Directors is designed to attract and retain experienced and motivated individuals for the Board of Directors' function. It also seeks to align the interests of the members of the Board of Directors with those of the shareholders. The remuneration is commensurate with the activities and level of responsibility of each member and is proportionate to the normal market remuneration for comparable functions. The basic principles regarding the remuneration of the Board of Directors and the allocation of equity shares are set out in Articles 6.4 and 8.1 of the Articles of Incorporation.

See www.swisscom.ch/basicprinciples

The remuneration is made up of a Director's fee which varies in relation to the member's function, meeting attendance fees as well as pension fund and any fringe benefits. No variable performance-related emoluments are paid. The members of the Board of Directors are obligated to draw a portion of their fee in the form of equity shares and to comply with the requirements on minimum shareholdings, thus ensuring they directly participate financially in the performance of Swisscom's shares. The remuneration is reviewed every December for the following year for ongoing appropriateness. In December 2015, the Board of Directors assessed the appropriateness of the remuneration as part of a discretionary decision basing itself on the study published in 2015 by ethos, the Swiss Foundation for Sustainable Development. This study provides information for the 2014 financial year on the remuneration of the management of Switzerland's 100 largest listed companies. No external consultants were called on with regard to the structuring of remuneration. In view of the efficiency improvement measures adopted by the Group in the year under review, the Board of Directors decided to set an example and reduced its remuneration from 1 January 2016.

3.2 Remuneration components

Director's fee

The Director's fee is made up of a basic emolument and functional allowances as compensation for the individual functions. As of 1 January 2016, the basic emolument for all members of the Board of Directors excluding employee social insurance contributions is CHF 110,000 (net) per year (previously CHF 120,000).

The functional allowances amount to CHF 255,000 net per year for the Chairman (previously CHF 265,000), CHF 20,000 net each for the Vice Chairman and the Chairmen of the Finance and Compensation Committees, CHF 50,000 net for the Chairman of the Audit Committee, and CHF 40,000 net for the representative of the Swiss Confederation. Annual remuneration of CHF 10,000 net is awarded for membership in a standing committee. No functional allowance, however, is paid for participation in ad-hoc committees appointed on a case-by-case basis.

Under the Management Incentive Plan, the members of the Board of Directors are obligated to draw 25% of their Director's fee in the form of shares, with Swisscom adding a 50% top-up to the amount invested in shares. In this manner, the remuneration (excluding meeting attendance fees, pension fund benefits and fringe benefits) is made up of a two-thirds cash portion and a 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. 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 blocking period of three years. This restriction on disposal also applies if members leave the company during the blocking period. The shares, which are allocated in April of each reporting year in respect of the reporting year, are recorded at market value on the date of allocation. The share-based remuneration is augmented by a factor of 1.19 in order to take account of the difference between the tax value and the market value. Further information on the Management Incentive Plan can be found in Note 11 to the consolidated financial statements. In April 2016, 1,308 shares were allocated to the members of the Board of Directors (prior year: 1,302 shares) with a tax value of CHF 439 per share (prior year: CHF 473). Their market value was CHF 522.50 (prior year: CHF 563) per share.

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Meeting attendance fees

For meetings, attendance fees of CHF 1,100 net (previously CHF 1,250) are paid for each full day and CHF 650 net (previously CHF 750) for each half-day.

Pension fund and fringe benefits

Swisscom assumes the full costs of social insurance, in particular old-age and survivors' insurance and unemployment insurance, for the members of the Board of Directors. The disclosed remuneration paid to the members of the Board of Directors includes the employee's share of social security contributions. The employer's share of contributions is disclosed separately and is also included in the total remuneration.

With regards to the disclosure of services rendered, non-cash benefits and expenses, a tax-based point of view is taken. No significant non-cash benefits are paid nor services rendered. Out-of-pocket expenses are reimbursed on the basis of actual costs incurred. Accordingly, neither services rendered and non-cash benefits nor out-of-pocket expenses are included in the reported remuneration.

3.3 Total remuneration

Total remuneration paid to the individual members of the Board of Directors for the financial years 2015 and 2016 is presented in the tables below, broken down into individual components. The lower amount of total remuneration for 2016 is attributable to the reduction in remuneration rates and meeting attendance fees and to the fact that fewer meeting days were held.

2016, in CHF thousand	Base salary and functional allowances: Cash remuneration	Base salary and functional allowances: Share-based payment	Meeting attendance fees	Employer contributions to social security	Total 2016
Hansueli Loosli	315	186	27	29	557
Roland Abt [1]	59	49	11	7	126
Valérie Berset Bircher [1]	64	53	16	8	141
Alain Carrupt [1]	64	53	14	8	139
Frank Esser	105	66	18	–	189
Barbara Frei	112	66	17	11	206
Hugo Gerber [2, 3]	34	4	6	3	47
Michel Gobet [3]	32	4	5	2	43
Torsten Kreindl [3]	38	5	5	–	48
Catherine Mühlemann	96	57	16	10	179
Theophil Schlatter	158	93	21	12	284
Hans Werder	134	80	23	11	248
Total remuneration to members of the Board of Directors	**1,211**	**716**	**179**	**101**	**2,207**

1 Elected to the Board of Directors as of 6 April 2016.
2 The cash remuneration (including meeting attendance fees) till 6 April 2016 for the mandate as member of the Board of Directors of Worklink AG of CHF 2,500 is included.
3 Resigned from the Board of Directors as of 6 April 2016.

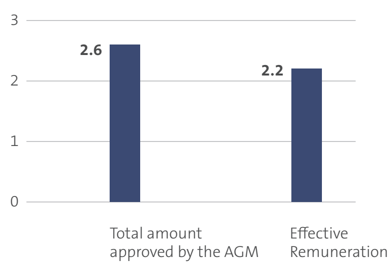
2015, in CHF thousand	Base salary and functional allowances: Cash remuneration	Base salary and functional allowances: Share-based payment	Meeting attendance fees	Employer contributions to social security	Total 2015
Hansueli Loosli	330	196	34	31	591
Frank Esser	104	62	23	11	200
Barbara Frei	120	71	23	12	226
Hugo Gerber[1]	111	62	28	12	213
Michel Gobet	104	62	22	11	199
Torsten Kreindl	127	75	24	13	239
Catherine Mühlemann	104	62	23	11	200
Theophil Schlatter	167	99	28	17	311
Hans Werder	142	84	28	12	266
Total remuneration to members of the Board of Directors	**1,309**	**773**	**233**	**130**	**2,445**

[1] The cash remuneration (including meeting attendance fees) of CHF 8,500 for the mandate as member of the Board of Directors of Worklink AG is included.

3.4 Comparison with the total amount approved by the Annual General Meeting

Total remuneration paid to the members of the Board of Directors is within the maximum total amount approved by the 2015 Annual General Meeting (AGM) for 2016 of CHF 2.6 million.

Remuneration to members of the Board of Directors 2016 in CHF million



3.5 Minimum shareholding requirement

Since 2013, the members of the Board of Directors have been required to maintain a minimum shareholding equivalent to one annual emolument (basic emolument plus functional allowance). The members of the Board of Directors have four years to build up the required minimum shareholding, in the form of the blocked shares paid as part of remuneration and, if necessary, through share purchases on the open market. Compliance with the shareholding requirement is reviewed annually by the Compensation Committee. If a member's shareholding falls below the minimum requirement due to a drop in the share price, the difference must be made up by no later than the time of the next review. In justified cases such as personal hardship or legal obligations, the Chairman of the Board of Directors can approve individual exceptions at his discretion.

3.6 Shareholdings of the members of the Board of Directors

Blocked and non-blocked shares held by members of the Board of Directors and/or related parties as at 31 December 2015 and 2016 are listed in the table below:

Number	31.12.2016	31.12.2015
Hansueli Loosli	2,350	2,012
Roland Abt [1]	88	–
Valérie Berset Bircher [1]	96	–
Alain Carrupt [1]	96	–
Frank Esser	332	205
Barbara Frei	648	528
Hugo Gerber [2]	–	1,233
Michel Gobet [2]	–	1,600
Torsten Kreindl [2]	–	1,322
Catherine Mühlemann	1,326	1,223
Theophil Schlatter	1,225	1,054
Hans Werder	1,128	982
Total shares held by the members of the Board of Directors	**7,289**	**10,159**

[1] Elected to the Board of Directors as of 6 April 2016.
[2] Resigned from the Board of Directors as of 6 April 2016.

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

4 Remuneration paid to the Group Executive Board

4.1 Principles

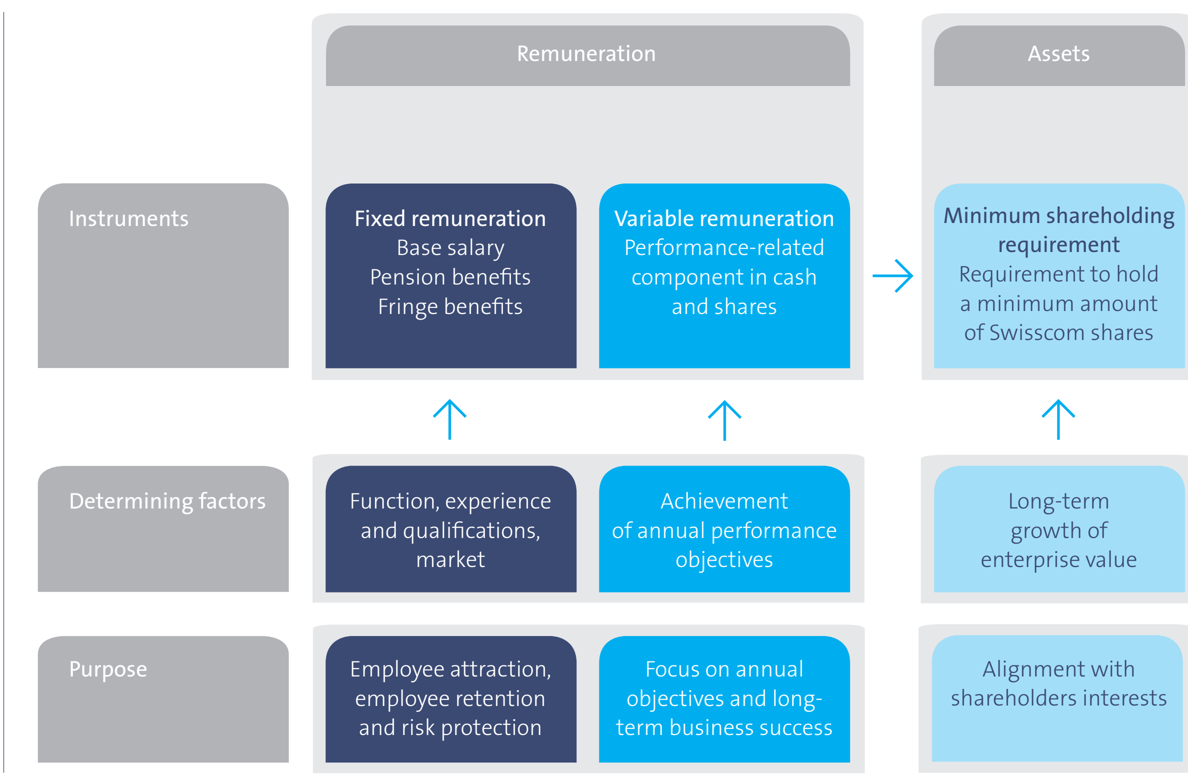
The remuneration policy of Swisscom applicable to the Group Executive Board is designed to attract and retain highly skilled and motivated specialists and executive staff over the long term and provide an incentive to achieve a lasting increase in the enterprise value. It is systematic, transparent and long-term-oriented, and is predicated on the following principles:

- Total remuneration is competitive and is in an appropriate relation to the market as well as the internal salary structure.
- Remuneration is based on performance in line with the results achieved by Swisscom and the contribution made to results by the area for which the member of the Group Executive Board is responsible.
- Through direct financial participation in the performance of Swisscom's shares, the interests of management are aligned with the interests of shareholders.

The remuneration of the Group Executive Board is a balanced combination of fixed and variable salary components. The fixed component is made up of a base salary, fringe benefits (primarily, the use of a company car) and pension benefits. The variable remuneration includes a performance-related component settled in cash and shares.
The members of the Group Executive Board are required to hold a minimum shareholding, which strengthens their direct financial participation in the medium-term performance of Swisscom's share and thus aligns their interests with those of shareholders. To facilitate compliance with the minimum shareholding requirement, Group Executive Board members have the possibility to draw up to 50% of the variable performance-related component of their salary in shares.

See www.swisscom.ch/basicprinciples

The basic principles regarding the performance-related remuneration and the profit and participation plans of the Group Executive Board are set out in Article 8.1 of the Articles of Incorporation.



The Compensation Committee decides at its discretion on the level of remuneration, taking into consideration the external market value of the function in question, the internal salary structure and individual performance.
For the purpose of assessing market values, Swisscom relies on cross-sector market comparisons with Swiss companies as well as international sector comparisons. These two comparative perspectives allow Swisscom to form an optimal overview of the relevant employment market for managerial positions. In the year under review, Swisscom referred to two comparative studies conducted by Towers Watson, a recognised consultancy firm. The comparison with the Swiss market covers major companies domiciled in Switzerland from various sectors, with the exception of the financial and pharmaceutical sectors. On average, these companies generate revenue of CHF 4.7 billion and employ 13,000 people. The sector comparison covers telecommunications companies from eleven western European countries with an average revenue of CHF 8.9 billion and an average workforce of 18,800 employees. The evaluation of these studies takes into account the extent of responsibility in terms of revenue, number of employees and international scope.
As a rule, the Compensation Committee reviews individual remuneration paid to members of the Group Executive Board every three years of employment. In view of the newly adopted efficiency improvement measures, the Board of Directors decided to defer the periodic remuneration review of the individual members of the Group Executive Board, which was due to take place in the year under review, and leave the remuneration unchanged. In connection with this, the Group Executive Board also opted to forego 10% of the variable performance-related salary component due to it as a result of having achieved its targets.

4.2 Remuneration components

Base salary

The base salary is the remuneration paid according to the function, qualifications and performance of the individual member of the Group Executive Board. It is determined based on a discretionary decision taking into account the external market value for the function and the salary structure for the Group's executive management. The base salary is paid in cash.

Variable performance-related salary component

The members of the Group Executive Board are entitled to a variable, performance-related salary component which represents 70% of the base salary if objectives are achieved (target bonus). The amount of the performance-related component paid out depends on the extent to which the targets are achieved, as set by the Compensation Committee, taking into account the performance evaluation by the CEO. If targets are exceeded, up to 130% of the target bonus may be paid. The maximum performance-related salary component is thus limited to 91% of the base salary. This ensures that the maximum performance-related salary component does not exceed the annual base salary, even taking account of the market value of the component paid in shares.

Targets for the variable performance-related component

The targets underlying the variable performance-related component are adopted annually in December for the following year by the Board of Directors following a proposal submitted by the Compensation Committee. The targets relevant to the reporting year remained largely unchanged in line with the Group's continuing corporate strategy. The targets are based on the Swisscom Group's budget figures for 2016.
All members of the Group Executive Board are measured against targets at the levels "Group", "Customers" and "Segments". Group targets consist of financial targets. Customer targets for the reporting year are measured using the Net Promoter Score – a recognised indicator of customer loyalty – taking into consideration the customer group for which the Group Executive Board member is responsible. Further information on customer satisfaction can be found in the Management Commentary.

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page 55

Segment targets are tailored to the relevant function of each Group Executive Board member and consist of financial and non-financial targets. As in the previous year, these also include financial targets for the Italian subsidiary Fastweb S.p.A., on which the Group Board members delegated by Swisscom to Fastweb's Board of Directors are measured. The target structure is thus aligned to Swisscom's strategic priorities: strengthening the core business in Switzerland by offering the best infrastructure and customer experiences as well as through the realisation of new growth opportunities and further developing Fastweb in Italy.

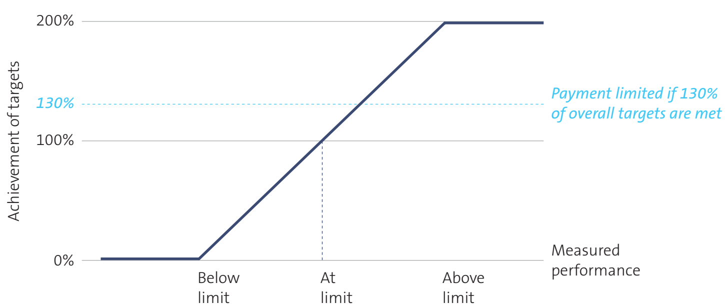
The following table illustrates the target structure valid for the CEO and other Group Executive Board members in the year under review, showing the three target levels, individual targets and the respective weighting.

Target levels	Objectives	Weighting of targets level CEO	Weighting of targets level of other members of the Group Executive Board
Group	Net revenue	18%	15–18%
	EBITDA margin	18%	15–18%
	Operating free cash flow	24%	20–24%
Customers	Net promoter score	20%	20%
Segments	Segment targets	20%	20–30%
Total		**100%**	**100%**

Achievement of targets

The Compensation Committee determines the level of target achievement in the following year once the consolidated financial statements become available. Its decision is based on a quantitative assessment of the extent to which targets have been met using a scale for the overachievement and underachievement of each target. The achievement of an individual target can vary from 0% (if the lower limit is not achieved) to 200% (if the upper limit is exceeded).

Achievement scale for each target



Payment of the performance-related salary component is based on individual target achievement and is limited if 130% of overall targets are met (weighted target achievement across all individual targets).

The overall achievement of targets governing the payment of the performance-related component is calculated according to the weighting of the individual targets. The payment is limited to a maximum of 130% of the target bonus. In determining the level of target achievement, the Compensation Committee has a degree of discretion in assessing the effective management performance, allowing special factors such as fluctuations in exchange rates to be taken into account. Based on the overall achievement of targets, the Compensation Committee submits a proposal for approval to the Board of Directors for the amount of the performance-related salary component to be paid to the Group Executive Board and the CEO.

In the year under review, some of the financial Group targets were exceeded and others not quite met in full. The customer targets were not fully met. Depending on the unit, the other targets of the segments were not fully achieved, were achieved in part or were exceeded in part.

In view of the efficiency improvement measures adopted in the year under review, the Group Executive Board opted for a 10-percentage-point reduction of the payment of the variable performance-related salary component to which it was entitled based on the achievement of its targets. Allowing for this reduction, the payment of the performance-related component is 92% of the target bonus for the CEO and between 85% and 95% of the target bonus for the other members of the Group Executive Board.

Payment of the variable performance-related component

The variable performance-related component is paid in April of the following year, with 25% being paid in the form of Swisscom shares, in accordance with the Management Incentive Plan. Group Executive Board members may opt to increase this share by up to a maximum of 50%. The remaining portion of the performance-related component is settled in cash. In the event of a departure during the course of the year, the payment of the performance-related component for the current year is generally made in full in cash. The decision of what percentage of the variable performance-related salary component is to be drawn in the form of shares must be communicated prior to the end of the reporting year, but no later than in November following the publication of the third-quarter results. In the year under review, two members of the Group Executive Board opted for a higher share component. 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. This restriction on disposal also applies if the employment relationship is terminated during the blocking period. The share-based remuneration disclosed in the year under review 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 date of allocation. Shares in respect of the current year are allocated in April 2017. Further information on the Management Incentive Plan can be found in Note 11 to the consolidated financial statements.

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In April 2016, a total of 1,841 shares (2015: 1,268 shares) with a tax value of CHF 439 (prior year: CHF 473) per share and a market value of CHF 522.50 (prior year: CHF 563) per share were allocated for the 2015 financial year to the members of the Group Executive Board.

Restricted share plan

The restricted share plan serves to support the recruitment and retention of employees in key positions. It can also be utilised as a remuneration component for members of the Group Executive Board. Under this plan, the Board of Directors can, where necessary, pay part of the remuneration in the form of restricted share units. These shares must be earned over a three-year vesting period. Swisscom has so far not allocated any restricted share units to members of the Group Executive Board.

Pension fund and fringe benefits

The members of the Group Executive Board, like all eligible employees in Switzerland, are insured against the risks of old age, death and disability through the comPlan pension plan (see pension fund regulations at www.pk-complan.ch). The disclosed pension benefits (amounts which give rise to or increase pension entitlements) encompass all savings, guarantee and risk contributions paid by the employer to the pension plan. They also include the pro rata costs of the AHV bridging pension paid by comPlan in the event of early retirement and the premium for the supplementary life insurance concluded for Swisscom management staff in Switzerland. Also included is the share of the special contribution to comPlan determined by the Board of Directors in the year under review and attributable to the members of the Group Executive Board. Swisscom is paying the special non-recurring contribution designed to mitigate the impact of pension reductions suffered by employees born in or before 1969 as a result of the lowering of the conversion rate on 1 July 2017. Further information about this is provided in Note 10 to the consolidated financial statements.

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With regard to the disclosure of services rendered and non-cash benefits and expenses, these are dealt with from a tax point of view. The members of the Group Executive Board are entitled to the use of a company car. The disclosed services rendered and non-cash benefits therefore include an amount for private use of the company car. Out-of-pocket expenses are reimbursed on a lump-sum basis in accordance with expense reimbursement rules approved by the tax authorities, and other expenses are reimbursed on an actual cost basis. They are not included in the reported remuneration.

4.3 Total remuneration

The following table shows total remuneration paid to the members of the Group Executive Board for the 2015 and 2016 financial years, broken down into individual components and including the highest amount paid to one member. In the year under review, the variable performance-related salary component (CHF 2,579 thousand in total) was 68.2% of the base salary (CHF 3,782 thousand in total) The total remuneration paid to the highest-earning member of the Group Executive Board (CEO, Urs Schaeppi) increased by 0.1% compared to the prior year The increase in total remuneration paid to the Group Executive Board is attributable to the one-time special contribution made to the pension plan to offset the impact of the reduction in the conversion rate for employees born in 1969 or earlier. The increase this caused in retirement provision contributions was largely compensated by the lower variable remuneration.

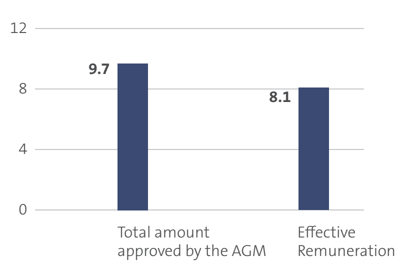
In CHF thousand	Total Group Executive Board 2016	Total Group Executive Board 2015	Thereof Urs Schaeppi 2016	Thereof Urs Schaeppi 2015
Fixed base salary paid in cash	3,782	3,775	882	882
Variable earnings-related remuneration paid in cash	1,604	1,792	284	336
Variable earnings-related remuneration paid in shares [1]	975	1,018	338	327
Service-related and non-cash benefits	84	85	14	17
Employer contributions to social security [2]	541	538	126	126
Retirement benefits [3]	1,064	816	189	144
Total remuneration to members of the Group Executive Board	**8,050**	**8,024**	**1,833**	**1,832**

1 The shares are reported at market value and are blocked from sale for three years.
2 Employer contributions to social security (AHV, IV, EO and FAK, incl. administration costs, and daily sickness benefits and accident insurance) are included in the total remuneration.
3 Includes the share of the exceptional contribution to the pension fund attribuable to the members of the Group Executive Board. Swisscom makes a non-recurring contribution to mitigate the impact of the pension reductions resulting from the lowering of the conversation rate as of 1 July 2017.

4.4 Comparison with the total amount approved by the Annual General Meeting

Total remuneration paid to the members of the Group Executive Board is within the maximum total amount approved by the 2015 Annual General Meeting (AGM) for 2016 of CHF 9.7 million.

Remuneration to members of the Group Executive Board 2016 in CHF million



4.5 Minimum shareholding requirement

Since 2013, the members of the Group Executive Board have been required to hold a minimum amount 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 members of the Group Executive Board have four years to build up the required minimum shareholding in the form of the blocked shares paid as part of remuneration and, if applicable, through share purchases on the open market. Compliance with the shareholding requirement is reviewed annually by the Compensation Committee. If a member's shareholding falls below the minimum requirement due to a drop in the share price or a salary adjustment, the difference must be made up by no later than the time of the next review. In justified cases such as personal hardship or legal obligations, the Chairman of the Board of Directors can approve individual exceptions at his discretion.

4.6 Shareholdings of the members of the Group Executive Board

Blocked and non-blocked shares held by members of the Group Executive Board or related parties as at 31 December 2015 and 2016 are listed in the table below:

Number	31.12.2016	31.12.2015
Urs Schaeppi (CEO)	3,229	2,602
Mario Rossi	1,027	821
Hans C. Werner	897	571
Marc Werner	382	211
Christian Petit	1,337	1,525
Roger Wüthrich-Hasenböhler [1]	–	1,032
Heinz Herren	1,333	1,098
Dirk Wierzbitzki [2]	64	–
Total shares held by the members of the Group Executive Board	**8,269**	**7,860**

[1] Resigned from the Group Executive Board as of 31 December 2015.
[2] Joined the Group Executive Board as of 1 January 2016.

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

4.7 Employment contracts

The employment contracts of the members of the Group Executive Board are subject to a twelve-month notice period. No termination benefits apply beyond the salary payable for a maximum of twelve months. The employment contracts stipulate that Swisscom may allow wrongfully awarded or paid remuneration to lapse or reclaim such remuneration. They do not contain a non-competition clause or a clause on change of control.

5 Other remuneration

5.1 Remuneration for additional services

Swisscom may pay remuneration to members of the Board of Directors for assignments in Group companies and for those performed by order of Swisscom (Article 6.4 of the Articles of Incorporation). In the year under review, Hugo Gerber, who stepped down from the Board of Directors at the Annual General Meeting of 6 April 2016, was the only member to receive remuneration for an additional mandate as member of the Board of Directors of the Swisscom Group company Worklink AG. The Director's fee amounts to CHF 7,500 gross per year. For meetings, attendance fees of CHF 1,000 gross are paid for each full day and CHF 500 gross for each half-day. The remuneration is paid fully in cash. Out-of-pocket expenses are reimbursed on the basis of actual costs incurred. The remuneration takes into account the activities and level of responsibility. It is determined by the Board of Directors of Worklink AG based on a discretionary decision and reviewed every two years for ongoing appropriateness. The remuneration paid to Hugo Gerber is customary on the market and is not connected to his mandate as an officer of Swisscom Ltd.
The members of the Group Executive Board are not entitled to separate remuneration for any directorships they hold either within or outside the Swisscom Group.

5.2 Remuneration for former members of the Board of Directors or Group Executive Board and related parties

In the year under review, no compensation was paid to former members of the Board of Directors or the Group Executive Board in connection with their earlier activities as a member of a governing body of the company and/or which are not at arm's length. There were also no payments made to individuals who are closely related to any former or current member of the Board of Directors or the Group Executive Board which are not at arm's length.

5.3 Loans and credits granted

Swisscom Ltd has no statutory basis for the granting of loans, credit facilities and pension benefits apart from the retirement benefits paid to the members of the Board of Directors and Group Executive Board.
In the 2016 financial year, Swisscom has granted no guarantees, loans, advances or credit facilities of any kind either to former or current members of the Board of Directors or related parties, or to former or current members of the Group Executive Board or related parties. Nor are there any receivables of any kind outstanding.

Report of the Statutory Auditor

To the General Meeting of Shareholders of Swisscom Ltd., Ittigen (Berne)

We have audited the accompanying remuneration report of Swisscom Ltd. for the year ended 31 December 2016. The audit was limited to the information according to articles 14 - 16 of the Ordinance against Excessive compensation in Stock Exchange Listed Companies contained in the sections 3.3, 4.3 and 5.1 to 5.3 on pages 131 to 144 of the remuneration report.

Responsibility of the Board of Directors

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance against Excessive compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's Responsibility

Our responsibility is to express an opinion on the accompanying remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14 – 16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14 – 16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the remuneration report for the year ended 31 December 2016 of Swisscom Ltd. complies with Swiss law and articles 14 – 16 of the Ordinance.

KPMG AG

Hanspeter Stocker Licensed Audit Expert Auditor in Charge	Daniel Haas Licensed Audit Expert

Gümligen-Berne, 7 February 2017

KPMG AG, Hofgut, PO Box 112, CH-3073 Gümligen-Berne

15,400 devices

were taken to Repair Center in 2016.

Huge demand

Nine Repair Center have been opened in German-speaking and French-speaking Switzerland to date.

The Repair Center are located directly inside Swisscom Shops. Where possible, defective smartphones are repaired within 24 hours, while express repairs can be carried out in just three hours.

Matthias Dobmann
Repair Center
training coordinator

Alban Sabani
Repair Center service technician

"As technicians, we are usually in the background and have no direct contact with the customer. At the Repair Center, we can see customers' reactions and enjoy how happy they are to get their working smartphone back."

Financial statements

Building the infrastructure of the future through targeted investments.

Consolidated income statement

In CHF million, except for per share amounts	Note	2016	2015
Net revenue	6, 7	**11,643**	**11,678**
Goods and services purchased	8	(2,323)	(2,342)
Personnel expense	9, 10, 11	(2,947)	(3,019)
Other operating expense	12	(2,548)	(2,697)
Capitalised cost of self-constructed assets and other income	13	468	478
Operating income before depreciation, amortisation and impairment losses		**4,293**	**4,098**
Depreciation, amortisation and impairment losses on tangible and intangible assets	23, 24	(2,145)	(2,086)
Operating income		**2,148**	**2,012**
Financial income	14	80	43
Financial expense	14	(235)	(315)
Share of results of associates	25	(3)	23
Income before income taxes		**1,990**	**1,763**
Income tax expense	15	(386)	(401)
Net income		**1,604**	**1,362**
Share of net income attributable to equity holders of Swisscom Ltd		1,604	1,361
Share of net income attributable to non-controlling interests		–	1
Basic and diluted earnings per share (in CHF)	16	**30.97**	**26.27**

Consolidated statement of comprehensive income

In CHF million	Note	2016	2015
Net income		**1,604**	**1,362**
Other comprehensive income			
Actuarial gains and losses from defined benefit pension plans	10, 31	1,162	(393)
Associates	25, 31	(5)	–
Income tax expense	15, 31	(238)	80
Items that will not be reclassified to income statement, net of tax		**919**	**(313)**
Foreign currency translation adjustments of foreign subsidiaries	31	(21)	(194)
Gains and losses from foreign subsidiaries transferred to income statement		5	–
Change in fair value of available-for-sale financial assets	31	7	4
Gains and losses from available-for-sale financial assets transferred to income statement	31	(3)	(6)
Change in fair value of cash flow hedges	31	8	(12)
Gains and losses from cash flow hedges transferred to income statement	31	2	11
Associates	25, 31	(2)	–
Income tax expense	15, 31	(84)	53
Items that are or may be reclassified subsequently to income statement, net of tax		**(88)**	**(144)**
Other comprehensive income		**831**	**(457)**
Comprehensive income		**2,435**	**905**
Share of comprehensive income attributable to equity holders of Swisscom Ltd		2,435	904
Share of comprehensive income attributable to non-controlling interests		–	1

Consolidated balance sheet

In CHF million	Note	31.12.2016	31.12.2015
Assets			
Cash and cash equivalents	17	329	324
Trade and other receivables	18	2,532	2,535
Other financial assets	19	177	85
Inventories	20	154	174
Current income tax assets	15	18	21
Other non-financial assets	21	325	238
Total current assets		**3,535**	**3,377**
Property, plant and equipment	23	10,177	9,855
Goodwill	24	5,156	5,161
Other intangible assets	24	1,756	1,861
Investments in associates	25	193	223
Other financial assets	19	262	238
Deferred tax assets	15	281	354
Other non-financial assets	21	94	80
Total non-current assets		**17,919**	**17,772**
Total assets		**21,454**	**21,149**
Liabilities and equity			
Financial liabilities	26	1,125	1,195
Trade and other payables	27	1,896	1,768
Current income tax liabilities	15	125	146
Provisions	28	182	351
Other non-financial liabilities	30	650	693
Total current liabilities		**3,978**	**4,153**
Financial liabilities	26	7,371	7,398
Defined benefit obligations	10	1,850	2,919
Provisions	28	780	788
Deferred tax liabilities	15	621	290
Other non-financial liabilities	30	332	359
Total non-current liabilities		**10,954**	**11,754**
Total liabilities		**14,932**	**15,907**
Share capital	31	52	52
Capital reserves		136	136
Retained earnings		8,149	6,783
Treasury shares	31	(1)	–
Other reserves	31	(1,822)	(1,734)
Share of equity attributable to equity holders of Swisscom Ltd		**6,514**	**5,237**
Share of equity attributable to non-controlling interests		8	5
Total equity		**6,522**	**5,242**
Total liabilities and equity		**21,454**	**21,149**

Consolidated statement of cash flows

In CHF million	Note	2016	2015
Net income		1,604	1,362
Share of results of associates	25	3	(23)
Income tax expense	15	386	401
Depreciation, amortisation and impairment losses	23, 24	2,145	2,086
Expense for share-based payments	11	3	2
Gain on sale of property, plant and equipment	13	(20)	(27)
Loss on disposal of property, plant and equipment	12	9	10
Financial income	14	(80)	(43)
Financial expense	14	235	315
Change in operating assets and liabilities	34	(95)	134
Income taxes paid	15	(328)	(350)
Cash flow from operating activities		**3,862**	**3,867**
Capital expenditure for tangible and other intangible assets	23, 24, 34	(2,416)	(2,427)
Proceeds from sale of tangible and other intangible assets		27	61
Proceeds from sale of non-current assets held for sale	22	–	109
Acquisition of subsidiaries, net of cash and cash equivalents acquired	5	(38)	(64)
Proceeds from sale subsidiaries, net of cash and cash equivalents sold	5	–	33
Investments in associates		(3)	(43)
Proceeds from sale of associates	25	88	–
Purchase of other financial assets		(196)	(93)
Proceeds from other financial assets		92	34
Interest received		27	12
Dividends received	25	17	23
Cash flow used in investing activities		**(2,402)**	**(2,355)**
Issuance of financial liabilities	26	898	1,287
Repayment of financial liabilities	26	(999)	(1,419)
Interest paid		(184)	(200)
Dividends paid to equity holders of Swisscom Ltd	32	(1,140)	(1,140)
Dividends paid to non-controlling interests		(8)	(7)
Acquisition of non-controlling interests	31	–	(5)
Purchase of treasury shares for share-based payments	11, 31	(4)	(2)
Other cash flows from financing activities	34	(16)	2
Cash flow used in financing activities		**(1,453)**	**(1,484)**
Net increase in cash and cash equivalents		**7**	**28**
Cash and cash equivalents at 1 January		324	302
Foreign currency translation adjustments in respect of cash and cash equivalents		(2)	(6)
Cash and cash equivalents at 31 December		**329**	**324**

Consolidated statement of changes in equity

In CHF million	Note	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 2014		**52**	**136**	**6,885**	**–**	**(1,590)**	**5,483**	**3**	**5,486**
Net income		–	–	1,361	–	–	1,361	1	1,362
Other comprehensive income		–	–	(313)	–	(144)	(457)	–	(457)
Comprehensive income		**–**	**–**	**1,048**	**–**	**(144)**	**904**	**1**	**905**
Dividends paid	32	–	–	(1,140)	–	–	(1,140)	(7)	(1,147)
Purchase of treasury shares for share-based payments	31	–	–	–	(2)	–	(2)	–	(2)
Allocation of treasury shares for share-based payments	11, 31	–	–	–	2	–	2	–	2
Transactions with non-controlling interests	31	–	–	(10)	–	–	(10)	8	(2)
Balance at 31 December 2015		**52**	**136**	**6,783**	**–**	**(1,734)**	**5,237**	**5**	**5,242**
Net income		–	–	1,604	–	–	1,604	–	1,604
Other comprehensive income		–	–	919	–	(88)	831	–	831
Comprehensive income		**–**	**–**	**2,523**	**–**	**(88)**	**2,435**	**–**	**2,435**
Dividends paid	32	–	–	(1,140)	–	–	(1,140)	(8)	(1,148)
Purchase of treasury shares for share-based payments	31	–	–	–	(4)	–	(4)	–	(4)
Allocation of treasury shares for share-based payments	11, 31	–	–	–	3	–	3	–	3
Transactions with non-controlling interests		–	–	(17)	–	–	(17)	11	(6)
Balance at 31 December 2016		**52**	**136**	**8,149**	**(1)**	**(1,822)**	**6,514**	**8**	**6,522**

Notes to the consolidated financial statements

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

1 General information

The Swisscom Group (hereinafter referred to as "Swisscom") provides telecommunication services and is active primarily in Switzerland and Italy. A more detailed description of Swisscom's business activities is to be found in Notes 3.16 and 6. The consolidated financial statements as of and for the year ended 31 December 2016 comprise Swisscom Ltd, the parent company, and its subsidiaries. A table of the Group subsidiaries is set out in Note 40. 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 is listed on the SIX Swiss Exchange. As of 31 December 2016, the Swiss Confederation ("Confederation"), as majority shareholder, held 51.0% of the voting rights and issued capital of Swisscom Ltd. The Confederation is obligated by current law to hold the majority of the capital and voting rights. The Board of Directors of Swisscom has approved the issuance of these consolidated financial statements on 7 February 2017. The consolidated financial statements are subject to approval by the Annual General Meeting of Shareholders of Swisscom Ltd to be held on 3 April 2017.

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, or consumed or realised within a normal business cycle, are classified as current. The income statement is classified by the nature of the income/expense. The consolidated financial statements have been prepared on the historical cost basis, unless a standard or interpretation prescribes another measurement basis for a particular caption in the consolidated financial statements.
Certain financial statement captions are measured at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is determined on the basis of stock exchange quotations or by using recognised valuation models, such as the discounting of anticipated future cash flows. Unless otherwise indicated in the notes to the consolidated financial statements, fair values of the reported financial instruments correspond approximately to the carrying amounts reported in the balance sheet at the time of preparing the financial statements.

3 Summary of significant accounting policies

3.1 Consolidation

Subsidiaries

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

Investments in associates

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

3.2 Foreign currency translation

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

	Closing rate			Average rate	
Currency	31.12.2016	31.12.2015	31.12.2014	2016	2015
1 EUR	1.074	1.084	1.202	1.090	1.075
1 USD	1.019	0.995	0.990	0.990	0.966

3.3 Cash and cash equivalents

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

3.4 Trade and other receivables

Trade and other receivables are measured at amortised cost less impairment losses. Any impairment losses are recorded through the use of valuation allowance accounts. All realised losses lead to the de-recognition of the related receivable.
Receivables and payables are netted whenever Swisscom has a legal right of set-off as of the balance sheet date and intends to either settle on a net basis or realise the asset and settle the liability simultaneously. The right of set-off must exist as of the balance sheet date and it shall be legally enforceable both in the ordinary course of business as well as in the case of the insolvency of the contracting party.

3.5 Other financial assets

Other financial assets are classified into the following categories: "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. Upon acquisition, financial assets are recognised at their fair values, including directly related transaction costs. Transaction costs relating to financial assets at fair value through profit or loss are not capitalised on acquisition but expensed immediately as incurred. Financial assets are partially or fully derecognised if Swisscom's rights to the cash flows arising therefrom have either elapsed or were transferred and Swisscom is neither exposed to any risks arising from these assets nor has any entitlement to income from them.

Financial assets at fair value through profit or loss

Financial assets valued at fair value through profit or loss are either held for trading purposes or are classified as such upon initial recognition. They are measured at their fair value. Any gains or losses resulting from subsequent re-measurement are taken to income.

Loans and receivables

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

Financial assets held to maturity

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

Available-for-sale financial assets

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

3.6 Inventories

Inventories are measured at the lower of acquisition or manufacturing 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 acquisition or manufacturing cost of inventories is determined using the weighted average cost method. Valuation allowances are recognised for inventories that are difficult to sell. Unsaleable inventories are fully written off.

3.7 Property, plant and equipment

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

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

[1] Technical installations.

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

3.8 Business combinations and goodwill

Business combinations are accounted for using the acquisition method. As of the date of the business combination, acquisition costs are recognised at fair value. The purchase consideration includes the amount of cash paid as well as the fair value of the assets ceded, liabilities incurred or assumed as well as own equity instruments ceded. Liabilities depending on future events based upon contractual agreements are recognised at fair value. At the time of acquisition, all identifiable assets and liabilities that satisfy the recognition criteria are recognised at their fair values. The difference between the cost of acquisition and the fair value of the identifiable assets and liabilities acquired or assumed is accounted for as goodwill after taking into account any non-controlling interests. Any negative difference, after further review, is expensed directly. Goodwill acquired in connection with a business combination is recognised under intangible assets. The goodwill is not amortised on a systematic basis but reviewed for impairment at least annually. When an entity is disposed of, the carrying amount of the goodwill is derecognised and recorded as a component of the gain or loss on disposal.

3.9 Other intangible assets

Research and development costs

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

Other intangible assets

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

Useful lives of other intangible assets

In determining useful estimated lives, the anticipated use by the company, the expected wear and tear, technological developments as well as empirical values with comparable assets are taken into account. Systematic amortisation is computed using the straight-line method based on the following estimated useful lives:

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

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

3.10 Non-current assets held for sale

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

3.11 Impairment losses

Impairment of financial assets

As of each balance sheet date, the carrying amounts of those financial assets for which changes in fair value are not recognised in the income statement are reviewed for any objective indications of impairment in value. An impairment loss is recognised where there is objective evidence of impairment, such as where the borrower is in bankruptcy, in default or other significant financial difficulties. The impairment of a financial asset which is recorded at amortised cost is calculated as the difference between its carrying amount and the present value of estimated future cash flows, taking into consideration 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 in value. 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. With regards to 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 of disposal 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 costs to sell and the value in use, is less than its carrying amount, the carrying amount is written down to the recoverable amount.

3.12 Leases

Finance leases

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

Operating leases

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

3.13 Financial liabilities

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

3.14 Trade and other payables

Trade and other payables are recorded at amortised cost.

3.15 Provisions

Provisions 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.

Provisions for termination benefits

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

Provisions for dismantling and restoration costs

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

3.16 Segmentation and revenue recognition

General

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

Services by segments

Residential Customers

The segment Residential Customers comprises mainly connection fees for broadband and TV 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 and the sale of terminal equipment.

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. Furthermore, the segment includes the business with on-line directories and telephone directories.

Enterprise Customers

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

Wholesale

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

IT, Network & Innovation

IT, Network & Innovation is responsible primarily for the planning, operation and maintenance of Swisscom's network infrastructure and all IT systems. It is responsible for the development and production of standardised IT and network services for the entire Group. In addition, IT, Network & Innovation also includes the support functions Finances, Human Resources and Strategy for Swisscom Switzerland as well as the management of real estate in Switzerland.

Fastweb

Fastweb is one of the largest providers of broadband services in Italy. Its product portfolio comprises voice, data, broadband and 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 the business area Participations. In addition, the segment includes the areas of Health and Connected Living. Participations consist principally of the subsidiaries Billag Ltd, cablex Ltd, and Swisscom Broadcast Ltd. 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. Swisscom Broadcast Ltd is the leading provider in Switzerland of radio services, of cross-platform services for customers in the media field and of securitised radio transmissions.

Revenue generated from services

Combined offerings

Swisscom provides bundled service offerings which include internet and TV as well as an optional fixed-line connection with telephony services. They are all offered on the basis of fixed monthly subscription charges (flat rate). Revenue is recognised on a straight-line basis over the contractual term.

Mobile

Mobile phone services encompass basic subscription charges and in addition, domestic and international mobile phone traffic generated by Swisscom customers in Switzerland or abroad as well as 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. Swisscom offers subscriptions with a fixed monthly flat-rate fee, 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.

If a mobile handset is sold as a part of a bundled offering with a subscription, it is treated as a multi-component transaction. The price of the entire multi-component transaction is spread on a pro-rata basis over the various component parts on the basis of the respective individual sales prices thereof. In this respect, the revenue to be recognised for each individual component is limited by that part of the total consideration for the multi-component transaction whose payment is not dependent on the provision of additional services.

Fixed networks
Fixed-network services encompass primarily connection fees as well as 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 the business with 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 terminal equipment is recorded at the time of delivery.

Broadband
Broadband 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.

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

Communication and IT solutions
Services in the field of communication and IT solutions primarily include consultancy services as well as the implementation, 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 relating to and the integration of new outsourcing transactions are capitalised as other assets and amortised on a straight-line basis over the duration of the contract. Revenue from maintenance is recorded evenly over the term of the maintenance contracts.

3.17 Subscriber acquisition and loyalty-programme costs

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

3.18 Post-employment benefits

Actuarial computations of expense and of defined-benefit obligations are undertaken by qualified experts using the projected unit credit method. The latest actuarial valuation was undertaken as at 31 December 2016. Current service costs, past service costs arising from pension-plan amendments and plan settlements as well as administrative costs are reported under personnel expense

and interest accruing on net obligations as finance expense. Actuarial gains and losses and the return on plan assets (with the exception of amounts reflected in net interest income) are reported under other comprehensive income.
The assumptions regarding net future benefits are set out in the formal set of regulations governing the pension plan in compliance with legal provisions. As regards the Swiss pension plans, the relevant formal regulations comprise the rules of the pension fund as well as the relevant laws, ordinances and directives concerning occupational benefit plans, in particular the provisions contained therein concerning funding and measures to be taken to eliminate pension-fund deficits. From 2016 onwards, risk-sharing features were taken into account in defining financial assumptions in the formal regulations. These limit the employer share of future benefit costs as well as imposing obligations on employees, where applicable, to make additional contributions for the purpose of eliminating funding deficits.
Should the level of committed long-term disability benefits (disability pensions), irrespective of the number of service years, be the same for all insured employees, the costs for the benefits are recognised on the date on which the event causing the disability occurs.

3.19 Share-based payments

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

3.20 Income taxes

Income taxes encompass 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 taxes are recognised in principle on all temporary differences. Temporary differences arise from differences between the carrying amount of a balance sheet position in the consolidated financial statements and its value as reported for tax purposes and which will reverse in future periods. The tax rate used to determine the amount of deferred taxes is that which is expected to apply when the temporary difference reverses based on the tax rate which is 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 recognised if the distribution of profits is to be made in the foreseeable future. Current and deferred tax assets and liabilities are netted when they relate to the same taxing authority and taxable entity.

3.21 Derivative financial instruments

Derivative financial instruments are initially recorded at fair value and subsequently re-measured at fair value. The method of recording the fluctuations in fair value varies according to 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 dealt with in other comprehensive income and 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 results. Otherwise, the amounts recorded in equity are recognised in the income statement as income or expense in the same period the cash flows of the intended or agreed future transaction occur. Changes in the fair value of derivative financial instruments that are not designated as hedging instruments are taken immediately to income.

3.22 New and amended standards and interpretations

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

As from 1 January 2016 onwards, Swisscom adopted various amendments to existing International Financial Reporting Standards (IFRS) and Interpretations, which have no material impact on the results or financial position of the Group.

Standard	Name
Amendements to IFRS 11	Accounting for acquisitions of interests in a joint operation
Amendements to IAS 1	Disclosure initiative
Amendements to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortisation
Various	Improvements to IFRS 2012–2014

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

The following Standards and Interpretations published up to the end of 2016 are mandatory for accounting periods beginning on or after 1 January 2017:

Standard	Name	Effective from
Amendements to IAS 7	Disclosure initiative	1 January 2017
Amendements to IAS 12	Recognition of deferred tax assets for unrealised losses	1 January 2017
IFRIC 22	Foreign currency transactions and advance consideration	1 January 2018
Amendements to IFRS 2	Classification and measurement of share-based payment transactions	1 January 2018
IFRS 9	Financial instruments	1 January 2018
IFRS 15	Revenue from contracts with customers and related clarifications to IFRS 15	1 January 2018
IFRS 16	Leases	1 January 2019
Various	Amendements to IFRS 2014–2016	1 January 2017 resp. 1 January 2018

Swisscom will review its financial reporting for the impact of the new and amended standards which take effect on or after 1 January 2017 and for which Swisscom did not make voluntary early application. At present, Swisscom anticipates no material impact on consolidated financial reporting with the exception of the amendments described in the following paragraphs.
IFRS 15 "Revenue from Contracts with Customers": in contrast to the revenue recognition standards currently in force, the new standard provides for a single, principles-based, five-step model which is to be applied to all contracts with customers. In accordance with IFRS 15, the amount which is expected to be received from customers as consideration for the transfer of goods and services to the customer is to be recognised as revenue. As regards determining the time or period, it is no longer a question of the transfer of risks and opportunities but of the transfer of control over the goods and services to the customers. With regards to multi-component contracts, IFRS 15 explicitly rules that the transaction price is to be allocated to each distinct performance obligation in relation to the relative stand-alone selling prices. Furthermore, the new standard contains new rules regarding the costs of fulfilment and winning a contract as well as guidelines as to the question when such costs are to be capitalised. In addition, the new standard requires new, more detailed note disclosure information. Swisscom anticipates that the wide-ranging amendments, in particular in the area of accounting for multi-component contracts and the prescribed capitalisation of customer acquisition costs, will impact consolidated financial reporting. IFRS 15 will have the following material impact on the consolidated financial statements of Swisscom:

- In the case of multi-component contracts (mobile-phone contract with a subsidised mobile handset), the revenue will be allocated over the pre-delivered components (mobile handset) with the result that the revenue will be recognised earlier. The total revenue remains unchanged over the duration of the contract.
- Commissions paid to dealers (customer acquisition costs) as well as costs of routers and set-top boxes (contract performance costs) are capitalised and recognised as expense over the term of the contract.
- Swisscom will in all probability apply IFRS 15 through an adjustment to equity in the amount of the cumulative effect as from 1 January 2018 (cumulative method).

The impact will be evaluated as part of a Group-wide project regarding the implementation of the new standard. A reliable estimate of the quantitative impact, however, is not possible prior to the completion of the project.
IFRS 16 "Leases": For the lessee, IFRS 16 provides for a comprehensive model for dealing with lease arrangements in financial statements. The differentiation between finance and operating lease arrangements which was required until now under IAS 17 is thus dropped in future for the lessee. The lessee shall recognise leasing obligations in its balance sheet for all future lease payments to be made as well as recognising a right to use the underlying asset. For financial-reporting purposes, the lessor shall continue to differentiate between finance and operating lease arrangements. In this respect, the accounting model foreseen under IFRS 16 do not materially differ from the previous provisions under IAS 17. Swisscom expects that the comprehensive modifications will have a material impact on the consolidated financial statements. However, a reliable estimate of the impact of applying IFRS 16 can only be made once a detailed analysis is completed. IFRS 9 "Financial Instruments": The Standard includes new rules to classify and value financial assets and liabilities, the recognition of value impairments and the recording of hedging relationships. In certain cases, changes in classification will result from the new provisions and also in certain cases, the new provisions regarding value impairment will lead to the earlier recording of losses impacting income. Swisscom has not completed the detailed analysis but does not, however, anticipate material changes to financial-statement reporting.

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

The preparation of consolidated financial statements is dependent upon estimates and assumptions being made in applying the accounting policies for which management can exercise a certain degree of judgment. In applying the relevant accounting policies to the consolidated financial statements, certain assumptions and estimates have to be made about the future that may have a material influence on the amount and presentation of assets and liabilities, revenues and expenses as well as note disclosure information. The estimates used in preparing 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.

Description	Judgemental decisions and estimation insecurity	Further information
Recoverability of Goodwill	Key assumptions such as projected cash flows, the discount rate (WACC) and long-term growth rate for determination of recoverable amount	Note 24
Defined benefit obligations	Key assumptions such as discount rate, future salary and pension increases, interest on pension plan savings. Employee contributions for funding shortfall, future pension rights of insured employees as well as life expectancy for valuing the defined benefit obligations	Note 10
Provisions for dismantlement and restoration costs	Future costs for dismantlement and restoration as well as the date of the dismantlement	Note 28
Provision for regulatory and competition law procedures	Probability of occurrence and amount of the expected cash outflow	Note 28
Allowances for doubtful receivables	Measurement of allowances taking into account historical experience with receivable losses	Note 18
Recognition of deferred tax assets	Possibility of achieving future taxable profits which can be offset against the available tax loss-carry forwards	Note 15
Useful lives of property, plant and equipment	Estimate of useful lives taking into account the expected use, expected physical wear, technology developments as well as past experience with comparable assets	Notes 3.7 and 23

5 Business combinations and disposal of subsidiaries

Business combinations in 2015 and 2016

In 2016, Swisscom made payments, net of cash and cash equivalents acquired, totalling CHF 38 million (prior year: CHF 64 million) for the acquisition of subsidiaries. Of this amount, CHF 32 million (prior year: CHF 8 million) relates to deferred consideration arising on business combinations in prior years and CHF 6 million (prior year: CHF 56 million) for subsidiaries acquired during the accounting period.

Business combination search.ch Ltd

In May 2014, Swisscom and Tamedia agreed to contribute their companies Swisscom Directories Ltd (local.ch) and search.ch Ltd to a jointly-held subsidiary company. Swisscom holds 69% of the capital of the joint company, with Tamedia holding the remaining 31%. With the on-line directory platform local.ch and the Local Guide telephone directories, Swisscom Directories Ltd is a leading company in Switzerland in the field of advertising and the operation of directories. Search.ch Ltd (search.ch) is a leading Swiss search and information service. With the merger of Swisscom Directories Ltd (local.ch) and search.ch Ltd, there was born a comprehensive Swiss directory and information platform for private individuals, companies and public administrations as well as an important advertising partner for small and medium-size companies.
The transaction was consummated at the beginning of July 2015 following consent to the transaction given by the Federal Competition Commission (Weko). Swisscom granted Tamedia a put option and Tamedia granted Swisscom a call option for the 31% share of Tamedia which both can be exercised as from the third year following the consummation of the transaction. The fair value of the put option at the time of consummation of the transaction amounted to CHF 222 million. This amount was recognised as a financial liability in the third quarter of 2015. The fair value of the put option corresponds to the purchase cost for the acquisition of search.ch Ltd.

The allocation of the acquisition costs over the net assets of search.ch may be analysed as follows:

In CHF million	2015
Purchase price allocation of search.ch AG	
Cash and cash equivalents	12
Other intangible assets	42
Other current and non-current assets	10
Defined benefit obligations	(5)
Deferred tax liabilities	(4)
Other current and non-current liabilities	(20)
Identifiable assets and liabilities	**35**
Goodwill	187
Purchase costs	**222**
Cash and cash equivalents acquired	(12)
Issuance of equity instruments	(222)
Total cash inflow	**(12)**

The gross amount of the trade receivables acquired amounts to CHF 7 million. At the time of the acquisition, it was anticipated that of this amount, CHF 1 million was non-collectible. No transaction costs arose in connection with the acquisition of search.ch Ltd. The principal reasons for the recognition of goodwill are the anticipated synergies from distribution as well as additional market share. In 2015, there resulted additional net revenues of CHF 18 million and a profit of CHF 4 million from this business combination. On the assumption that the subsidiary acquired in 2015 had been included in the consolidated financial statements as from the date of 1 January 2015, there would have resulted consolidated pro-forma net revenues of CHF 11,693 million and a consolidated pro-forma net income of CHF 1,363 million.

Other business combinations in 2015

In 2015, Swisscom acquired the entire share capital of two companies, the Veltigroup group and H-Net Ltd. Furthermore, Swisscom acquired in 2015 51% of the share capital of Mila Ltd. With the acquisition of Veltigroup, Swisscom consolidates its ICT portfolio for business clients and its presence in Western Switzerland. Veltigroup is a leading ICT service provider and offers companies a complete ICT service offering from infrastructure through to end-customer services and solutions. Through the purchase of H-Net Ltd, Swisscom strengthens its portfolio in the field of healthcare. H-Net Ltd is one of the leading companies in the fields of administrative and medical data exchange in healthcare. H-Net Ltd was merged with Swisscom Health Ltd following acquisition. The purchase of Mila Ltd is designed to make a contribution to all three strategic market thrusts of Swisscom (client orientation, innovation, operational excellence).
In addition, Swisscom acquired the Avanti business from HP Switzerland. Avanti is an operations control system and back-office for emergency response organisations. Furthermore, Swisscom acquired the Swiss business of World Television (Switzerland) Limited. Through this, Swisscom Event & Media Solutions could further expand its existing offering in the field of video and streaming services thereby becoming the Swiss market leader in the field of online video communications and live-streaming for corporate customers.
The other subsidiaries and business areas acquired in 2015 are regarded as immaterial business combinations and are thus presented on an aggregate basis. The aggregate allocation of acquisition costs over the net assets acquired may be analysed as follows:

In CHF million	2015
Purchase price allocation of other business combinations	
Cash and cash equivalents	21
Other intangible assets	60
Other current and non-current assets	52
Defined benefit obligations	(25)
Deferred tax liabilities	(7)
Other current and non-current liabilities	(58)
Identifiable assets and liabilities	**43**
Share of identifiable net assets attributable to non-controlling interests	(8)
Goodwill	68
Acquisition costs	**103**
Cash and cash equivalents acquired	(21)
Issuance of equity instruments	(14)
Total cash outflow	**68**

The gross amount of trade receivables acquired totals CHF 34 million. At the time of the acquisition, it was anticipated that all of these receivables were considered collectible. No transaction costs arose in connection with the acquisition of the remaining subsidiaries acquired in 2015. The principal reasons for the recognition of goodwill are the anticipated synergies, the additional market shares and the qualified workforce. In 2015, there resulted additional net revenues of CHF 139 million and a net income of CHF 3 million from these business combinations. On the assumption that the subsidiaries acquired in 2015 had been included in the consolidated financial statements as from the date of 1 January 2015, there would have resulted consolidated pro-forma net revenues of CHF 11,679 million and a consolidated pro-forma net income of CHF 1,361 million.

Disposal of subsidiaries in 2015

In 2015, Swisscom disposed of Alphapay Ltd and its entire shareholdings in the Swisscom Hospitality Services Group. Alphapay Ltd is active as a debt-collection service provider and is specialised in the receivables management of third parties. Swisscom Hospitality Services offers broadband services to guests and clients in the fields of hotel and conference services in Europe and North America. In addition, iWare SA and Spree7 GmbH, both active in the media sector, were sold in 2015, The sale of these subsidiaries gave rise to a profit of CHF 19 million which was recognised as other financial income.
The aggregate carrying amounts of the net assets disposed of as well as the aggregate cash inflows from the sales of subsidiaries in 2015 may be analysed as follows:

In CHF million	2015
Cash and cash equivalents	11
Trade and other receivables	21
Property, plant and equipment	2
Goodwill	13
Deferred tax assets	3
Other current and non-current liabilities	11
Trade and other payables	(14)
Other current and non-current liabilities	(21)
Total net assets sold	**26**
Purchase consideration	**45**
Cash and cash equivalents sold	(11)
Deferred payment of purchase price	(1)
Total cash inflow from sale of subsidiaries	**33**

6 Segment information

General disclosures

Operating segments requiring to be reported are determined on the basis of the management approach. Accordingly, external segment reporting reflects the internal financial reporting to the Chief Operating Decision Maker. The segment information disclosed is in line with that reported in the internal reporting system. Reporting is divided into the segments “Residential Customers”, “Small and Medium-Sized Enterprises”, “Enterprise Customers”, “Wholesale” and “IT, Network & Innovation” which are regrouped under Swisscom Switzerland, as well as “Fastweb” and “Other Operating Segments”. In addition, “Group Headquarters”, which includes unallocated costs, are reported separately in segment reporting. Further segment disclosures are set out in Note 3.16.

Group Headquarters charges no management fees for its financial management and the segment IT, Network & Innovation charges no network costs to other segments. Other services between the segments are recharged between the segments at market prices. The results of the segments Residential Customers, Small and Medium-Sized Enterprises, Enterprise Customers and Wholesale equate to a contribution margin prior to network costs. The segment results of IT, Network & Innovation reports, as its segment result, operating expenses and depreciation and amortisation, less revenues from the rental and management of real estate, the capitalised costs of self-constructed assets and other income. The segment results of Swisscom Switzerland correspond in aggregate to the operating results (EBIT) of Swisscom Switzerland. The services offered by the individual operating segments are described in Note 3.16. The segment results of Fastweb and Other Operating Segments correspond to the operating results (EBIT) of these units. This latter encompasses net revenues from external customers and other segments, less segment expenses, depreciation and amortisation and impairment losses on property, plant & equipment and intangible assets. Segment expenses comprise the costs of materials and services, personnel expenses and other operating costs less capitalised costs of self-constructed assets and other income.

Segment expense includes ordinary employer contributions as retirement-benefit expense. The difference between the ordinary employer contributions and the retirement-benefit expense as provided for under IAS 19 is reported in the column “Eliminations”. In 2016, an amount of CHF 72 million is included in the column “Eliminations” as a reconciling item to retirement-benefit expense in accordance with IAS 19 (prior year: CHF 60 million).

Services provided to or sales of assets recharged between the individual segments may include unrealised gains or losses. These are eliminated and are reported in the segment information in the column “Eliminations”.

Segment information 2015 and 2016

Segment information for 2016 of Swisscom may be analysed as follows:

2016, in CHF million	Swisscom Switzerland	Fastweb	Other Operating Segments	Group Head-quarters	Elimi-nation	Total
Net revenue from external customers	9,374	1,948	320	1	–	11,643
Net revenue from other segments	66	9	274	1	(350)	–
Net revenue	**9,440**	**1,957**	**594**	**2**	**(350)**	**11,643**
Segment result	**2,197**	**124**	**27**	**(114)**	**(86)**	**2,148**
Financial income and financial expense, net						(155)
Share of results of associates						(3)
Income before income taxes						**1,990**
Income tax expense						(386)
Net income						**1,604**
Associates	112	4	77	–	–	193
Capital expenditure in property, plant and equipment and other intangible assets	1,743	633	60	–	(20)	2,416
Depreciation, amortisation and impairment losses	1,489	597	67	–	(8)	2,145
Gain (loss) on disposal of property, plant and equipment, net	11	–	–	–	–	11
Share of results of associates	(9)	–	6	–	–	(3)

Segment information 2016 of Swisscom Switzerland may be analysed as follows:

2016, in CHF million	Residential Customers	Small and Medium-Sized Enterprises	Enterprise Customers	Whole-sale	IT, Network & Innovation	Elimi-nation	Total Swisscom Switzer-land
Net revenue from external customers	5,020	1,334	2,400	591	29	–	9,374
Net revenue from other segments	140	33	211	398	100	(816)	66
Net revenue	**5,160**	**1,367**	**2,611**	**989**	**129**	**(816)**	**9,440**
Segment result	**2,748**	**847**	**722**	**388**	**(2,508)**	**–**	**2,197**
Associates	39	1	15	56	1	–	112
Capital expenditure in property, plant and equipment and other intangible assets	137	40	159	–	1,407	–	1,743
Depreciation, amortisation and impairment losses	122	45	117	–	1,204	1	1,489
Gain (loss) on disposal of property, plant and equipment, net	1	(1)	(4)	–	15	–	11
Share of results of associates	(25)	(1)	1	16	–	–	(9)

Segment information 2015 of Swisscom is to be analysed as follows:

2015, in CHF million	Swisscom Switzerland	Fastweb	Other Operating Segments	Group Head-quarters	Elimi-nation	Total
Net revenue from external customers	9,475	1,862	340	1	–	11,678
Net revenue from other segments	70	5	263	1	(339)	–
Net revenue	**9,545**	**1,867**	**603**	**2**	**(339)**	**11,678**
Segment result	**2,218**	**(16)**	**(5)**	**(117)**	**(68)**	**2,012**
Financial income and financial expense, net						(272)
Share of results of associates						23
Income before income taxes						**1,763**
Income tax expense						(401)
Net income						**1,362**
Associates	105	42	76	–	–	223
Capital expenditure in property, plant and equipment and other intangible assets	1,817	581	48	–	(19)	2,427
Depreciation, amortisation and impairment losses	1,383	635	74	–	(6)	2,086
Gain (loss) on disposal of property, plant and equipment, net	20	–	(3)	–	–	17
Share of results of associates	16	–	7	–	–	23

Segment information 2015 of Swisscom Switzerland is to be analysed as follows:

2015, in CHF million	Residential Customers	Small and Medium-Sized Enterprises	Enterprise Customers	Whole-sale	IT, Network & Innovation	Elimi-nation	Total Swisscom Switzer-land
Net revenue from external customers	5,075	1,339	2,449	579	33	–	9,475
Net revenue from other segments	149	31	205	377	97	(789)	70
Net revenue	**5,224**	**1,370**	**2,654**	**956**	**130**	**(789)**	**9,545**
Segment result	**2,797**	**859**	**818**	**198**	**(2,454)**	**–**	**2,218**
Associates	31	2	15	56	1	–	105
Capital expenditure in property, plant and equipment and other intangible assets	180	50	171	–	1,416	–	1,817
Depreciation, amortisation and impairment losses	136	48	92	–	1,107	–	1,383
Gain (loss) on disposal of property, plant and equipment, net	–	–	(5)	–	25	–	20
Share of results of associates	(3)	–	–	19	–	–	16

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 which primarily provides fixed-network and IP-based products in Italy. Net revenue and assets are allocated to regions. Net revenue and assets are allocated according to the registered office of the related Group company.

In CHF million	2016 Net revenue	2016 Non-current assets	2015 Net revenue	2015 Non-current assets
Switzerland	9,665	14,368	9,764	14,151
Italy	1,948	2,876	1,864	2,904
Other countries in Europe	30	132	43	125
Other countries outside Europe	–	–	7	–
Not allocated	–	543	–	592
Total	**11,643**	**17,919**	**11,678**	**17,772**

Disclosures by products and services

In CHF million	2016	2015
Mobile access lines single subscriptions	2,695	2,804
Fixed access lines single subscriptions	3,272	3,439
Bundled contracts	2,499	2,248
Other	3,177	3,187
Total net revenue	**11,643**	**11,678**

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 customer accounted for more than 10% of segment revenue in 2015 and 2016.

7 Net revenue

In CHF million	2016	2015
Net revenue from services	10,914	10,887
Net revenue from sale of merchandise	722	788
Net revenue from the right of use of intangible assets	7	3
Total net revenue	**11,643**	**11,678**

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

8 Goods and services purchased

In CHF million	2016	2015
Raw materials and supplies	6	19
Services purchased	471	484
Customer premises equipment and merchandise	1,135	1,124
National traffic fees	169	174
International traffic fees	282	263
Traffic fees of foreign subsidiaries	260	278
Total goods and services purchased	**2,323**	**2,342**

9 Personnel expense

In CHF million	2016	2015
Salary and wage costs	2,268	2,295
Social security expenses	253	257
Expense of defined benefit plans. See Note 10.	338	320
Expense of defined contribution plans. See Note 10.	9	9
Expense of share-based payments. See Note 11.	3	2
Salary and wage costs of the employment company Worklink	3	4
Termination benefits	20	67
Other personnel expense	53	65
Total personnel expense	**2,947**	**3,019**

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. For further information, see Note 28.

10 Post-employment benefits

Defined benefit plans

Swisscom maintains several pension plans for employees in Switzerland and Italy. Expenses of defined benefit plans totalled CHF 363 million in 2016 (prior year: CHF 346 million). Of this amount, CHF 338 million (prior year: CHF 320 million) was recorded as personnel expense and CHF 25 million (prior year: CHF 26 million) as finance expense.

comPlan

The majority of Swisscom's employees in Switzerland are insured for the risks of old age, death and disability by the independent pension plan, comPlan. The comPlan pension plan has the legal form of a foundation. The organisation, benefits and the system of funding are set forth in Pension Fund Rules. The supreme governing body of comPlan is the Foundation Council. The overall management of the pension plan and responsibility for its financial stability is incumbent on the Foundation Council. The Council is constituted by an equal number of representatives of the employees and the employer. The Pension Fund Rules, together with the relevant laws, ordinances and directives of the Federal Council concerning occupational pension plans, in particular the provisions contained therein concerning funding and measures to eliminate funding deficits, form the formal regulatory framework of the pension plan which is binding for financial-statement reporting and the actuarial assumptions.
The level of benefits payable by comPlan exceed the legally prescribed minimum. The standard retirement age is 65. Employees qualify for early retirement at the earliest on their 58th birthday, whereby the rate of conversion is reduced in line with the longer expected duration of pension payments. Furthermore, employees may choose to take their entire pension or part thereof in the form of a capital payment. The amount of the pension paid results from the conversion rate which is applied to the accumulated savings of the retirees. For individuals retiring at the age of 65, the rate of conversion is currently 6.11%. The accumulated savings result from employee and employer contributions which are paid into the individual savings account of each insured person as well as the interest accruing on the accumulated savings. The interest rate to be applied to the accumulated pension savings is set annually by the Foundation Council. The plan is funded through employer and employee contributions which vary with the salary level as well as the return on the plan assets. The level of recurring contributions provided for under the pension-fund rules is grad-

uated according to age groups and for the employer amount to 8.35% to 16.35% and those of the employees to 5.5% to 9.5% of the ensured salary. In case of retirement before the ordinary retirement age, the employer finances additionally a bridging pension up until the ordinary retirement age with an overall maximum cost of CHF 80,100 per employee. The amount of disability pensions in relation to the salary is the same for all insured employees, irrespective of the number of service years.

In the event of a foreseeable funding deficit, computed in accordance with local financial-statement accounting principles, the Foundation Council lays down appropriate measures to eliminate the funding deficit which will lead to the restoration of a financial equilibrium within a reasonable time-frame. The measures may consist of the levying of restructuring contributions, a lower level of interest accruing or zero interest, the curtailment of insured benefits or in a combination of such measures. As a general rule, the measures must lead to the elimination of the funding deficit within a timeframe of 5 to 7 years. Should the current funding be insufficient from an actuarial perspective and there exists, as a result, a structural financing shortfall, the top priority is to eliminate this shortfall by adjusting the benefits or recurring contributions. Insofar as other measures do not achieve the goal, comPlan can levy contributions to eliminate a funding deficit from the employer and employees (restructuring contributions) so long as a funding deficit persists. The employer's restructuring contributions must, at a minimum, be equal to the sum of employee contributions. Under the formal regulatory framework of the pension plan, the employer has no legal obligation to pay additional contributions to eliminate more than 50% of a funding deficit or of a structural funding shortfall. In the case of Swisscom, a de-facto obligation over and above the legal minimum obligation exists deriving from customary company-specific practice. In the case of the actuarial valuation, the legal and de-facto obligations are regarded as the upper limit of the employer's share of the costs of future benefits within the meaning of IAS 19.87(c).

As a consequence of the low interest-rate level and increasing life expectancy, the Foundation Council of comPlan decided upon various measures to ensure the financial equilibrium between the pension-fund liabilities and the funding of benefits and communicated this decision in October 2016. The core elements of the measures comprise a lowering of the conversion rate from 6.11% to 5.34% in monthly steps beginning in July 2017 through to September 2020 and an increase in recurring savings contributions of the employees and employer. The recurring contributions provided under the pension-fund rules are raised from 10.05% to 16.65% for the employer and for the employees, from 6.6% to 10.6% of the insured salaries. Moreover, and in order to cushion the impact of future pension reductions, special contributions will be credited to the individual savings accounts of insured employees born in 1969 and later during a maximum period of 5 years. Swisscom bears a share totalling CHF 50 million of the costs of the special contributions through an extraordinary payment in 2017. The remaining costs of an anticipated amount of approx. CHF 250 million will be financed by using freely available funds of comPlan. As a result of the special contributions, the extent of pension reductions for the beneficiaries will be limited to 6%. The various measures give rise to a past-service cost of CHF 3 million which was recognised in the fourth quarter of 2016 as part of pension-fund expense in the income statement. This is based on a revaluation of the net pension-fund obligations using the market values of the plan assets which were valid as of the date of the pension-fund amendment and the current actuarial assumptions which take into account the risk-sharing features. The past service cost equates to the difference resulting from the valuation based upon the previous pension-fund benefits and contributions and the valuation based upon the benefits and contributions provided for under the amended pension-fund rules. Ignoring the risk-sharing features, a negative past-service cost of CHF 546 million would have resulted from the plan amendment.

In accordance with the Swiss accounting standards applicable to the pension fund (Swiss GAAP ARR), the surplus amounts to CHF 0.1 billion, corresponding to a coverage ratio of around 101% (prior year: 108%). The main reasons for the difference compared with IFRS are the application of differing actuarial assumptions with regard to the discount rate, life expectancy or risk sharing, as well as a different actuarial measurement method. The Investment Commission is the central management, coordination and monitoring body for the management of the pension plan assets. The pension plan assets are administered using mandated, independent financial service providers. Monitoring is supported by an external investment controller. The Foundation Council determines the investment strategy and tactical bandwidths within the framework of the legal provisions. Within its terms of reference, the Investment Commission may undertake the asset allocation.

Other pension plans

In addition to the plans of various subsidiary companies in Switzerland which did not join comPlan, other pension plans include the pension plan for Fastweb employees. Employees of the Italian subsidiary Fastweb have acquired entitlements to future pension benefits up to the end of 2006. These benefits are recorded in the balance sheet as defined-benefit obligations.

Pension cost

Defined-benefit pension plans

In CHF million	comPlan	Other plans	2016	comPlan	Other plans	2015
Current service cost	322	8	330	305	13	318
Plan amendments	3	–	3	–	(3)	(3)
Administration expense	4	1	5	4	1	5
Total recognised in personnel expense	**329**	**9**	**338**	**309**	**11**	**320**
Interest expense on net defined benefit obligations	25	–	25	25	1	26
Total recognised in financial expense	**25**	**–**	**25**	**25**	**1**	**26**
Total expense of defined benefit plans recognised in income statement	**354**	**9**	**363**	**334**	**12**	**346**

In addition, other comprehensive income includes an actuarial gain of CHF 1,162 million (prior year: loss of CHF 393 million) which may be analysed as follows:

In CHF million	comPlan	Other plans	2016	comPlan	Other plans	2015
Actuarial gains and losses from:						
Change of the demographical assumptions	102	–	102	(3)	–	(3)
Change of the financial assumptions	(991)	2	(989)	171	2	173
Experience adjustments to defined benefit obligations	36	(3)	33	85	(8)	77
Return on plan assets excluding the part recognised in financial result	(308)	–	(308)	146	–	146
Expense (income) of defined benefit plans recognised in other comprehensive income	**(1,161)**	**(1)**	**(1,162)**	**399**	**(6)**	**393**

Gains aggregating CHF 991 million arising from the amendment to the financial assumptions of comPlan comprise the impact of the recognition of risk-sharing features for the first time in the financial assumptions totalling CHF 856 million.

Defined-contribution pension plans

Expenses in 2016 for defined-contribution plans aggregated CHF 9 million (prior year: CHF 9 million).

Status of pension plans

In CHF million	comPlan	Other plans	2016	comPlan	Other plans	2015
Defined benefit obligations						
Balance at 1 January	**12,183**	**117**	**12,300**	**11,406**	**294**	**11,700**
Current service cost	322	8	330	305	13	318
Interest cost on defined benefit obligations	113	1	114	127	3	130
Employee contributions	178	2	180	169	6	175
Benefits paid	(325)	(9)	(334)	(288)	(19)	(307)
Actuarial losses (gains)	(853)	(1)	(854)	253	(6)	247
Additions from business combinations	–	1	1	–	89	89
Disposals from sales of subsidiaries	–	–	–	(37)	(1)	(38)
Plan amendments	3	–	3	–	(12)	(12)
Foreign currency translation adjustments	–	–	–	–	(2)	(2)
Transfer of pension plans to comPlan	14	(14)	–	248	(248)	–
Balance at 31 December	**11,635**	**105**	**11,740**	**12,183**	**117**	**12,300**
Plan assets						
Balance at 1 January	**9,307**	**74**	**9,381**	**9,026**	**242**	**9,268**
Interest income on plan assets	88	1	89	102	2	104
Employer contributions	268	3	271	256	9	265
Employee contributions	178	2	180	169	6	175
Benefits paid	(325)	(9)	(334)	(288)	(19)	(307)
Return (expense) on plan assets excluding the part recognised in financial result	308	–	308	(146)	–	(146)
Additions from business combinations	–	–	–	–	59	59
Disposals from sales of subsidiaries	–	–	–	(23)	–	(23)
Plan amendments	–	–	–	–	(9)	(9)
Administration expense	(4)	(1)	(5)	(4)	(1)	(5)
Transfer of pension plans to comPlan	6	(6)	–	215	(215)	–
Balance at 31 December	**9,826**	**64**	**9,890**	**9,307**	**74**	**9,381**
Net defined benefit obligations						
Net defined benefit obligations recognised at 31 December	**1,809**	**41**	**1,850**	**2,876**	**43**	**2,919**

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

In CHF million	comPlan	Other plans	2016	comPlan	Other plans	2015
Balance at 1 January	**2,876**	**43**	**2,919**	**2,380**	**52**	**2,432**
Pension cost, net	354	9	363	334	12	346
Employer contributions and benefits paid	(268)	(3)	(271)	(256)	(9)	(265)
Disposals from sales of subsidiaries	–	–	–	(14)	(1)	(15)
Additions from business combinations	–	1	1	–	30	30
Expense (income) of defined benefit plans recognised in other comprehensive income	(1,161)	(1)	(1,162)	399	(6)	393
Foreign currency translation adjustments	–	–	–	–	(2)	(2)
Transfer of pension plans to comPlan	8	(8)	–	33	(33)	–
Balance at 31 December	**1,809**	**41**	**1,850**	**2,876**	**43**	**2,919**

The weighted average duration of the net present value of the recorded pension obligations is 18 years, which is unchanged from that of the prior period.

Breakdown of pension plan assets

comPlan

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

Category	Investment strategy	31.12.2016 Quoted	31.12.2016 Not quoted	31.12.2016 Total	31.12.2015 Quoted	31.12.2015 Not quoted	31.12.2015 Total
Government bonds Switzerland	8.0%	2.3%	4.5%	6.8%	2.2%	7.4%	9.6%
Corporate bonds Switzerland	6.0%	6.0%	0.0%	6.0%	7.8%	0.0%	7.8%
Government bonds developed markets, World	10.0%	8.4%	0.0%	8.4%	10.1%	0.0%	10.1%
Corporate bonds developed markets, World	9.0%	9.2%	0.0%	9.2%	9.0%	0.0%	9.0%
Government bonds emerging markets, World	7.0%	7.2%	0.0%	7.2%	6.5%	0.0%	6.5%
Private debt	6.0%	0.0%	6.2%	6.2%	0.0%	4.9%	4.9%
Third-party debt instruments	**46.0%**	**33.1%**	**10.7%**	**43.8%**	**35.6%**	**12.3%**	**47.9%**
Equity shares Switzerland	5.0%	5.2%	0.0%	5.2%	4.9%	0.0%	4.9%
Equity shares developed markets, World	12.0%	13.3%	0.0%	13.3%	11.0%	0.0%	11.0%
Equity shares emerging markets, World	8.0%	8.4%	0.0%	8.4%	7.4%	0.0%	7.4%
Equity instruments	**25.0%**	**26.9%**	**0.0%**	**26.9%**	**23.3%**	**0.0%**	**23.3%**
Real estate Switzerland	11.0%	7.5%	4.6%	12.1%	8.2%	3.6%	11.8%
Real estate World	6.0%	3.7%	1.2%	4.9%	3.7%	0.0%	3.7%
Real estate	**17.0%**	**11.2%**	**5.8%**	**17.0%**	**11.9%**	**3.6%**	**15.5%**
Commodities	4.0%	1.9%	2.0%	3.9%	1.7%	1.9%	3.6%
Private markets	7.0%	0.0%	7.0%	7.0%	0.0%	6.1%	6.1%
Cash and cash equivalents and other investments	1.0%	0.0%	1.4%	1.4%	0.0%	3.6%	3.6%
Cash and cash equivalents and alternative investments	**12.0%**	**1.9%**	**10.4%**	**12.3%**	**1.7%**	**11.6%**	**13.3%**
Total plan assets	**100.0%**	**73.1%**	**26.9%**	**100.0%**	**72.5%**	**27.5%**	**100.0%**

The investment strategy pursues the goal of achieving the highest possible return on assets within the framework of its risk tolerance and thus of generating income on a long-term basis in order to meet all financial obligations. This is achieved through a broad diversification of risks over various investment categories, markets, currencies and industry segments in both developed and emerging markets. The interest rate duration of interest-bearing assets is 5.52 years (prior year: 5.77 years) and the average rating of these assets is A–. Within the overall portfolio, all foreign currency positions are hedged against the Swiss franc following a currency strategy to the extent necessary to meet a pre-determined ratio of 94% (CHF or CHF-hedged). The unquoted and therefore rather illiquid investments make up 26.8% of total plan assets. Following this investment strategy, comPlan anticipates a target value for the value fluctuation reserve of 17.3% (basis: 2017 financial year).

Other pension plans

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

Additional information on plan assets

As of 31 December 2016, plan assets include Swisscom Ltd shares and bonds with a fair value of CHF 5 million (prior year: CHF 5 million). The effective return on plan assets in 2016 amounted to CHF 397 million (prior year: CHF –42 million).
In 2017, Swisscom expects to make payments to the pension funds for ordinary employee contributions totalling CHF 262 million (excluding payments for early retirements and changes to the pension plan).

Actuarial assumptions

Assumptions	2016 comPlan	2016 Other plans	2015 comPlan	2015 Other plans
Discount rate at 31 December	0.64%	0.91%	0.94%	1.46%
Expected rate of salary increases	1.08%	0.74%	1.75%	1.64%
Expected rate of pension increases	–	–	–	–
Interest on old age savings accounts	0.64%	1.03%	0.94%	1.34%
Share of employee contribution to funding shortfall	40%	–	–	–
Life expectancy at age of 65 – men (number of years)	22.26	22.26	21.49	21.49
Life expectancy at age of 65 – women (number of years)	24.32	24.32	23.96	23.96

The discount rate is based upon CHF-denominated corporate bonds with an AA rating issued by domestic and foreign issuers and listed on the Swiss Exchange. Future growth factors for salaries correspond to a long-term historical average value which is specific to Swisscom. The level of growth in pensions reflects comPlan's lack of potential. Interest accruing on the retirement savings equates to the discount rate. As regards the life-expectancy assumptions, Swisscom applies the BVG 2010 generation tables until the end of 2015 and for 2016 onwards, the BVG 2015 generation tables.

For the actuarial computations as of 31 December 2016 and the effects of the pension-fund amendments decided upon in the fourth quarter of 2016, the risk-sharing effects contained in the formal regulatory framework were taken into account in the financial assumptions in two steps. With the implicit assumption of a future return on plan assets equal to the discount rate, the recurrent contributions provided for under the pension-fund rules are insufficient for the correct current funding of the benefits provided for under the pension-fund rules of comPlan. There results a structural funding shortfall. For the actuarial computations, it is assumed, as a first step, that the Foundation Council will decide upon measures to eliminate the funding gap in accordance with the formal regulatory framework. As a measure, it is assumed that future pensions will be lowered gradually over a period of 10 years by 5.6%. This assumption considers that for the determination of the conversion rate in the extra-mandatory portion, the discount rate of 0.64% used for the actuarial computation will be applied and that the legal conversion rate of 6.8% will be applied in the mandatory area. Even after assuming a curtailment of future benefits, there remains a structural funding shortfall which is arithmetically divided over the employer and employees in a second step. The assumption is that the obligation of the employer legally and de-facto is limited to 60% of the funding shortfall. These assumptions are based upon the legal provisions regarding the elimination of funding deficits as well as the specific behavioural patterns and measures taken both by the employer and the Foundation Council. As a result of the assumption of a curtailment in benefits and a limitation of the share of the funding shortfall, there results a reduction in defined-benefit obligations of CHF 856 million, which was recognised in other comprehensive income as a change in accounting estimate. Of this amount, CHF 145 million relates to the curtailment of benefits assumed in the first step. The effect of limiting the employer's obligations in the second step amounts to CHF 711 million. No risk-sharing features were taken into account for the actuarial computation as of 31 December 2015. The estimation process to determine the financial assumptions taking into account the risk-sharing features contained in the formal regulatory framework was amended in 2016 in order to present a more realistic view of the effective pension-plan expense which will arise for the company. With the current low level of interest rates, failure to take the risk-sharing features into consideration leads to a distorted presentation of the recognised net pension-fund liability and to unrealistically high negative past-service costs in the case of plan amendments.

Sensitivity analysis comPlan

In CHF million	Defined benefit obligations Increase Assumption	Defined benefit obligations Decrease Assumption	Current service cost [1] Increase Assumption	Current service cost [1] Decrease Assumption
Discount rate (change +/–0.5%)	(574)	670	(40)	48
Expected rate of salary increases (change +/–0.5%)	47	(45)	7	(7)
Expected rate of pension increases (change +0.5%; –0.0%)	547	–	30	–
Interest on old age savings accounts (change +/–0.5%)	25	(23)	8	(8)
Share of employee contribution to funding shortfall (change +/–10%)	178	(178)	–	–
Life expectancy at age of 65 (change +/–0.5 year)	128	(129)	5	(5)

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

The sensitivity analysis takes into consideration the movement in pension-fund obligations as well as current-service costs in adjusting the actuarial assumptions by half a percentage point and half a year, respectively. In the process, only one of the assumptions is adjusted each time, the other parameters remain unchanged. In the sensitivity analysis, in view of a negative movement in pension increases, no change was made as the reduction in pension benefits is not possible.

11 Share-based payments

Management Incentive Plan

The Management Incentive Plan is an equity-share plan for members of the Group Executive Board and Board of Directors as well as for other members of management. The members of the Board of Directors are paid a portion of their emoluments in the form of Swisscom shares. Members of the Group Executive Board receive 25% of their variable performance-related salary component in the form of Swisscom shares. Group Executive Board members may increase this share up to a maximum of 50% at their discretion. 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. The tax value per share amounts to CHF 439 (prior year: CHF 473). The shares are subject to a retention period of three years from the grant date. The shares are vested immediately upon allocation.
In 2016, 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 2016	Number of allocated shares	Market price in CHF	Expense in CHF million
Members of the Board of Directors	1,308	523	0.7
Members of the Group Executive Board [1]	1,841	523	1.0
Other Management members	3,337	515	1.7
Total 2016	**6,486**	**523**	**3.4**

[1] Allocation for the financial year 2015.

In 2015, 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 2015	Number of allocated shares	Market price in CHF	Expense in CHF million
Members of the Board of Directors	1,302	563	0.7
Members of the Group Executive Board [1]	1,268	563	0.7
Other Management members	1,309	563	0.7
Total 2015	**3,879**	**563**	**2.1**

[1] Allocation for the financial year 2014.

12 Other operating expense

In CHF million	2016	2015
Rental expense	361	345
Maintenance expense	256	285
Loss on disposal of property, plant and equipment	9	10
Energy costs	114	104
Information technology cost	271	261
Advertising and selling expenses	216	227
Dealer commissions	304	300
Consultancy expenses and freelance workforce	191	200
Allowances for receivables	94	81
Administration expense	122	143
Miscellaneous operating expenses	610	741
Total other operating expense	**2,548**	**2,697**

Other operating expense includes provisions established and released relating to regulatory and competition-law-related proceedings. See Note 28.

13 Capitalised costs of self-constructed assets and other income

In CHF million	2016	2015
Capitalised costs of self-constructed assets	347	337
Gain on sale of property, plant and equipment	20	27
Income from employment company Worklink (personnel hire)	6	5
Miscellaneous income	95	109
Total capitalised costs of self-constructed assets and other income	**468**	**478**

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

14 Financial income and financial expense

In CHF million	2016	2015
Interest income on financial assets	13	10
Capitalised borrowing costs	6	8
Gain on sale of subsidiaries. See Note 5.	–	19
Gain on sale of associates. See Note 25.	42	–
Foreign exchange gains	7	–
Other financial income	12	6
Total financial income	**80**	**43**
Interest expense on financial liabilities	(168)	(199)
Change in fair value of interest rate swaps	(10)	(13)
Interest expense on defined benefit obligations. See Note 10.	(25)	(26)
Foreign exchange losses	–	(40)
Present-value adjustments on provisions	(11)	(13)
Other financial expense	(21)	(24)
Total financial expense	**(235)**	**(315)**
Financial income and financial expense, net	**(155)**	**(272)**

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

In CHF million	2016	2015
Interest income on other financial assets	13	10
Total interest income on financial assets	**13**	**10**
Interest expense on bank loans, debenture bonds and private placements	(134)	(162)
Interest expense on finance lease liabilities	(29)	(32)
Interest expense on other financial liabilities	(5)	(5)
Total interest expense on financial liabilities	**(168)**	**(199)**
Total net interest expense on financial assets and financial liabilities	**(155)**	**(189)**

15 Income taxes

Income tax expense

In CHF million	2016	2015
Current income tax expense	305	296
Adjustments recognised for current tax of prior periods	–	(1)
Deferred tax expense	81	106
Total income tax expense recognised in income statement	**386**	**401**
Thereof Switzerland	339	387
Thereof foreign countries	47	14

In addition, the other comprehensive income includes negative current and deferred income taxes of CHF 322 million (prior year: CHF 133 million) which may be analysed as follows:

In CHF million	2016	2015
Foreign currency translation adjustments of foreign subsidiaries	(83)	51
Actuarial gains and losses from defined benefit pension plans	(238)	80
Change in fair value of cash flow hedges	(1)	(1)
Gains and losses from cash flow hedges transferred to income statement	–	3
Total income tax expense recognised in other comprehensive income	**(322)**	**133**

In the past, income taxes on foreign-currency related impairment losses on Group subsidiaries were recognised under other comprehensive income. As a result of restructuring in 2016, these impairment losses can no longer be asserted for tax purposes. The resultant effect on income taxes in other comprehensive income in 2016 amounts to CHF 79 million.

Analysis of income taxes

The applicable income tax rate which serves to prepare the following analysis of income tax expense is the weighted average income tax rate calculated on the basis of the Group's operating subsidiaries in Switzerland. The applicable income tax rate remains unchanged from the prior year at 20.9%.

In CHF million	2016	2015
Income before income taxes in Switzerland	1,817	1,692
Income before income taxes foreign countries	173	71
Income before income taxes	**1,990**	**1,763**
Applicable income tax rate	20.9%	20.9%
Income tax expense at the applicable income tax rate	**416**	**368**
Reconciliation to reported income tax expense		
Effect of share of results of associates	1	(5)
Effect of tax rate changes on deferred taxes	(2)	19
Effect of use of different income tax rates in Switzerland	(8)	2
Effect of use of different income tax rates in foreign countries	5	(7)
Effect of non-recognition of tax loss carry-forwards	6	7
Effect of recognition and offset of tax loss carry-forwards not recognised in prior years	(12)	–
Effect of exclusively tax-deductible expenses and income	(26)	(23)
Effect of non-taxable income and non-deductible expenses	6	36
Effect of income tax of prior periods	–	4
Total income tax expense	**386**	**401**
Effective income tax rate	19.4%	22.7%

Income tax assets and liabilities

Current income tax assets and liabilities

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

In CHF million	2016	2015
Current income tax liabilities at 1 January, net	**125**	**155**
Recognised in income statement	305	295
Recognised in other comprehensive income	5	23
Income taxes paid in Switzerland	(324)	(345)
Income taxes paid in foreign countries	(4)	(5)
Additions from business combinations	–	2
Current income tax liabilities at 31 December, net	**107**	**125**
Thereof current income tax assets	(18)	(21)
Thereof current income tax liabilities	125	146
Thereof Switzerland	105	129
Thereof foreign countries	2	(4)

Deferred tax assets and liabilities

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

	31.12.2016			31.12.2015		
In CHF million	Assets	Liabilities	Net amount	Assets	Liabilities	Net amount
Property, plant and equipment	36	(568)	(532)	41	(523)	(482)
Intangible assets	–	(326)	(326)	–	(335)	(335)
Provisions	78	(76)	2	86	(59)	27
Defined benefit obligations	359	–	359	582	–	582
Tax loss carry-forwards	118	–	118	171	–	171
Other	138	(99)	39	192	(91)	101
Total tax assets (tax liabilities)	**729**	**(1,069)**	**(340)**	**1,072**	**(1,008)**	**64**
Thereof deferred tax assets			281			354
Thereof deferred tax liabilities			(621)			(290)
Thereof Switzerland			(435)			(121)
Thereof foreign countries			95			185

In 2016, deferred tax assets and liabilities have changed as follows:

In CHF million	Balance at 31.12.2015	Recognised in income statement	Recognised in other compre-hensive income	Change in scope of consoli-dation	Foreign currency translation adjustments	Balance at 31.12.2016
Property, plant and equipment	(482)	(50)	–	–	–	(532)
Intangible assets	(335)	13	–	(5)	1	(326)
Provisions	27	(25)	–	–	–	2
Defined benefit obligations	582	15	(238)	–	–	359
Tax loss carry-forwards	171	(52)	–	–	(1)	118
Other	101	18	(79)	–	(1)	39
Total	**64**	**(81)**	**(317)**	**(5)**	**(1)**	**(340)**

In 2015, deferred tax assets and liabilities have changed as follows:

In CHF million	Balance at 31.12.2014	Recognised in income statement	Recognised in other compre-hensive income	Change in scope of consoli-dation	Foreign currency translation adjustments	Balance at 31.12.2015
Property, plant and equipment	(420)	(59)	–	–	(3)	(482)
Intangible assets	(341)	17	–	(20)	9	(335)
Provisions	75	(45)	–	(2)	(1)	27
Defined benefit obligations	508	(9)	80	4	(1)	582
Tax loss carry-forwards	218	(31)	–	3	(19)	171
Other	6	21	76	1	(3)	101
Total	**46**	**(106)**	**156**	**(14)**	**(18)**	**64**

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 2016, various subsidiaries recognised deferred tax assets on tax loss carry-forwards and other temporary differences totalling CHF 729 million (prior year: CHF 1,072 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 10 million (prior year: CHF 202 million) were recognised by subsidiaries reporting a loss in 2015 or 2016. 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 for which no deferred tax assets were recognised, expire as follows:

In CHF million	31.12.2016	31.12.2015
Expiring within 1 year	–	–
Expiring within 1 to 2 years	–	1
Expiring within 2 to 3 years	4	8
Expiring within 3 to 4 years	13	12
Expiring within 4 to 5 years	13	15
Expiring within 5 to 6 years	27	22
Expiring within 6 to 7 years	29	26
No expiration	27	32
Total unrecognised tax loss carry-forwards	**113**	**116**
Thereof Switzerland	72	84
Thereof foreign countries	41	32

No deferred tax liabilities (prior year: CHF 6 million) were recognised on the undistributed earnings of subsidiaries as of 31 December 2016. Temporary differences of subsidiaries and associates, on which no deferred income taxes were recognised as of 31 December 2016, amounted to CHF 1,390 million (prior year: CHF 931 million).

16 Earnings per share

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

In CHF million, except where indicated	2016	2015
Share of net income attributable to equity holders of Swisscom Ltd	1,604	1,361
Weighted average number of shares outstanding (number)	51,800,352	51,801,558
Basic and diluted earnings per share (in CHF)	**30.97**	**26.27**

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	31.12.2016	31.12.2015
Cash and sight deposits	329	324
Total cash and cash equivalents	**329**	**324**

As in the prior year, Swisscom had no current term deposits outstanding in 2016.

18 Trade and other receivables

In CHF million	31.12.2016	31.12.2015
Billed revenue	2,401	2,334
Accrued revenue	207	246
Allowances	(183)	(184)
Total trade receivables, net	**2,425**	**2,396**
Accruals from international roaming traffic	45	89
Receivables from debt-collection activities	9	9
Receivables from construction contracts	29	25
Other receivables	31	21
Allowances	(7)	(5)
Total other receivables, net	**107**	**139**
Total trade and other receivables	**2,532**	**2,535**

Trade receivables are the object of active credit risk management which focuses on the assessment of country risks, on-going review of credit risks and the monitoring of the receivables. Credit-risk concentrations in Swisscom are minimised due to the large number of customers. Risks are monitored by country. The adequacy of valuation allowances is assessed on the basis of numerous factors. Amongst these are ageing analyses of receivables, the current solvency of customers and experience from the past.
The geographical distribution of trade receivables is as follows:

In CHF million	31.12.2016	31.12.2015
Switzerland	1,833	1,836
Italy	744	715
Other countries	31	29
Total billed and accrued revenue	**2,608**	**2,580**
Switzerland	(65)	(58)
Italy	(116)	(125)
Other countries	(2)	(1)
Total allowance for receivables	**(183)**	**(184)**
Total trade receivables, net	**2,425**	**2,396**

Analysis of maturity and allowances

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

In CHF million	31.12.2016 Gross amount	31.12.2016 Allowance	31.12.2015 Gross amount	31.12.2015 Allowance
Not due	1,881	(7)	1,855	(7)
Past due up to 3 months	366	(3)	364	(5)
Past due 4 to 6 months	92	(7)	73	(5)
Past due 7 to 12 months	101	(25)	94	(28)
Past due over 1 year	168	(141)	194	(139)
Total	**2,608**	**(183)**	**2,580**	**(184)**

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

In CHF million	Trade receivables	Other receivables
Balance at 31 December 2014	**195**	**15**
Additions to allowances	84	1
Write-off of irrecoverable receivables subject to allowance	(78)	–
Release of unused allowances	(1)	(1)
Additions from business combinations	1	–
Disposals from sales of subsidiaries	(3)	(10)
Foreign currency translation adjustments	(14)	–
Balance at 31 December 2015	**184**	**5**
Additions to allowances	95	3
Write-off of irrecoverable receivables subject to allowance	(92)	(1)
Release of unused allowances	(4)	–
Balance at 31 December 2016	**183**	**7**

Construction contracts

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

In CHF million	2016	2015
Contract costs of current projects	79	88
Recognised gains less losses	(17)	(10)
Contract costs including share of gains and losses, net	**62**	**78**
Less progress billings	(47)	(62)
Total net receivables from construction contracts	**15**	**16**
Thereof receivables from construction contracts	29	25
Thereof liabilities from construction contracts	(14)	(9)
Advance payments received	36	52

In 2016, construction contracts generated net revenues of CHF 252 million (prior year: CHF 262 million).

19 Other financial assets

In CHF million	Loans and receivables	Available-for-sale	Valued at fair value	Total
Balance at 31 December 2014	**205**	**50**	**11**	**266**
Additions	21	17	61	99
Disposals	(33)	(19)	–	(52)
Additions from business combinations	4	–	–	4
Change in fair value	–	4	3	7
Foreign currency translation adjustments	(1)	–	–	(1)
Balance at 31 December 2015	**196**	**52**	**75**	**323**
Additions	127	10	61	198
Disposals	(24)	(8)	(61)	(93)
Change in fair value	–	7	27	34
Impairment losses	(29)	–	–	(29)
Foreign currency translation adjustments	4	–	2	6
Balance at 31 December 2016	**274**	**61**	**104**	**439**
Thereof other current financial assets	103	2	72	177
Thereof other non-current financial assets	171	59	32	262

Loans and receivables

As of 31 December 2016, term deposits totalled CHF 93 million (prior year: CHF 8 million). Financial assets as of 31 December 2016 in an amount of CHF 152 million (prior year: CHF 149 million) were not freely available. These assets serve as security for bank loans. As of 31 December 2016, loans to associates of CHF 6 million (prior year: CHF 4 million) were recorded which are regarded as net investments in associates. In 2016, impairment losses in an amount of CHF 29 million were recognised on these loans. See Note 25.

Available-for-sale financial assets

Available-for-sale financial assets primarily include financial investments in equity instruments. Shares not quoted on stock exchanges are recorded at cost if their fair value cannot be reliably determined. As of 31 December 2016, the carrying amount of investments in shares recorded at cost totalled CHF 41 million (prior year: CHF 37 million).

Financial assets measured at fair value

Financial assets measured at fair value through profit and loss include quoted debt securities with a carrying amount of CHF 63 million (prior year: CHF 61 million) and a remaining term of less than one year. These financial assets were not freely available since the assets serve as collateral to secure off-balance liabilities arising from cross-border lease agreements. See Note 33. As at 31 December 2016, derivative financial instruments with a positive market value of CHF 41 million were also recognised (prior year: CHF 14 million). Derivative financial instruments include forward foreign currency transactions, foreign currency swaps and interest rate swaps. See Note 33.

20 Inventories

In CHF million	31.12.2016	31.12.2015
Raw material and supplies	10	5
Customer premises equipment and merchandise	148	170
Advance payments made	2	3
Finished and semi-finished goods	–	–
Total inventories, gross	**160**	**178**
Allowances on inventories	(6)	(4)
Total inventories, net	**154**	**174**

In 2016, inventory-related costs amounting to CHF 1,141 million (prior year: CHF 1,143 million) were recorded under the cost of goods and services purchased.

21 Other non-financial assets

In CHF million	31.12.2016	31.12.2015
Prepaid expenses	236	159
Value-added taxes receivable	4	6
Advance payments made	51	47
Other assets	34	26
Total other current non-financial assets	**325**	**238**
Prepaid expenses	27	10
Contract fulfillment costs	67	70
Total other non-current non-financial assets	**94**	**80**

22 Non-current assets held for sale

On 31 December 2015 and 2016, there were no non-current assets held for sale. As of 31 December 2014, real-estate properties and investments in associates with a carrying amount of CHF 109 million were recognised which were sold in 2015 at carrying value.

23 Property, plant and equipment

In CHF million	Land, buildings and leasehold improvements	Technical installations	Other assets	Advances made and assets under construction	Total
Acquisition costs					
Balance at 31 December 2014	**2,785**	**26,248**	**3,621**	**590**	**33,244**
Additions	4	1,495	252	146	1,897
Disposals	(110)	(1,266)	(144)	–	(1,520)
Additions from business combinations	–	–	1	–	1
Disposals from sales of subsidiaries	–	(35)	(4)	–	(39)
Adjustment to dismantlement and restoration costs	–	(51)	(4)	–	(55)
Other reclassifications	92	124	116	(372)	(40)
Foreign currency translation adjustments	(9)	(386)	–	(2)	(397)
Balance at 31 December 2015	**2,762**	**26,129**	**3,838**	**362**	**33,091**
Additions	7	1,423	242	197	1,869
Disposals	(30)	(550)	(141)	(1)	(722)
Adjustment to dismantlement and restoration costs	–	(47)	(2)	–	(49)
Other reclassifications	5	108	82	(204)	(9)
Foreign currency translation adjustments	(1)	(40)	–	–	(41)
Balance at 31 December 2016	**2,743**	**27,023**	**4,019**	**354**	**34,139**
Accumulated depreciation and impairment losses					
Balance at 31 December 2014	**2,019**	**19,153**	**2,352**	**–**	**23,524**
Depreciation	38	1,061	310	–	1,409
Disposals	(59)	(1,266)	(136)	–	(1,461)
Disposals from sales of subsidiaries	–	(34)	(3)	–	(37)
Other reclassifications	–	(7)	–	–	(7)
Foreign currency translation adjustments	(2)	(191)	1	–	(192)
Balance at 31 December 2015	**1,996**	**18,716**	**2,524**	**–**	**23,236**
Depreciation	37	1,103	308	–	1,448
Disposals	(13)	(550)	(136)	–	(699)
Other reclassifications	(1)	(1)	–	–	(2)
Foreign currency translation adjustments	–	(21)	–	–	(21)
Balance at 31 December 2016	**2,019**	**19,247**	**2,696**	**–**	**23,962**
Net carrying amount					
Net carrying amount at 31 December 2016	**724**	**7,776**	**1,323**	**354**	**10,177**
Net carrying amount at 31 December 2015	**766**	**7,413**	**1,314**	**362**	**9,855**
Net carrying amount at 31 December 2014	**766**	**7,095**	**1,269**	**590**	**9,720**

In 2016, borrowing costs amounting to CHF 6 million were capitalised (prior year: CHF 8 million). The average interest rate used for the capitalisation of borrowing costs was 1.7% (prior year: 1.9%). As of 31 December 2016, the net carrying amount of buildings acquired under finance leases amounted to CHF 382 million (prior year: CHF 406 million). See Note 28 for further information on the adjustments to dismantling and restoration costs.

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 2014	**6,540**	**1,307**	**1,980**	**1,133**	**272**	**986**	**12,218**
Additions	–	176	166	–	–	205	547
Disposals	–	(75)	(53)	–	–	(35)	(163)
Reclassifications	–	95	21	–	–	(76)	40
Additions from business combinations	255	–	32	50	4	16	357
Disposals from sales of subsidiaries	(13)	(18)	(2)	(1)	–	(15)	(49)
Foreign currency translation adjustments	(217)	(14)	(109)	(100)	(26)	(15)	(481)
Balance at 31 December 2015	**6,565**	**1,471**	**2,035**	**1,082**	**250**	**1,066**	**12,469**
Additions	–	138	187	–	–	247	572
Disposals	–	(202)	(75)	(12)	–	(54)	(343)
Reclassifications	–	71	31	–	–	(93)	9
Additions from business combinations	–	–	–	22	–	–	22
Foreign currency translation adjustments	(18)	(1)	(12)	(8)	(2)	(1)	(42)
Balance at 31 December 2016	**6,547**	**1,477**	**2,166**	**1,084**	**248**	**1,165**	**12,687**
Accumulated amortisation and impairment losses							
Balance at 31 December 2014	**1,557**	**838**	**1,499**	**905**	**203**	**312**	**5,314**
Amortisation	–	217	228	93	25	111	674
Impairment losses	–	2	–	–	–	1	3
Disposals	–	(75)	(47)	–	–	(34)	(156)
Disposals from sales of subsidiaries	–	(18)	(2)	(1)	–	(14)	(35)
Reclassifications	–	16	(9)	–	–	–	7
Foreign currency translation adjustments	(153)	(10)	(83)	(85)	(20)	(9)	(360)
Balance at 31 December 2015	**1,404**	**970**	**1,586**	**912**	**208**	**367**	**5,447**
Amortisation	–	246	234	69	25	115	689
Impairment losses	–	–	2	–	–	6	8
Disposals	–	(200)	(75)	(12)	–	(48)	(335)
Reclassifications	–	(2)	1	–	–	3	2
Foreign currency translation adjustments	(13)	(1)	(10)	(8)	(2)	(2)	(36)
Balance at 31 December 2016	**1,391**	**1,013**	**1,738**	**961**	**231**	**441**	**5,775**
Net carrying amount							
Net carrying amount at 31 December 2016	**5,156**	**464**	**428**	**123**	**17**	**724**	**6,912**
Net carrying amount at 31 December 2015	**5,161**	**501**	**449**	**170**	**42**	**699**	**7,022**
Net carrying amount at 31 December 2014	**4,983**	**469**	**481**	**228**	**69**	**674**	**6,904**

As of 31 December 2016, other intangible assets included advance payments made and uncompleted development projects of CHF 215 million (prior year: CHF 154 million). Apart from goodwill, there are no intangible assets with indefinite useful lives. As of 31 December 2016, accumulated impairment losses on goodwill of CHF 1,391 million were recognised. Goodwill arising from investments in associates is included as part of the investments in associates.

Goodwill impairment testing

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

In CHF million	31.12.2016	31.12.2015
Residential Customers Swisscom Switzerland	2,620	2,620
Small and Medium-Sized Enterprises Swisscom Switzerland	662	662
Enterprise Customers Swisscom Switzerland	907	907
Fastweb	529	533
Other cash-generating units	438	439
Total goodwill	**5,156**	**5,161**

Goodwill was tested for impairment in the fourth quarter of 2016 after the business planning had been completed. The recoverable amount of a cash-generating unit is determined based on its value in use, using the discounted cash flow (DCF) method. The projected free cash flows are estimated on the basis of the business plans approved by management in general covering a three-year period. A planning horizon of five years is used for the impairment test of Fastweb. For the free cash flows extending beyond the detailed planning period, a terminal value was computed by capitalising the normalised cash flows using an assumed long-term 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:

			2016			2015
Cash-generating unit	WACC pre-tax	WACC post-tax	Long-term growth rate	WACC pre-tax	WACC post-tax	Long-term growth rate
Residential Customers Swisscom Switzerland	6.66%	5.25%	0%	6.57%	5.20%	0%
Small and Medium-Sized Enterprises Swisscom Switzerland	6.66%	5.25%	0%	6.61%	5.20%	0%
Enterprise Customers Swisscom Switzerland	6.64%	5.25%	0%	6.61%	5.20%	0%
Fastweb	9.63%	7.38%	1.0%	10.30%	7.50%	1.0%
Other cash-generating units	7.3–12.2%	6.3–9.5%	0–1.0%	7.1–12.1%	6.3–9.5%	0–1.0%

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

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

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

Fastweb

The impairment test of Fastweb was undertaken in the fourth quarter of 2016. 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 2017 to 2021. This plan takes into consideration historical empirical values and management's expectations regarding the future development of the relevant market. The impairment test took into account the following assumptions:

Assumptions	Description
Average annual growth in revenue during the detailed planning period	In the business plan, an average annual growth in revenue of 6.25% is expected for the detailed planning period up to 2021. In the prior year, an average annual growth in revenue of 4.2% had been expected for the detailed planning period 2016–2020.
Projected EBITDA margin (EBITDA as % of net revenue)	Normalised EBITDA margin in the terminal value amounted to 34% (prior year: 40%).
Projected capital expenditure rate (capex as % of net revenue)	Normalised capital expenditure as a percentage of net revenue in the terminal value came to 20% (prior year: 23%).
Post-tax discount rate	The post-tax discount rate is 7.38% (prior year: 7.50%) and the related pre-tax discount rate is 9.63% (prior year: 10.30%). The discount rate is calculated using the Capital Asset Pricing Model (CAPM). This latter comprises the weighted cost of own equity and of external borrowing costs. The risk-free interest rate on which the discount rate is based on, is derived from ten-year bonds issued by the German government with a zero interest rate, however, a floor interest rate of 3% is applied. 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 perpetual 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 net carrying amount by EUR 710 million (CHF 768 million).
The following changes in material assumptions lead to a situation where the value in use equates to the net carrying amount:

	Assumptions	Sensitivity
Average annual growth rate through 2021 with the same EBITDA margin as in the business plan	6.3%	4.3%
Normalised EBITDA margin	34%	31%
Normalised capital expenditure rate	20%	23%
Post-tax discount rate	7.38%	8.84%
Long-term growth rate	1.0%	–0.8%

25 Investments in associates

In CHF million	2016	2015
Balance at 1 January	**223**	**182**
Additions	11	50
Disposals	(41)	–
Dividends	(17)	(22)
Share of net results	26	23
Share of other comprehensive income	(7)	–
Foreign currency translation adjustments	(2)	(10)
Balance at 31 December	**193**	**223**

The participations which are reflected in the consolidated financial statements of Swisscom using the equity method of accounting are set out in Note 40. Dividend income of CHF 17 million (prior year: CHF 22 million) is attributable mainly to the dividends distributed by Belgacom International Carrier Services. In 2016, an aggregate negative amount of CHF 3 million was recognised as part of the attributable share of results in associates. Included in this amount are impairment losses of CHF 29 million on loans to associates which are regarded as a net investment in associates. See Note 19.

In December 2016, Swisscom disposed of its share in Metroweb S.p.A. for a purchase price of EUR 80 million (CHF 86 million) thus giving rise to a gain on disposal of CHF 41 million which was recognised as other finance income.

Additions in 2015 comprise investments by Swisscom in finnova ltd bankware (banking software), siroop Ltd (online marketplace), Admeira Ltd (previously known as Ringier Publishing AG, advertising marketing) and Managed Mobility AG (fleet management and fleet optimisation).

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

In CHF million	2016	2015
Income statement		
Net revenue	2,453	2,575
Operating expense	(2,371)	(2,418)
Operating income	82	157
Net income	**34**	**104**
Balance sheet at 31 December		
Current assets	1,178	1,073
Non-current assets	202	933
Current liabilities	(899)	(964)
Non-current liabilities	(113)	(429)
Equity	**368**	**613**

26 Financial liabilities

In CHF million	31.12.2016	31.12.2015
Bank loans	208	746
Debenture bonds	645	45
Private placements	251	350
Finance lease liabilities	16	16
Other interest-bearing financial liabilities	1	2
Derivative financial instruments. See Note 33.	1	6
Other non-interest-bearing financial liabilities	3	30
Total current financial liabilities	**1,125**	**1,195**
Bank loans	545	610
Debenture bonds	5,495	5,385
Private placements	487	581
Finance lease liabilities	492	510
Other interest-bearing financial liabilities	33	13
Derivative financial instruments. See Note 33.	62	55
Other non-interest-bearing financial liabilities	257	244
Total non-current financial liabilities	**7,371**	**7,398**
Total financial liabilities	**8,496**	**8,593**

Bank loans and credit limit

In CHF million	Due within	Par value in CHF	Carrying amount 31.12.2016	31.12.2015
Bank loans in CHF variable interest-bearing	2016	130	–	130
Bank loans in EUR variable interest-bearing	2016	542	–	542
Bank loans in CHF variable interest-bearing	2017	70	70	–
Bank loans in EUR variable interest-bearing	2017	64	64	–
Bank loans in EUR variable interest-bearing	2020	258	258	326
Bank loans in EUR fixed interest-bearing	2020	215	219	219
Bank loans in USD fixed interest-bearing	2028	101	142	139
Total bank loans			**753**	**1,356**

During 2015 and 2016, Swisscom took up short-term bank loans in CHF and EUR on a weekly and monthly basis. As of 31 December 2016, there were, as a result, short-term bank loans totalling CHF 70 million and EUR 60 million outstanding (prior year: CHF 130 million and EUR 500 million).
In the prior year, Swisscom had taken up a bank loan of EUR 200 million with a term of until 2020. This interest-bearing EUR-denominated bank loan was transformed into variable-rate CHF interest-bearing financing through a foreign-currency swap and was designated as a fair value hedge for hedge accounting purposes. As of 31 December 2016, no transaction costs were recognised in connection with the bank loans, as in the prior year. The effective interest rate of the CHF denominated bank loans was –0.20%, in EUR –0.16% and in USD 4.62%. A bank loan of EUR 240 million (CHF 258 million) was designated for hedge accounting for net investments in foreign shareholdings. 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 two confirmed lines of credit from banks each amounting to CHF 1,000 million maturing in 2020 and 2022, respectively. As of 31 December 2016, none of these lines of credit had been drawn down, as in the prior year.

Debenture bonds

In CHF million	Maturity years	Par value in CHF	Nominal interest rate	Carrying amount 31.12.2016	31.12.2015
Debenture bond in CHF	2007–2017	600	3.75%	610	610
Debenture bond in CHF	2009–2018	1,425	3.25%	1,434	1,432
Debenture bond in EUR	2013–2020	537	2.00%	535	539
Debenture bond in EUR	2014–2021	537	1.88%	536	540
Debenture bond in CHF	2010–2022	500	2.63%	500	499
Debenture bond in CHF	2015–2023	250	0.25%	253	251
Debenture bond in CHF	2012–2024	500	1.75%	504	504
Debenture bond in EUR	2015–2025	537	1.75%	554	540
Debenture bond in CHF	2014–2026	200	1.50%	202	202
Debenture bond in CHF	2016–2027	200	0.38%	198	–
Debenture bond in CHF	2016–2028	200	0.38%	202	–
Debenture bond in CHF	2014–2029	160	1.50%	161	161
Debenture bond in CHF	2016–2032	300	0.13%	299	–
Debenture bond in CHF	2015–2035	150	1.00%	152	152
Total debenture bonds				**6,140**	**5,430**

In 2016, Swisscom issued three debenture bonds with an aggregate nominal value of CHF 700 million: of this amount, CHF 200 million bears a coupon rate of 0.375% maturing in 2028, CHF 300 million bearing interest of 0.125% maturing in 2032 as well as an issue of CHF 200 with coupon rate of 0.375% maturing in 2027. These debenture bonds issues were taken up to repay outstanding debts. In the prior year, Swisscom took up debenture bonds totalling CHF 400 million. Related to this, interest rate swaps were entered into for a nominal amount of CHF 425 million in order to hedge the interest rate risk on financing received and were designated as fair value hedges for hedge-accounting purposes.
In 2015, Swisscom had taken up a debenture bond totalling EUR 500 million (CHF 542 million) through the intermediary of Lunar Funding V. This interest-bearing financing of EUR 500 million was swapped into variable-rate financing in CHF by means of a foreign-currency swap and designated as a fair value hedge for hedge-accounting purposes. Furthermore, Swisscom repaid a debenture bond amounting to CHF 500 million upon maturity in the prior year.

Private placements

			Carrying amount	
In CHF million	Due within	Par value in CHF	31.12.2016	31.12.2015
Private placements in CHF domestic	2016	200	–	200
Private placements in CHF abroad	2017	250	249	247
Private placements in CHF abroad	2018	72	70	69
Private placements in CHF abroad	2019	278	269	265
Private placements in CHF domestic	2031	150	150	150
Total private placements			**738**	**931**

In the first quarter of 2016, a maturing private placement totalling CHF 150 million was extended by a further 15 years at a fixed interest rate of 0.56%. As in the prior year, no transaction costs were recorded as of 31 December 2016 in connection with the private placements. The effective interest rate on the private placements is 1.2%. The Swiss-franc-denominated private placements with a carrying value of CHF 588 million maturing in 2017 to 2019 may become due for immediate repayment if the shareholding of the Swiss Confederation in the capital of Swisscom falls below 35% or if another shareholder can exercise control over Swisscom. The investors in the remaining private placements are entitled to resell their investments to Swisscom should the Swiss Confederation permanently give up its majority shareholding in Swisscom.

Liabilities arising from finance leases

Swisscom concluded two agreements in 2001 for the sale of real estate. At the same time, Swisscom entered into long-term agreements to lease back part of the real estate sold which, in part, qualify as finance leases. The gain realised on real estate classified as finance leases was deferred. As of 31 December 2016, the deferred gains totalled CHF 158 million (prior year: CHF 163 million). The deferred gains are released to other income over the term of the individual leases. The effective interest rate of the finance lease liabilities was 6.0%.

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

In CHF million	31.12.2016	31.12.2015
Within 1 year	45	46
Within 1 to 2 years	44	40
Within 2 to 3 years	38	39
Within 3 to 4 years	34	36
Within 4 to 5 years	33	35
After 5 years	984	1,060
Total future minimum lease payments	**1,178**	**1,256**
Less future financing costs	(670)	(730)
Total finance lease liabilities	**508**	**526**
Thereof current finance lease liabilities	16	16
Thereof non-current finance lease liabilities	492	510

The future payments of the liabilities arising under finance leases, expressed in terms of their present value, as of 31 December 2015 and 2016 were as follows:

In CHF million	31.12.2016	31.12.2015
Within 1 year	16	16
Within 1 to 2 years	16	11
Within 2 to 3 years	11	10
Within 3 to 4 years	7	7
Within 4 to 5 years	6	6
After 5 years	452	476
Total present value of finance lease liabilities	**508**	**526**

In addition, operating lease arrangements exist for miscellaneous real estate with terms of 1 to 25 years. See Note 35. In 2016, conditional rental payments of CHF 2 million were recorded as rental expense (prior year: CHF 3 million).

Other non-interest-bearing financial liabilities

On 31 December 2016, the carrying value of other non-interest-bearing financial liabilities amounts to CHF 260 million (prior year: CHF 274 million). Included therein is the carrying value of a financial liability in the amount of CHF 233 million (prior year: CHF 230 million) arising from the acquisition of search.ch AG in 2015. See note 5.

27 Trade and other payables

In CHF million	31.12.2016	31.12.2015
Supplier invoices received	1,192	1,058
Goods and services received not yet invoiced	405	428
Total trade payables	**1,597**	**1,486**
Accruals from international roaming traffic	32	23
Liabilities from debt-collection activities	18	23
Liabilities from construction contracts	14	9
Miscellaneous payables	235	227
Total other payables	**299**	**282**
Total trade and other payables	**1,896**	**1,768**

28 Provisions

In CHF million	Termination benefits	Dismantlement and restoration costs	Regulatory and competition law proceedings	Other	Total
Balance at 31 December 2014	**29**	**646**	**106**	**146**	**927**
Additions to provisions	70	–	208	23	301
Present-value adjustments	–	35	–	2	37
Release of unused provisions	(3)	(86)	–	(7)	(96)
Use of provisions	(8)	(2)	(4)	(14)	(28)
Additions from business combinations	–	–	–	2	2
Disposals from sales of subsidiaries	–	–	–	(2)	(2)
Foreign currency translation adjustments	–	–	–	(2)	(2)
Balance at 31 December 2015	**88**	**593**	**310**	**148**	**1,139**
Additions to provisions	50	5	26	68	149
Present-value adjustments	–	56	–	2	58
Release of unused provisions	(30)	(105)	–	(11)	(146)
Use of provisions	(29)	(7)	(186)	(16)	(238)
Balance at 31 December 2016	**79**	**542**	**150**	**191**	**962**
Thereof current provisions	74	–	10	98	182
Thereof non-current provisions	5	542	140	93	780

Provisions for employee reduction programme

In the fourth quarter of 2016, Swisscom recognised a provision for personnel reduction costs of CHF 50 million. Swisscom operates in a highly competitive market characterised by radical transformations, fierce rivalry and pricing pressures. Swisscom has set itself the goal of reducing its cost basis from 2015 through to 2020 by over CHF 300 million. This is to be achieved through organisational changes, job reductions, optimisation of processes and the migration to All-IP technology. Resources will thus be freed up in order to continue to invest in infrastructure, new fields of activity and to exploit opportunities resulting from digitalisation. The measures planned will result in the elimination of positions in Switzerland and in employees participating in the social plan.

Provisions for dismantling and restoration costs

The provisions for dismantling and restoration costs relate to the dismantling of telecommunication installations and transmitter stations and the restoration to its original state of the land owned by third parties on which they are located. The provisions are computed by reference to estimates of future anticipated dismantling costs and are discounted using an average interest rate of 1.18% (prior year: 1.48%). The effect of using different interest rates amounted to CHF 47 million (prior year: CHF 24 million). In 2016, the cost index used for computing the dismantling costs was lowered, the impact of which aggregated CHF 103 million. In 2016, as a result of reassessments, adjustments totalling CHF 49 million (prior year: CHF 55 million) were recorded under property, plant and equipment and CHF 4 million (prior year: CHF 7 million) which was recognised in the income statement. The non-current portion of the provisions is expected to be settled after 2020. The level of provisions is determined to a substantial degree by the level of estimated future dismantling and restoration costs as well as the timing of the dismantling. An increase of estimated costs by 10% would result in an increase of CHF 51 million in the amount of the provision. A shift in the timing of dismantling by a further ten years would lead to a reduction in the provision by CHF 74 million.

Provisions for regulatory and competition-law 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. The determination of the prices for access services during 2013 to 2016 is still pending. In addition, the Federal Competition Commission (Weko) is conducting various proceedings against Swisscom. In accordance with the Federal Anti-Trust Law, Weko may impose penalties against Swisscom in the event that the competition law is found to have been violated. The level of the penalty is dependent on the duration and severity as well as the nature of the violation. It may be as much as 10% of the revenues which have been generated by the company in question in the last three business years on the relevant markets in Switzerland. Claims under civil law against Swisscom were asserted which might prevail in the event that a legally enforceable finding as to market abuse is reached. Any applicable payments will depend upon the date on which legally-binding decrees and decisions are issued.
In 2009, Weko levied a penalty totalling CHF 220 million on Swisscom for abuse of a market-dominant position in the case of ADSL services during the period through to the end of 2007. Swisscom has appealed against the ruling to the Federal Administrative Court. In September 2015, the Federal Administrative Court in principle upheld the Weko decision and reduced the penalty imposed on Swisscom by Weko from CHF 220 million to CHF 186 million. As a result of the decision, Swisscom recognised a provision of CHF 186 million in the third quarter of 2015. Swisscom does not consider the penalty to be justified and has lodged an appeal to the Federal Court. At the beginning of 2016, Swisscom paid the penalty of CHF 186 million as no suspensive effect was granted.
On the basis of legal opinions, provisions for regulatory and competition-law proceedings were raised and then released in the third and fourth quarters of 2015 which are presented on a net basis for procedural reasons.

Other provisions

Other provisions include provisions for environmental, contractual and tax risks. The non-current portion of the provisions will most likely be settled in 2017 and 2018.

29 Contingent liabilities and contingent assets

Regulatory and competition-law 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. The determination of the prices for access services during 2013 to 2016 is still pending. In addition, the Federal Competition Commission (Weko) is conducting various proceedings against Swisscom. In accordance with the Federal Anti-Trust Law, Weko may impose penalties against Swisscom in the event that the competition law is found to have been violated. The amount of the penalty is dependent on the duration and severity as well as the nature of the violation. It may be as much as 10% of the revenues which have been generated by the company in question in the last three business years on the relevant markets in Switzerland. In the event of a legally enforceable finding as to market abuse, claims under civil law may be asserted against Swisscom.
In April 2013, Weko initiated an investigation against Swisscom pursuant to the Anti-Trust Law in the area of broadcasting live-sport events on pay TV. In May 2016, Weko decreed a penalty of CHF 72 million on Swisscom as part of these proceedings. Swisscom rejects the accusations and is of the opinion that it has conducted itself in a lawful manner in the marketing of sports contents. In addition, claims under civil law against Swisscom were asserted which might prevail in the event that a legally enforceable finding as to market abuse is reached. Swisscom has challenged the penalty imposed in the Federal Administrative Court and from a current perspective, considers the levying of

sanctions in the court of last appeal as not probable. For this reason, it has established no provision in the consolidated financial statements as of and for the year ended 31 December 2016, as in the prior year.
In November 2015, in its investigation as to the invitation to tender for the corporate network of the Swiss Post in 2008, Weko reached the conclusion that Swisscom has a market-dominant position on the market for broadband access for large corporate clients. In this tender, Swisscom is accused of having set the wholesale prices charged to competitors at such a high level that the latter could not compete with the end-customer offer made by Swisscom. As a result of this unlawful conduct, Weko ruled a direct penalty of CHF 8 million. Swisscom has challenged the ruling in the Federal Administrative Court. From a current perspective, Swisscom considers the levying of sanctions in the court of last appeal as not probable and thus has established no provision in the consolidated financial statements as of and for the year ended 31 December 2016.

Contingent assets from litigation

In 2015, the Italian competition authorities (AGCM) found Telecom Italia guilty of unlawful conduct as a market-dominant company and imposed a penalty of EUR 104 million. Related to the same matter, Fastweb has claimed damages from Telecom Italia and initiated legal action in connection therewith. In the fourth quarter of 2015, Fastweb and Telecom Italia reached an out-of-court settlement which encompassed the contested receivables of both parties due from each other. In the second quarter of 2016, Telecom Italia made a payment of EUR 55 million (CHF 60 million). As at 31 December 2016, there continued to exist for Fastweb, as a result of the settlement, an uncertain receivable to which conditions are attached. Disclosure of the amount of the receivable is waived for contractual and procedural reasons.

30 Other non-financial liabilities

In CHF million	31.12.2016	31.12.2015
Deferred revenue	440	436
Value-added taxes payable	94	97
Advance payments received	30	32
Other current non-financial liabilities	86	128
Total other current non-financial liabilities	**650**	**693**
Deferred gain on sale and leaseback of real estate	158	163
Other non-current non-financial liabilities	174	196
Total other non-current non-financial liabilities	**332**	**359**

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

31 Additional information concerning equity

Share capital and treasury shares

As of 31 December 2016, the total number of shares issued remained unchanged from the prior year at 51,801,943 shares. All shares have a par value of CHF 1 and are fully paid up. Each share entitles the holder to one vote. Shares with an aggregate market value of CHF 3 million (prior year: CHF 2 million) were allocated for share-based compensation plans. See Note 11.
The holdings of treasury shares have changed as follows:

	Number	Average price in CHF	In CHF million
Balance at 31 December 2014	**149**	**525**	**–**
Purchases on the market	3,730	567	2
Allocated for share-based compensation	(3,879)	563	(2)
Balance at 31 December 2015	**–**	**–**	**–**
Purchases on the market	8,000	520	4
Allocated for share-based compensation	(6,486)	520	(3)
Balance at 31 December 2016	**1,514**	**–**	**1**

As of 31 December 2016, Swisscom had 1,514 treasury shares in its portfolio (prior year: none). As a result, the balance of shares outstanding as at 31 December 2016 totalled 51,800,429 (prior year: 51,801,943 shares).

Other reserves

In CHF million	Hedging reserve	Fair value reserve	Foreign currency translation adjustments	Total other reserves
Balance at 31 December 2014	**(7)**	**7**	**(1,590)**	**(1,590)**
Foreign currency translation adjustments of foreign subsidiaries	–	–	(194)	(194)
Change in fair value	(12)	4	–	(8)
Gains and losses transferred to income statement	11	(6)	–	5
Income tax expense	2	–	51	53
Balance at 31 December 2015	**(6)**	**5**	**(1,733)**	**(1,734)**
Foreign currency translation adjustments of foreign subsidiaries	–	–	(21)	(21)
Change in fair value	8	7	–	15
Gains and losses transferred to income statement	2	(3)	5	4
Associates	–	–	(2)	(2)
Income tax expense	(1)	–	(83)	(84)
Balance at 31 December 2016	**3**	**9**	**(1,834)**	**(1,822)**

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 include 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 2016, cumulative foreign currency translation losses before taxes of Fastweb amounted to CHF 2,162 million (prior year: CHF 2,143 million).

Other comprehensive income

Other comprehensive income in 2016 may be analysed as follows:

2016, in CHF million	Retained earnings	Hedging reserve	Fair value reserve	Foreign currency translation adjustments	Equity holders of Swisscom	Non-controlling interests	Total other comprehensive income
Actuarial gains and losses from defined benefit pension plans	1,162	–	–	–	1,162	–	1,162
Associates	(5)	–	–	–	(5)	–	(5)
Income tax expense	(238)	–	–	–	(238)	–	(238)
Items that will not be reclassified to income statement, net of tax	**919**	**–**	**–**	**–**	**919**	**–**	**919**
Foreign currency translation adjustments of foreign subsidiaries	–	–	–	(21)	(21)	–	(21)
Change in fair value	–	8	7	–	15	–	15
Gains and losses transferred to income statement	–	2	(3)	5	4	–	4
Associates	–	–	–	(2)	(2)		(2)
Income tax expense	–	(1)	–	(83)	(84)	–	(84)
Items that are or may be reclassified subsequently to income statement, net of tax	**–**	**9**	**4**	**(101)**	**(88)**	**–**	**(88)**
Total other comprehensive income	**919**	**9**	**4**	**(101)**	**831**	**–**	**831**

Other comprehensive income in 2015 may be analysed as follows:

2015, in CHF million	Retained earnings	Hedging reserve	Fair value reserve	Foreign currency translation adjustments	Equity holders of Swisscom	Non-controlling interests	Total other comprehensive income
Actuarial gains and losses from defined benefit pension plans	(393)	–	–	–	(393)	–	(393)
Income tax expense	80	–	–	–	80	–	80
Items that will not be reclassified to income statement, net of tax	**(313)**	**–**	**–**	**–**	**(313)**	**–**	**(313)**
Foreign currency translation adjustments of foreign subsidiaries	–	–	–	(194)	(194)	–	(194)
Change in fair value	–	(12)	4	–	(8)	–	(8)
Gains and losses transferred to income statement	–	11	(6)	–	5	–	5
Income tax expense	–	2	–	51	53	–	53
Items that are or may be reclassified subsequently to income statement, net of tax	**–**	**1**	**(2)**	**(143)**	**(144)**	**–**	**(144)**
Total other comprehensive income	**(313)**	**1**	**(2)**	**(143)**	**(457)**	**–**	**(457)**

32 Dividend distributions

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 2016, Swisscom Ltd's distributable reserves amounted to CHF 6,193 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 2016 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 2015 and 2016:

In CHF million, except where indicated	2016	2015
Number of registered shares eligible for dividend (in millions of shares)	51.800	51.802
Ordinary dividend per share (in CHF)	22.00	22.00
Dividends paid	**1,140**	**1,140**

The dividend payments for the 2014 and 2015 financial years were funded entirely from retained earnings. The Board of Directors proposes to the Annual Shareholders' Meeting of Swisscom Ltd to be held on 3 April 2017 the payment of an ordinary dividend of CHF 22 per share in respect of the 2016 financial year. This equates to a total dividend distribution of CHF 1,140 million. The dividend payment is foreseen on 7 April 2017.

33 Financial risk management and supplementary disclosures regarding financial instruments

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

Market price risks

Foreign exchange risks

Swisscom is exposed to foreign exchange risks which can impact the Group's financial results and consolidated equity. Foreign exchange risks impacting cash flows (transaction risks) are partially hedged by financial instruments and designated for hedge accounting. In addition, foreign exchange risks with an impact on equity (translation risks) are partially hedged through financial instruments and designated for hedge accounting. The aim of Swisscom's foreign exchange risk management policy is to limit the volatility of planned cash flows. Forward currency contracts, currency options and currency swaps may be employed to hedge transaction risks. These hedging measures concern principally the USD and EUR. EUR-denominated financing is employed in order to hedge the translation risk of positions in EUR. As of the balance sheet date, Swisscom contracted financial liabilities totalling EUR 1,240 million (CHF 1,332 million) which were designated for hedge accounting for net investments in foreign shareholdings.

The currency risks and hedging contracts for foreign currencies of financial instruments as of 31 December 2016 are to be analysed as follows:

In CHF million	EUR	USD	Other
31.12.2016			
Cash and cash equivalents	55	3	–
Trade and other receivables	8	10	12
Other financial assets	93	244	2
Financial liabilities	(2,161)	(148)	–
Trade and other payables	(66)	(68)	(12)
Net exposure at carrying amounts	**(2,071)**	**41**	**2**
Net exposure to forecasted cash flows in the next 12 months	89	(470)	–
Net exposure before hedges	**(1,982)**	**(429)**	**2**
Forward currency contracts	–	(4)	–
Foreign currency swaps	97	406	–
Currency swaps	752	–	–
Hedges	**849**	**402**	**–**
Net exposure	**(1,133)**	**(27)**	**2**

The currency risks and hedging contracts for foreign currencies of financial instruments as of 31 December 2015 are to be analysed as follows:

In CHF million	EUR	USD	Other
31.12.2015			
Cash and cash equivalents	50	3	1
Trade and other receivables	9	3	4
Other financial assets	17	229	1
Financial liabilities	(2,706)	(143)	–
Trade and other payables	(48)	(59)	(26)
Net exposure at carrying amounts	**(2,678)**	**33**	**(20)**
Net exposure to forecasted cash flows in the next 12 months	50	(412)	–
Net exposure before hedges	**(2,628)**	**(379)**	**(20)**
Forward currency contracts	–	(3)	–
Foreign currency swaps	567	351	–
Currency swaps	759	–	–
Hedges	**1,326**	**348**	**–**
Net exposure	**(1,302)**	**(31)**	**(20)**

Foreign currency sensitivity analysis

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

In CHF million	31.12.2016	31.12.2015
Income impact on balance sheet items		
EUR volatility of 7.47% (previous year: 7.67%)	155	205
USD volatility of 10.35% (previous year: 10.41%)	(4)	(3)
Hedges for balance sheet items		
EUR volatility of 7.47% (previous year: 7.67%)	(63)	(101)
USD volatility of 10.35% (previous year: 10.41%)	7	6
Planned cash flows		
EUR volatility of 7.47% (previous year: 7.67%)	(7)	(4)
USD volatility of 10.35% (previous year: 10.41%)	49	43
Hedges for planned cash flows		
EUR volatility of 7.47% (previous year: 7.67%)	–	–
USD volatility of 10.35% (previous year: 10.41%)	(49)	(43)

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 deploys swaps to hedge its interest rate risk. The structure of interest-bearing financial instruments at nominal values is as follows:

In CHF million	31.12.2016	31.12.2015
Fixed interest-bearing financial liabilities	7,331	6,509
Variable interest-bearing financial liabilities	765	1,705
Total interest-bearing financial liabilities	**8,096**	**8,214**
Fixed interest-bearing financial assets	(117)	(138)
Variable interest-bearing financial assets	(489)	(412)
Total interest-bearing financial assets	**(606)**	**(550)**
Total interest-bearing financial assets and liabilities, net	**7,490**	**7,664**
Variable interest-bearing	276	1,293
Fixed through interest rate swaps	–	(350)
Variable through interest rate swaps	1,177	984
Variable interest-bearing, net	**1,453**	**1,927**
Fixed interest-bearing	7,214	6,371
Fixed through interest rate swaps	–	350
Variable through interest rate swaps	(1,177)	(984)
Fixed interest-bearing, net	**6,037**	**5,737**
Total interest-bearing financial assets and liabilities, net	**7,490**	**7,664**

Interest rate sensitivity analysis

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

In CHF million	Income statement Increase 100 base points	Income statement Decrease 100 base points	Equity Increase 100 base points	Equity Decrease 100 base points
31.12.2016				
Variable financing	(3)	3	–	–
Interest rate swaps	(12)	12	–	–
Cash flow sensitivity, net	**(15)**	**15**	**–**	**–**
31.12.2015				
Variable financing	(13)	13	–	–
Interest rate swaps	(6)	6	2	(2)
Cash flow sensitivity, net	**(19)**	**19**	**2**	**(2)**

Credit risks

Credit risks from operating activities

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

Credit risks from financial transactions

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

In CHF million	Note	31.12.2016	31.12.2015
Cash and cash equivalents	17	329	324
Trade and other receivables	18	2,532	2,535
Loans and receivables	19	274	196
Derivative financial instruments	19	41	14
Other assets valued at fair value	19	63	61
Total carrying amount of financial assets		**3,239**	**3,130**

The carrying amounts of cash and cash equivalents and other financial assets subject to credit risk (excluding trade and other receivables) and the related Standard & Poor's ratings of the counterparties are to be summarised as follows:

In CHF million	31.12.2016	31.12.2015
AAA	14	12
AA+	193	163
AA	6	7
AA–	152	149
A+	121	11
A	116	148
A–	6	1
BBB+	42	43
BBB	3	2
BBB–	12	9
Without rating	42	50
Total	**707**	**595**

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 two confirmed lines of credit from banks each of CHF 1,000 million maturing in 2020 and 2022, respectively. As of 31 December 2016, none of these lines of credit had been drawn down, as in the prior year.
The contractual maturities of financial liabilities including estimated interest payments as of 31 December 2016 are as follows:

In CHF million	Carrying amount	Contractual payments	Due within 1 year	Due within 1 to 2 years	Due within 3 to 5 years	Due after 5 years
31.12.2016						
Non-derivative financial liabilities						
Bank loans	753	826	207	73	367	179
Debenture bonds	6,140	6,658	731	1,533	1,248	3,146
Private placements	738	765	253	73	281	158
Finance lease liabilities	508	1,178	45	44	105	984
Other interest-bearing financial liabilities	34	34	1	23	1	9
Other non-interest-bearing financial liabilities	260	260	3	238	2	17
Trade and other payables	1,896	1,896	1,875	10	11	–
Derivative financial liabilities						
Derivative financial instruments	63	108	4	4	11	89
Total	**10,392**	**11,725**	**3,119**	**1,998**	**2,026**	**4,582**

The contractual maturities of financial liabilities including estimated interest payments as of 31 December 2015 are as follows:

In CHF million	Carrying amount	Contractual payments	Due within 1 year	Due within 1 to 2 years	Due within 3 to 5 years	Due after 5 years
31.12.2015						
Non-derivative financial liabilities						
Bank loans	1,356	1,439	747	74	437	181
Debenture bonds	5,430	6,080	129	729	2,194	3,028
Private placements	931	954	352	252	350	–
Finance lease liabilities	526	1,256	46	40	110	1,060
Other interest-bearing financial liabilities	15	15	2	7	–	6
Other non-interest-bearing financial liabilities	274	319	30	24	248	17
Trade and other payables	1,768	1,768	1,742	10	16	–
Derivative financial liabilities						
Derivative financial instruments	61	240	22	16	47	155
Total	**10,361**	**12,071**	**3,070**	**1,152**	**3,402**	**4,447**

Estimation of fair values

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

Fair value hierarchy

The fair value hierarchy encompasses the following three levels:
- **Level 1:** stock exchange quoted prices in active markets for identical assets or liabilities;
- **Level 2:** other factors which are observable on markets for assets and liabilities, either directly or indirectly;
- **Level 3:** factors that are not based on observable market data.

Asset/liability valuation categories and fair value of financial instruments

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

	Carrying amount				Fair value		
In CHF million	Loans and receivables	Available-for-sale	At fair value through profit or loss	Financial liabilities	Level 1	Level 2	Level 3
31.12.2016							
Derivative financial instruments	–	–	41	–	–	41	–
Other assets valued at fair value	–	–	63	–	63	–	–
Available-for-sale financial assets	–	20	–	–	15	–	5
Financial assets measured at fair value	**–**	**20**	**104**	**–**	**78**	**41**	**5**
Other loans and receivables	274	–	–	–	–	290	–
Financial assets not measured at fair value	**274**	**–**	**–**	**–**	**–**	**290**	**–**
Derivative financial instruments	–	–	63	–	–	63	–
Financial liabilities measured at fair value	**–**	**–**	**63**	**–**	**–**	**63**	**–**
Bank loans	–	–	–	753	–	782	–
Debenture bonds	–	–	–	6,140	6,517	–	–
Private placements	–	–	–	738	–	758	–
Finance lease liabilities	–	–	–	508	–	1,049	–
Other interest-bearing financial liabilities	–	–	–	34	–	34	–
Other non-interest-bearing financial liabilities	–	–	–	260	–	260	–
Financial liabilities not measured at fair value	**–**	**–**	**–**	**8,433**	**6,517**	**2,883**	**–**

	Carrying amount				Fair value		
In CHF million	Loans and receivables	Available-for-sale	At fair value through profit or loss	Financial liabilities	Level 1	Level 2	Level 3
31.12.2015							
Derivative financial instruments	–	–	14	–	–	14	–
Other assets valued at fair value	–	–	61	–	61	–	–
Available-for-sale financial assets	–	15	–	–	–	–	15
Financial assets measured at fair value	**–**	**15**	**75**	**–**	**61**	**14**	**15**
Other loans and receivables	196	–	–	–	–	239	–
Financial assets not measured at fair value	**196**	**–**	**–**	**–**	**–**	**239**	**–**
Derivative financial instruments	–	–	61	–	–	61	–
Financial liabilities measured at fair value	**–**	**–**	**61**	**–**	**–**	**61**	**–**
Bank loans	–	–	–	1,356	–	1,391	–
Debenture bonds	–	–	–	5,430	5,867	–	–
Private placements	–	–	–	931	–	957	–
Finance lease liabilities	–	–	–	526	–	1,037	–
Other interest-bearing financial liabilities	–	–	–	15	–	15	–
Other non-interest-bearing financial liabilities	–	–	–	274	–	274	–
Financial liabilities not measured at fair value	**–**	**–**	**–**	**8,532**	**5,867**	**3,674**	**–**

In addition, as of 31 December 2016, there were available-for-sale financial assets with a carrying amount of CHF 41 million (prior year: CHF 37 million) which are valued at acquisition cost.

Level 3 financial instruments developed as follows in 2015 and 2016:

In CHF million	Available-for-sale financial assets
Balance at 31 December 2014	18
Disposals	(3)
Balance at 31 December 2015	**15**
Disposals	(10)
Balance at 31 December 2016	**5**

The level-3 assets consist of investments in various investment funds and individual companies. The fair value was calculated by using a valuation model. In 2015 and 2016, there were no reclassifications between the various levels.

Asset/liability valuation categories and results of financial instruments

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

In CHF million	Loans and receivables	Available-for-sale	At fair value through profit or loss	Financial liabilities	Hedging transactions
31.12.2016					
Interest income (interest expense)	13	–	(4)	(163)	(1)
Change in fair value	–	–	(11)	–	–
Foreign currency translation adjustments	–	–	(11)	10	–
Gains and losses transferred from equity	–	–	–	–	(1)
Net result recognised in income statement	**13**	**–**	**(26)**	**(153)**	**(2)**
Change in fair value	–	7	–	–	8
Gains and losses transferred to income statement	–	(3)	–	–	2
Net result recognised in other comprehensive income	**–**	**4**	**–**	**–**	**10**
Total net result by asset/liability category	**13**	**4**	**(26)**	**(153)**	**8**

In CHF million	Loans and receivables	Available-for-sale	At fair value through profit or loss	Financial liabilities	Hedging transactions
31.12.2015					
Interest income (interest expense)	10	–	(4)	(194)	(1)
Change in fair value	–	–	(13)	–	–
Foreign currency translation adjustments	(20)	–	(39)	19	–
Gains and losses transferred from equity	–	–	–	–	(10)
Net result recognised in income statement	**(10)**	**–**	**(56)**	**(175)**	**(11)**
Change in fair value	–	4	–	–	(12)
Gains and losses transferred to income statement	–	(6)	–	–	11
Net result recognised in other comprehensive income	**–**	**(2)**	**–**	**–**	**(1)**
Total net result by asset/liability category	**(10)**	**(2)**	**(56)**	**(175)**	**(12)**

In addition, in 2016, valuation allowances for trade and other receivables amounting to CHF 94 million (prior year: CHF 81 million) were recorded under other operating expenses. Furthermore, impairment losses of CHF 29 million on loans to associates were reflected in the attributable share of results of associates. These loans are recognised as net investments in associates.

Derivative financial instruments

At 31 December 2015 and 2016, the following derivative financial instruments were recorded:

	Contract value		Positive fair value		Negative fair value	
In CHF million	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Fair value hedges	1,177	984	32	12	(2)	(3)
Cash flow hedges	235	617	4	1	–	(5)
Other derivative financial instruments	636	996	5	1	(61)	(53)
Total derivative financial instruments	**2,048**	**2,597**	**41**	**14**	**(63)**	**(61)**
Thereof current derivative financial instruments			9	2	(1)	(6)
Thereof non-current derivative financial instruments			32	12	(62)	(55)

Fair value hedges

	Contract value		Positive fair value		Negative fair value	
In CHF million	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Interest rate swaps in CHF	425	225	3	1	(2)	–
Currency swaps in EUR	752	759	29	11	–	(3)
Total fair value hedges	**1,177**	**984**	**32**	**12**	**(2)**	**(3)**

In 2016, Swisscom entered into interest rate swaps to hedge the interest-rate risk of CHF-denominated interest-bearing financing totalling CHF 200 million. In the prior year, Swisscom had entered into interest rate swaps to hedge the interest rate risk of CHF-denominated interest-bearing financing amounting to CHF 225 million. At 31 December 2016, these interest rate swaps had positive fair values of CHF 3 million and negative fair values of CHF 2 million (prior year: positive fair values of CHF 1 million). Furthermore, in 2015, Swisscom had concluded currency swaps totalling EUR 700 million to hedge the foreign currency and interest rate risks of interest-bearing financing in EUR. As at 31 December 2016, these currency swaps had positive fair values of CHF 29 million (prior year: positive fair values of CHF 11 million and negative fair values of CHF 3 million).

Cash flow hedges

	Contract value		Positive fair value		Negative fair value	
In CHF million	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Currency swaps in USD	235	267	4	1	–	–
Interest rate swaps in CHF	–	350	–	–	–	(5)
Total cash flow hedges	**235**	**617**	**4**	**1**	**–**	**(5)**

As of 31 December 2016, derivative financial instruments included currency swaps of USD 230 million (CHF 235 million) which serve to hedge future purchases of goods and services in the respective currencies. In the prior year, currency swaps of USD 268 were recorded for this purpose. These hedging transactions were designated for hedge-accounting purposes. The hedges disclose a positive fair value of CHF 4 million (prior year: positive market value of CHF 1 million). For these designated hedging instruments, an amount of CHF 4 million was recognised in the hedging reserve as part of consolidated equity (prior year: CHF zero).
In the prior year, interest rate swaps totalling CHF 350 million hedging the interest-rate risk of CHF-denominated variable-interest private placements were designated as cash flow hedges for hedge-accounting purposes. As of 31 December 2015, these interest rate swaps were recognised with negative fair values of CHF 5 million. An amount of CHF 6 million was recognised for these hedging instruments in the hedging reserve as part of consolidated equity as at 31 December 2015.

Other derivative financial instruments

In CHF million	Contract value 31.12.2016	Contract value 31.12.2015	Positive fair value 31.12.2016	Positive fair value 31.12.2015	Negative fair value 31.12.2016	Negative fair value 31.12.2015
Interest rate swaps in CHF	200	200	–	–	(60)	(53)
Currency swaps in USD	335	226	5	1	(1)	–
Currency swaps in EUR	97	567	–	–		–
Currency forward contracts in USD	4	3	–	–		–
Total other derivative financial instruments	**636**	**996**	**5**	**1**	**(61)**	**(53)**

Furthermore, derivative financial instruments as at 31 December 2016 include interest rate swaps covering CHF 200 million with maturities ending in 2040 and with a negative market value of CHF 60 million (prior year: negative market value of CHF 53 million) which were not designated for hedge accounting. In addition, derivative financial instruments include 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.

Cross-border lease agreements

Between 1996 until 2002, Swisscom entered into various cross-border lease agreements, under the terms of which parts of its fixed line and mobile phone networks were sold or leased on a long-term basis and leased back. Swisscom defeased a significant part of the lease obligations through the acquisition of investment-grade financial investments. The financial assets were irrevocably deposited with a trust. In accordance with Interpretation SIC 27 "Evaluating the Substance of Transactions involving the Legal Form of a Lease", these financial assets and liabilities in the same amount are netted and not recorded in the balance sheet. As of 31 December 2016, the financial liabilities and assets, including accrued interest, arising from cross-border lease agreements amounted to USD 72 million or CHF 74 million, respectively, which, in compliance with SIC 27, were not recognised in the balance sheet (prior year: USD 69 million or CHF 69 million).

Netting of financial instruments

Swisscom enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting agreements. Under such agreements, the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party or the other. The ISDA agreements do not meet the criteria for balance-sheet netting as Swisscom has presently no legally enforceable right to offset the recognised amounts and such a right may only be applied to future occurrences such as a credit default or other credit events. In 2016, Swisscom recorded an amount of CHF 7 million for which such netting agreements existed. In the event of netting, derivative assets of CHF 41 million and derivative liabilities of CHF 63 million would be reduced to CHF 34 million and CHF 56 million, respectively. In the prior year, Swisscom recognised an amount of CHF 3 million for which such netting agreements existed. In the event of netting, the derivative assets in the prior year of CHF 14 million would be reduced to CHF 11 million and the derivative liabilities would be reduced from CHF 61 million to CHF 58 million. In addition, Swisscom entered into collateral agreements for interest-rate and foreign-currency swaps with various counterparties under which a netting of market values takes place on a daily basis between the contracting parties. When including these collateral agreements, derivative assets and derivative liabilities would be reduced by a further CHF 25 million and CHF 2 million, respectively.

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

In CHF million	Gross amount	Netted in the balance sheet	Net amount
31.12.2016			
Receivables from international roaming			
Billed revenue	30	(17)	13
Accruals	49	(4)	45
Total receivables from international roaming	**79**	**(21)**	**58**
Liabilities from international roaming			
Supplier invoices received	28	(17)	11
Accruals	36	(4)	32
Total liabilities from international roaming	**64**	**(21)**	**43**
31.12.2015			
Receivables from international roaming			
Billed revenue	22	(16)	6
Accruals	149	(60)	89
Total receivables from international roaming	**171**	**(76)**	**95**
Liabilities from international roaming			
Supplier invoices received	42	(16)	26
Accruals	83	(60)	23
Total liabilities from international roaming	**125**	**(76)**	**49**

Management of equity resources

Managed capital is defined as equity including non-controlling interests. Swisscom seeks to maintain a robust equity basis which enables it to assure 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 capital 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	31.12.2016	31.12.2015
Share of equity attributable to equity holders of Swisscom Ltd	6,514	5,237
Share of equity attributable to non-controlling interests	8	5
Total capital	**6,522**	**5,242**
Total assets	21,454	21,149
Equity ratio in %	30.4	24.8

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

In CHF million	31.12.2016	31.12.2015
Debenture bonds	6,140	5,430
Bank loans	753	1,356
Private placements	738	931
Finance lease liabilities	508	526
Other financial liabilities	357	350
Total financial liabilities	**8,496**	**8,593**
Cash and cash equivalents	(329)	(324)
Current financial assets	(177)	(85)
Non-current fixed interest-bearing deposits	(144)	(142)
Net debt	**7,846**	**8,042**
Operating income before depreciation and amortisation (EBITDA)	4,293	4,098
Ratio net debt/EBITDA	1.8	2.0

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

34 Supplementary information on the statement of cash flows

Changes in operating assets and liabilities

In CHF million	2016	2015
Trade and other receivables	(2)	(3)
Inventories	20	(30)
Other non-financial assets	(104)	(9)
Trade and other payables	134	(77)
Provisions	(141)	248
Other non-financial liabilities	(70)	(51)
Defined benefit obligations	68	56
Total changes in operating assets and liabilities	**(95)**	**134**

Other cash flows from financing activities

In 2016, other cash outflows from financing activities amount to CHF 16 million (prior year: cash inflows of CHF 2 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 19 million (prior year: CHF 9 million). As a result of changes in the assumptions made in estimating the provisions for dismantling and restoration costs, a decrease of CHF 49 million net was recognised in property, plant and equipment (prior year: decrease of CHF 55 million). See Note 23.

35 Future commitments

Commitments for future capital expenditures

Firm contractual commitments for future investments in property, plant and equipment and other intangible assets as of 31 December 2016 aggregated CHF 845 million (prior year: CHF 886 million).

Operating leases

Operating leases relate primarily to the rental of real estate for business purposes. See Note 26. In 2016, payments for operating leases amounted to CHF 331 million (prior year: CHF 314 million). Future minimum lease payments in respect of operating lease contracts are as follows:

In CHF million	31.12.2016	31.12.2015
Within 1 year	162	150
Within 1 to 2 years	142	140
Within 2 to 3 years	126	117
Within 3 to 4 years	113	101
Within 4 to 5 years	88	89
After 5 years	305	372
Total future minimum lease payments	**936**	**969**

36 Research and development

Costs aggregating CHF 14 million for research and development were expensed in 2016 (prior year: CHF 18 million). This figure does not include direct development costs for new products and services, nor does it includes amortisation of capitalised development costs.

37 Related parties

Majority shareholder, associates and non-controlling interests

Transactions and balances outstanding at year end with related entities and individuals for 2016 are as follows:

In CHF million	Income	Expense	Receivables	Liabilities
Confederation	233	131	164	233
Associates	36	146	11	6
Non-controlling interests	–	2	–	10
Total 2016/Balance at 31 December 2016	**269**	**279**	**175**	**249**

Transactions and balances outstanding at year end with related entities and individuals for 2015 are as follows:

In CHF million	Income	Expense	Receivables	Liabilities
Confederation	280	139	147	375
Associates	23	109	9	7
Non-controlling interests	–	2	–	6
Total 2015/Balance at 31 December 2015	**303**	**250**	**156**	**388**

Majority shareholder

Pursuant to the Swiss Federal Telecommunication Enterprises Act ("Telekommunikationsunternehmungsgesetz", TEA), the Swiss Confederation ("the Confederation") is obligated to hold a majority of the share capital and voting rights of Swisscom. On 31 December 2016, the Confederation, as majority shareholder, held 51% of the issued shares of Swisscom Ltd. Any reduction of the Confederation's holding below a majority shareholding would require a change in law which would need to be voted upon by the Swiss Parliament, which would also be subject to a facultative referendum by Swiss voters. As the majority shareholder, the Swiss Confederation has the power to control the decisions of the general meetings of shareholders which are taken by the absolute majority of validly 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 Confederation comprises the various ministries and administrative bodies of the Confederation and the other companies controlled by the Confederation (primarily the Swiss Post, Swiss Federal Railways, RUAG as well as Skyguide). All transactions are conducted on the basis of normal relationships with customers and suppliers and on conditions applicable to unrelated third parties. In addition, financing transactions are entered into with the Swiss Post on normal commercial terms.

Associates and non-controlling interests

Services provided to/by associates and non-controlling interests are based upon market prices. The associates are listed in Note 40.

Post-employment benefits funds

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

Key management compensation

In CHF million	2016	2015
Current compensation	1.4	1.5
Share-based payments	0.7	0.8
Social security contributions	0.1	0.1
Total compensation to members of the Board of Directors	**2.2**	**2.4**
Current compensation	5.5	5.7
Share-based payments	1.0	1.0
Pension contributions	1.1	0.8
Social security contributions	0.5	0.5
Total compensation to members of the Group Executive Board	**8.1**	**8.0**
Total compensation to members of the Board of Directors and of the Group Executive Board	**10.3**	**10.4**

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

38 Service concession agreements

On 21 June 2007 and in accordance with the Swiss Federal Telecommunications Act (TCA), the Federal Communications Committee (ComCom) granted Swisscom a basic-service license for 2008 to 2017. As licensee, Swisscom 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 guarantees 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.

On 2 December 2016, the Federal Council adopted the revision of the Ordinance on Telecommunication Services (TSO) which defines the content of the basic service in the area of telecommunications from 2018 onwards. From this date on, the traditional analog and digital connections are replaced by a multifunctional connection. Furthermore, the minimum data transmission rate for the access to the internet is increased to 3000/300kbits/s and the services for disabled individuals upgraded. The Federal Communication Committee (ComCom) has granted Swisscom a universal service license for the years 2018-2023.

39 Events after the balance sheet date

Approval of the consolidated financial statements

No material post-balance sheet events have occurred during the period up to 7 February 2017, the date on which the consolidated financial statements of Swisscom were approved by the Board of Directors for release,

40 List of Group companies

Registered name	Registered office	Share of capital and voting right in %	Currency	Share capital in millions
Switzerland				
Admeira Ltd [1,3]	Berne	33.3	CHF	0.3
Admeira Broadcast AG [2,3]	Berne	33.3	CHF	0.1
Akenes Ltd [2,3]	Lausanne	27.3	CHF	0.1
BFM Business Fleet Management Ltd [1]	Ittigen	100	CHF	1.0
Billag Ltd [1]	Fribourg	100	CHF	0.1
cablex Ltd [2]	Berne	100	CHF	5.0
CT Cinetrade AG [1]	Zurich	75	CHF	0.5
Datasport Ltd [2]	Gerlafingen	100	CHF	0.2
finnova ltd bankware [2,3]	Lenzburg	9	CHF	0.5
Global IP Action Ltd [2]	Pfäffikon	75	CHF	0.2
kitag kino-theater Ltd [2]	Zurich	75	CHF	1.0
Medgate Ltd [2,3]	Basel	40	CHF	0.7
Medgate Technologies Ltd [2,3]	Zug	40	CHF	0.1
Mila AG [2]	Zurich	51	CHF	0.4
Mona Lisa Capital AG [2]	Ittigen	99.5	CHF	5.0
myKompass Ltd [2, 3]	Lucerne	13.8	CHF	0.1
MyStrom Ltd [2]	Ittigen	100	CHF	0.1
PlazaVista Entertainment AG [2]	Zurich	75	CHF	0.1
SEC consult (Switzerland) Ltd [2,3]	Zurich	46.5	CHF	0.1
siroop Ltd [2,3]	Zurich	50	CHF	0.1
Swisscom Advertising Ltd [2,3]	Ittigen	33.3	CHF	0.1
Swisscom Broadcast Ltd [1]	Berne	100	CHF	25.0
Swisscom Digital Technology SA [1]	Geneva	50	CHF	0.1
Swisscom Directories Ltd [1]	Zurich	69	CHF	2.2
Swisscom eHealth Invest GmbH [2]	Ittigen	100	CHF	1.4
Swisscom Energy Solutions Ltd [2]	Ittigen	54	CHF	13.3
Swisscom Event & Media Solutions Ltd [2]	Ittigen	100	CHF	0.1
Swisscom Health AG [2]	Zurich	100	CHF	0.1
Swisscom Real Estate Ltd [1]	Ittigen	100	CHF	100.0
Swisscom IT Services Finance Custom Solutions Ltd [2]	Olten	100	CHF	0.1
Swisscom (Switzerland) Ltd [1]	Ittigen	100	CHF	1,000.0
Swisscom Services Ltd [2]	Ittigen	100	CHF	1.2
Swisscom Ventures Ltd [2]	Berne	100	CHF	2.0
Teleclub AG [2]	Zurich	75	CHF	1.2
Teleclub Programm AG [2,3]	Zurich	25	CHF	0.6
VirtualAds AG [2]	Basel	83	CHF	1.1
Worklink AG [1]	Berne	100	CHF	0.5

[1] Participation directly held by Swisscom Ltd.
[2] Participation indirectly held by Swisscom Ltd.
[3] Investment is accounted for using the equity method. Through its representation on the Board of Directors of the company, Swisscom can exercise a significant influence.

Registered name	Registered office	Share of capital and voting right in %	Currency	Share capital in millions
Belgium				
Belgacom International Carrier Services Ltd [2,3]	Brussels	22.4	EUR	1.5
Germany				
Abavent GmbH [2]	Kempten	100	EUR	0.3
Mila Europe GmbH [2]	Berlin	51	EUR	–
Swisscom Telco GmbH [2]	Leipzig	100	EUR	–
VirtualAds Services GmbH [2]	Leipzig	83	EUR	–
Zanox AG [2,3]	Berlin	47.5	EUR	0.2
Finland				
Vilant Systems Oy [2,3]	Espoo	20	EUR	–
France				
local.fr SA [2]	Bourg-en-Bresse	67	EUR	0.5
Italy				
Fastweb S.p.A. [2]	Milan	100	EUR	41.3
Flash Fiber S.r.l. [2,3]	Milan	20	EUR	–
Qualified eXchange network [2,3]	Milan	60	EUR	–
Swisscom Italia S.r.l. [2]	Milan	100	EUR	505.8
Liechtenstein				
Swisscom Re Ltd [1]	Vaduz	100	CHF	5.0
Netherlands				
Improve Digital B.V. [2]	Amsterdam	100	EUR	–
NGT International B.V. [2]	Capelle a/d IJssel	100	EUR	–
Austria				
Swisscom IT Servics Finance SE [2]	Vienna	100	EUR	0.1
Sweden				
Sellbranch AB [2]	Stockholm	50.1	SEK	0.1
Singapore				
Swisscom IT Services Finance Pte Ltd [2]	Singapore	100	SGD	0.1
USA				
Swisscom Cloud Lab Ltd [2]	Delaware	100	USD	–

[1] Participation directly held by Swisscom Ltd.
[2] Participation indirectly held by Swisscom Ltd.
[3] Investment is accounted for using the equity method. Through its representation on the Board of Directors of the company, Swisscom can exercise a significant influence.

Statutory Auditor's Report

To the General Meeting of Swisscom Ltd., Ittigen (Berne)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Swisscom Ltd. and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2016, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 150 to 219) give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for Opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Revenue recognition

Capitalization of technical facilities and software

Fastweb goodwill

Provisions and contingent liabilities for regulatory and competition-law proceedings

Pension fund obligations comPlan

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Revenue recognition

Key Audit Matter

Swisscom's telecommunication business is characterized by a high volume of IT-based transactions. The contracts underlying these transactions often contain various elements that are recorded separately. The correct recognition of the identified contractual elements in the appropriate period and the accuracy of invoicing are highly dependent on IT systems.

Our response

We analyzed the process from the conclusion of a contract to the receipt of payment and assessed whether transactions are completely and accurately recorded in the general ledger. We identified key controls relating to revenue recognition and tested, on a sample basis, their operating effectiveness. We tested the operating effectiveness of IT controls of accounting-relevant systems, with the assistance of our IT specialists, to reflect the high degree of integration of service performance and recording by various IT systems.

In addition, we performed analytical procedures. Based on internal reports, we analyzed trends in the most important key performance indicators per revenue segment and product category, and we critically assessed deviations from our expectations.

With respect to significant newly introduced products, we assessed whether the Group appropriately determined the point in time and amount of revenue to be recognized for the individual components.

For further information on revenue recognition refer to the following:

— Notes to the consolidated financial statements No. 3.16 – Segmentation and revenue recognition

— Notes to the consolidated financial statements No. 7 – Net revenue

Capitalization of technical facilities and software

Key Audit Matter

Given the technological change in the telecommunication sector, investment in new technical facilities and software plays a strategic role in the development of Swisscom's business. In this regard, it is important that the costs capitalized in relation to acquired and self-developed technical facilities and software fulfil the IFRS criteria.

Our response

We tested whether Swisscom's capitalization guidelines comply with IFRS and whether the key controls over the compliance with these guidelines operated effectively.

Among others, using a statistical sampling procedure we assessed whether the capitalization of costs in 2016 relating to a sample of technical facilities and software met the criteria and took place at the appropriate point in time.

KPMG

Furthermore, in relation to the development of material new projects, we analyzed the amount and proper identification of hours of work rendered by Swisscom employees. We recalculated, on a sample basis, the hourly rates used by Swisscom based on actual personnel expenses and analyzed any variances. On the basis of monthly budgets we also compared for significant projects the expected costs to be capitalized and expensed with the actual amounts and critically assessed deviations.

For further information on capitalization of technical facilities and software refer to the following:

— Notes to the consolidated financial statements No. 23 – Property, plant and equipment

— Notes to the consolidated financial statements No. 24 – Goodwill and other intangible assets

Fastweb goodwill

Key Audit Matter

At 31 December 2016 the goodwill for the operating segment Fastweb amounted to CHF 529 million (2015: CHF 533 million).

The annual impairment test on the Fastweb goodwill is significantly affected by management's judgements regarding the expected future cash flows, the discount rate (WACC) used and the expected growth.

Our response

In the course of our audit, we assessed whether an appropriate valuation method was used for the Fastweb goodwill impairment test, the calculation was coherent and management's assumptions were appropriate.

In particular, we challenged the input data and assumptions related to the underlying cash flows and the expected growth rates, as based on written statements from local and Group management. In addition, we retrospectively assessed the accuracy of past business plans by a multi-year comparison of forecasts and actual values.

We analyzed the individual parameters underlying the discount rate, with assistance from our valuation specialists, and compared them with the peer group.

We evaluated the model used for the impairment test with respect to mathematical accuracy and methodological adequacy.

We also considered the appropriateness of disclosures in relation to the impairment test and assessed whether the disclosed sensitivity analyses adequately reflect the risks of the impairment test.

For further information on the Fastweb goodwill refer to the following:

— Notes to the consolidated financial statements No. 4 – Significant accounting judgments, estimates and assumptions in applying accounting policies

— Notes to the consolidated financial statements No. 24 – Goodwill and other intangible assets

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Provisions and contingent liabilities for regulatory and competition-law proceedings

Key Audit Matter	Our response
Swisscom provides regulated access services to other telecommunication service providers. The pricing of such services is the outcome of regulatory proceedings. In addition, the Federal Competition Commission (WEKO) is conducting various proceedings against Swisscom. In case of a final verdict establishing market abuse, civil law claims are also made against Swisscom. The recognition of provisions or disclosure of contingent liabilities related to such proceedings requires management to apply significant judgment.	We tested the operating effectiveness of the controls implemented to identify, assess and recognize legal proceedings related to the regulatory and competition-law environment. Specifically, we participated in the quarterly meetings where legal proceedings were addressed with the relevant departments, and we discussed and challenged the summaries of the legal proceedings prepared by Swisscom Group. With the assistance of our legal specialists, we assessed the probability of cash outflows resulting from legal proceedings, the point in time for recognizing a provision and the corresponding amount of any provisions or the disclosure of contingent liabilities. We additionally obtained and critically assessed written statements of Swisscom's external legal counsel for significant proceedings. We furthermore tested the amount of the provisions and contingent liabilities by assessing whether the internal and external data was correctly fed into the calculations and whether the underlying assumptions were adequate. We assessed whether the disclosures on contingent liabilities in the notes to the consolidated financial statements appropriately reflect the risks.

For further information on provisions and contingent liabilities for regulatory and competition-law proceedings refer to the following:

- Notes to the consolidated financial statements No. 4 – Significant accounting judgments, estimates and assumptions in applying accounting policies
- Notes to the consolidated financial statements No. 28 – Provisions
- Notes to the consolidated financial statements No. 29 – Contingent liabilities and contingent assets

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Pension fund obligations comPlan

Key Audit Matter

Swisscom maintains several pension plans for its employees in Switzerland and Italy. The majority of Swisscom's employees in Switzerland are insured against the risks of old age, death and disability by the independent pension plan 'comPlan'. The defined benefit obligation resulting from this plan is calculated based on a number of financial and demographic assumptions. The most significant assumptions are the discount rate, expected rates of salary and pension increases, the interest rates on old age savings accounts, longevity and, as of the current period the expected development of the conversion rate. In accordance with Swiss regulations, Swisscom's assumptions also for the first time include the principle of risk sharing of the remaining IAS 19 deficit between employer and employee. The calculation of the employer's share of the deficit is based on, among other things, experience relating to measures implemented in the past to improve the pension plan's financial situation.

Management determines these assumptions, which involve judgement that has a significant impact on the amount of pension obligations and expenses recorded.

Our response

We assessed the completeness and accuracy of personnel data underlying the actuary's expert report by testing the operating effectiveness of internal controls and reconciled the data on a sample basis. We used our own specialists to challenge the actuarial calculation. In addition, we assessed the competence and independence of the actuary engaged by Swisscom.

Supported by our specialists, we analysed in detail the conformity with IAS 19 of the expected development of the conversion rate and the allocation of the remaining deficit between employer and employee. We critically assessed the expected development of the conversion rate and the allocation of the deficit to employer and employee based on Swisscom specific empirical information and estimation.

Furthermore, we challenged Management's other assumptions used in the calculation of the actuary mandated by Swisscom. In doing so, we examined the methodology used to define the parameters and the consistency with prior year and compared these parameters with the range of observable market information.

We further assessed whether the first-time recognition of the risk sharing as a change in estimate was appropriate and whether the disclosures in the notes to the financial statements were adequate.

For further information on pension fund obligations comPlan refer to the following:

— Notes to the consolidated financial statements No. 4 – Significant accounting judgments, estimates and assumptions in applying accounting policies

— Notes to the consolidated financial statements No. 10 – Post-employment benefits

Other Information in the Annual Report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements of the Company, the remuneration report and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of the Board of Directors for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Swiss law, ISAs and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.

— Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the 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

Hanspeter Stocker Licensed Audit Expert Auditor in Charge	Daniel Haas Licensed Audit Expert

Gümligen-Berne, 7 February 2017

KPMG AG, Hofgut, PO Box 112, CH-3073 Gümligen-Berne

Financial statements of Swisscom Ltd Income statement

In CHF million	2016	2015
Net revenue from the sale of goods and services	229	237
Other income	66	32
Total operating income	**295**	**269**
Personnel expense	(78)	(82)
Other operating expense	(92)	(110)
Total operating expenses	**(170)**	**(192)**
Operating income	**125**	**77**
Financial expense	(135)	(181)
Financial income	140	201
Income from participations	2,567	189
Income before taxes	**2,697**	**286**
Income tax expense	(15)	(7)
Net income	**2,682**	**279**

Balance sheet

In CHF million	Note	31.12.2016	31.12.2015
Assets			
Cash and cash equivalents		180	176
Current financial assets	3.1	86	–
Trade receivables	3.2	17	21
Other current receivables	3.3	16	10
Accrued dividends receivable from subsidiaries		2,500	73
Accrued income and deferred expense		100	89
Total current assets		**2,899**	**369**
Financial assets	3.4	4,996	5,911
Participations	3.5	7,884	7,872
Total non-current assets		**12,880**	**13,783**
Total assets		**15,779**	**14,152**
Liabilities and equity			
Current interest-bearing liabilities	3.6	1,868	1,718
Trade payables	3.7	5	8
Other current liabilities	3.8	54	52
Accrued expense and deferred income		84	81
Provisions		10	8
Total current liabilities		**2,021**	**1,867**
Non-current interest-bearing liabilities	3.6	7,403	7,449
Other non-current liabilities	3.8	88	66
Provisions		12	56
Total non-current liabilities		**7,503**	**7,571**
Total liabilities		**9,524**	**9,438**
Share capital		52	52
Legal capital reserves/capital surplus reserves		21	21
Voluntary retained earnings		6,183	4,641
Treasury shares		(1)	–
Total equity		**6,255**	**4,714**
Total liabilities and equity		**15,779**	**14,152**

Notes to the financial statements

1 General information

Name, legal form and domicile

- Swisscom Ltd, Ittigen (canton of Berne)
- Parent company of the Swisscom Group
- Swisscom Ltd is a limited-liability company established under a special statute pursuant to the Telecommunication Enterprises Act (TEA) (*German*: "Telekommunikationsunternehmungsgesetz") of 30 April 1997.
- Company identification number (UID) CHF-102.753.938

Share capital

As of 31 December 2016, the share capital comprised 51,801,943 registered shares of a par value of CHF 1 per share. This remains unchanged from the previous year.

Significant shareholders

As at 31 December 2016, the Swiss Confederation (Confederation), as majority shareholder, held 51% of the issued shares of Swisscom Ltd which is unchanged from the prior year. The Telecommunications Enterprises Act (TEA) provides that the Confederation shall hold the majority of the share capital and voting rights of Swisscom Ltd.

Number of full-time employees

The average number of employees of Swisscom Ltd during the financial year, expressed as full-time equivalents, exceeded 250, as in the prior year.

Approval of Annual Financial Statements

The Board of Directors of Swisscom Ltd approved the present Annual Financial Statements on 7 February 2017 for release. The Annual Financial Statements are subject to approval by the shareholders of Swisscom Ltd in its Annual General Meeting to be held on 3 April 2017.

2 Summary of significant accounting policies

General

Significant financial statement reporting policies which are not prescribed by law are described below. The ability to create and release hidden reserves for the purpose of ensuring the sustainable development of the company should be taken into account in this respect.

Participations and recording of dividend distributions by subsidiary companies

Participations are accounted for at acquisition cost less valuation allowances, as required. Dividend distributions from subsidiary companies are accrued in the financial statements of Swisscom Ltd provided that the annual general meetings of the subsidiary companies approve the payment of the dividend prior to the approval of the Annual Financial Statements of Swisscom Ltd by the Board of Directors.

Treasury shares

At the time of acquisition, treasury shares are recorded at purchase cost as a reduction of shareholders' equity. In the event of a subsequent disposal, the resultant gain or loss is taken to income as financial income or financial loss, respectively. The balance of and transactions in treasury shares are disclosed in Note 31 to the Consolidated Financial Statements.

Share-based payments

Should treasury shares be used for share-based payments to members of the Board of Directors and employees, the difference between the acquisition cost and any respective payment to the employees represents personnel expense as at the time the shares are allocated. Share-based payments of Swisscom Ltd are detailed in Note 11 to the Consolidated Financial Statements.

Derivative financial instruments and hedge accounting

Derivative financial instruments which are deployed to hedge foreign currencies and interest rates, are measured at market price. Movements in market prices are recorded in the income statement. Derivatives which meet the conditions of a hedging transaction, are measured using the same valuation principles as those which apply to the underlying transaction. Gains and losses arising from the underlying and hedging transactions are dealt with on a joint basis (combined valuation perspective with regard to valuation units).

3 Disclosures on balance sheet and income statement positions

3.1 Short-term financial assets

Short-term financial assets relate to fixed-term deposits denominated in EUR with a carrying value of EUR 80 million (CHF 86 million) and a term exceeding 90 days.

3.2 Trade accounts receivables

Trade accounts receivables consist exclusively of receivables from participations.

3.3 Other current receivables

In CHF million	31.12.2016	31.12.2015
Receivables from third parties	2	1
Receivables from participations	5	6
Derivative financial instruments	9	3
Total other current receivables	**16**	**10**

3.4 Financial assets

In CHF million	31.12.2016	31.12.2015
Loans and receivables from third parties	110	105
Loans and receivables from participations	4,855	5,793
Derivative financial instruments	28	10
Disagio debenture bonds	3	3
Total financial assets	**4,996**	**5,911**

3.5 Participations

A list of directly and indirectly held participations of Swisscom Ltd is set out in Note 40 to the Consolidated Financial Statements.

3.6 Interest-bearing liabilities

In CHF million	31.12.2016	31.12.2015
Payables to third parties	1,049	1,087
Payables to participations	819	631
Total current interest-bearing liabilities	**1,868**	**1,718**

In CHF million	31.12.2016	31.12.2015
Bank loans	522	590
Debenture bonds	5,501	5,413
Private placements	500	600
Loans to participations	857	840
Other interest-bearing liabilities to third parties	23	6
Total non-current interest-bearing liabilities	**7,403**	**7,449**

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

In CHF million or EUR	31.12.2016 Par value in CHF	31.12.2016 Nominal interest rate	31.12.2015 Par value in CHF	31.12.2015 Nominal interest rate
Debenture bond in CHF 2007–2017	600	3.75	600	3.75
Debenture bond in CHF 2009–2018	1,425	3.25	1,425	3.25
Debenture bond in EUR 2013–2020	537	2.00	542	2.00
Debenture bond in EUR 2014–2021	537	1.88	542	1.88
Debenture bond in CHF 2010–2022	500	2.63	500	2.63
Debenture bond in CHF 2015–2023	250	0.25	250	0.25
Debenture bond in CHF 2012–2024	500	1.75	500	1.75
Debenture bond in EUR 2015–2025	537	1.75	542	1.75
Debenture bond in CHF 2014–2026	200	1.50	200	1.50
Debenture bond in CHF 2016–2027	200	0.38	–	–
Debenture bond in CHF 2016–2028	200	0.38	–	–
Debenture bond in CHF 2014–2029	160	1.50	160	1.50
Debenture bond in CHF 2016–2032	300	0.13	–	–
Debenture bond in CHF 2015–2035	150	1.00	150	1.00

3.7 Trade payables

In CHF million	31.12.2016	31.12.2015
Payables to third parties	4	6
Payables to participations	1	2
Total trade payables	**5**	**8**

3.8 Other liabilities

In CHF million	31.12.2016	31.12.2015
Payables to third parties	38	38
Payables to participations	10	6
Derivative financial instruments	6	8
Total other current liabilities	**54**	**52**

In CHF million	31.12.2016	31.12.2015
Payables to third parties	4	7
Derivative financial instruments	84	59
Total other non-current liabilities	**88**	**66**

3.9 Residual leasing commitments

Leasing commitments present the following maturity structure:

In CHF million	31.12.2016	31.12.2015
Within 1 year	2	2
1 to 5 years	–	1
Total remaining amount of lease obligation	**2**	**3**

The amounts encompass the payments arising under rental and leasing contracts which are to be settled up to the end of the contract or the end of the notice period for cancellation.

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

The following table discloses the number of unrestricted and restricted shares held by the members of the Board of Directors and Group Executive Board as well as parties related to them, as of 31 December 2015 and 2016:

Number	31.12.2016	31.12.2015
Hansueli Loosli	2,350	2,012
Roland Abt [1]	88	–
Valérie Berset Bircher [1]	96	–
Alain Carrupt [1]	96	–
Frank Esser	332	205
Barbara Frei	648	528
Hugo Gerber [2]	–	1,233
Michel Gobet [2]	–	1,600
Torsten Kreindl [2]	–	1,322
Catherine Mühlemann	1,326	1,223
Theophil Schlatter	1,225	1,054
Hans Werder	1,128	982
Total shares held by the members of the Board of Directors	**7,289**	**10,159**

[1] Elected to the Board of Directors as of 6 April 2016.
[2] Resigned from the Board of Directors as of 6 April 2016.

Number	31.12.2016	31.12.2015
Urs Schaeppi (CEO)	3,229	2,602
Mario Rossi	1,027	821
Hans C. Werner	897	571
Marc Werner	382	211
Christian Petit	1,337	1,525
Roger Wüthrich-Hasenböhler [1]	–	1,032
Heinz Herren	1,333	1,098
Dirk Wierzbitzki [2]	64	–
Total shares held by the members of the Group Executive Board	**8,269**	**7,860**

[1] Resigned from the Group Executive Board as of 31 December 2015.
[2] Joined the Group Executive Board as of 1 January 2016.

In 2016, 1,308 shares (CHF 0.7 million) were issued to members of the Board of Directors, 1,841 shares (CHF 1.0 million) were issued to members of the Group Executive Board and 3,337 shares (CHF 1.7 million) were issued to other Swisscom employees. See Note 11 to the Consolidated Financial Statements.

None of the individuals/entities required to make notification holds voting shares exceeding 0.1% of the share capital.

3.11 Collateral given to secure third-party liabilities

As of 31 December 2016, guarantee obligations exist for Group companies in favour of third parties totalling CHF 228 million (prior year: CHF 111 million).

3.12 Assets used to secure own commitments as well as assets subject to retention of title

As of 31 December 2016, financial assets totalling CHF 109 million (prior year: CHF 105 million) were not freely available. These assets serve to secure commitments arising from bank loans.

3.13 Material events after the balance sheet date

No material events subsequent to the balance sheet date occurred in the period ending 7 February 2017, the date on which the Board of Directors of Swisscom Ltd approved the release of the Annual Financial Statements.

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 3 April 2017 that the available retained earnings of CHF 6,183 million as of 31 December 2016 be appropriated as follows:

In CHF million	31.12.2016
Appropriation of retained earnings	
Balance carried forward from prior year	3,501
Net income for the year	2,682
Treasury shares	(1)
Total retained earnings	**6,182**
Ordinary dividend of CHF 22.00 per share on 51,800,429 shares [1]	(1,140)
Balance to be carried forward	**5,042**

[1] Excluding treasury shares.

In the event that the proposal is approved, a dividend per share will be paid to shareholders on 7 April 2017 as follows:

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

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Statutory Auditor's Report

To the General Meeting of Swisscom Ltd., Ittigen (Berne)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Swisscom Ltd., which comprise the balance sheet as at 31 December 2016, and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements (pages 227 to 234) for the year ended 31 December 2016 comply with Swiss law and the company's articles of incorporation.

Basis for Opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority

We have determined that there are no key audit matters to communicate in our report.

Responsibility of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit 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 internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.

— Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

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

KPMG AG

Hanspeter Stocker Licensed Audit Expert Auditor in Charge	Daniel Haas Licensed Audit Expert

Gümligen-Berne, 7 February 2017

KPMG AG, Hofgut, PO Box 112, CH-3073 Gümligen-Berne

800 technicians

on average are working for our customers seven days a week.

1,526,909 interventions

are carried out annually at customer premises and exchanges.

Marco Burri
Service technician

Swisscom is building the network of the future. Customer Field Service provides on-site support for SMEs, residential customers and corporate customers. It assists customers in migrating to IP (Internet Protocol) and ensures the switch goes smoothly.

Markus Zahler
Service technician

"We have our finger on our customers' pulse and can respond individually to their personal needs. The trust they place in us motivates us every day, whatever the weather, day and night."

Further information

Focusing on our customers with a great deal of passion and reliability.

Glossary

Technical terms

4G/LTE (Long Term Evolution): 4G/LTE is the successor technology to HSPA and is the fourth generation of mobile technology. At present, LTE enables mobile broadband data speeds of up to 150 Mbps.

4G+/LTE Advanced: 4G+/LTE Advanced enables a theoretical bandwidth of up to 300 Mbps using the mobile phone network. To do so, it bundles 4G/LTE frequencies to achieve the necessary capacity. In the near future, theoretical bandwidths of up to 450 Mbps will be achieved through the further bundling of 4G/LTE frequencies.

5G: 5G is the next generation of mobile network technology. While no international definition of a 5G standard exists to date, testing is taking place around the world. Swisscom expects to launch 5G in Switzerland in 2020.

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 prevent 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 (copper and optical fibre) based on the Internet Protocol (IP). All-IP means that all services such as television, the Internet or fixed-line telephony run over the same IT network. Phone calls are no longer transmitted using analogue signals but instead take the form of data packets, as is the case for existing Internet services. Thanks to the 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 switch all existing communications networks to IP to enable all telecommunications services (telephony, data traffic, TV, mobile communications, etc.) to be offered over IP. This would mean that all IP services within Switzerland are provided via Swisscom's own network, ensuring a higher level of security and better availability than other online voice service providers.

Bandwidth: Bandwidth refers to the transmission capacity of a medium, also known as the data transmission rate. The higher the bandwidth, the more information units (bits) can be transmitted per unit of time (second). It is defined in bps, kbps or Mbps.

Cloud: Cloud computing is an approach in which IT infrastructure, such as computing capacity, data storage and even finished software and platforms can be modified dynamically according to need and accessed via the Internet. The data centres, along with the resources and databases, are distributed via the cloud. The cloud is also a synonym for hardware that does not have a precise location.

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 part of the second generation of mobile telephony and is a radio modulation technology used to enhance data transmission speeds in GSM mobile networks. EDGE enables data transfer rates of up to 256 kbps. EDGE is currently available to over 99% of the Swiss population.

FTTH (Fibre to the Home): FTTH refers to the end-to-end connection of homes and businesses 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 existing copper cabling is used for the remaining section. VDSL2's upcoming evolution to G.fast will significantly increase bandwidths for FTTS and FTTB.

G.fast (pronounced "gee dot fast"): G.fast, the latest technology for copper lines, is capable of providing far more bandwidth than VDSL2. The use of G.fast for FTTS and FTTB is part of Swisscom's access strategy.

GPRS (General Packet Radio Service): GPRS is part of the second generation of mobile telephony and increases the transfer rates of GSM mobile networks. GPRS enables speeds of 30 to 40 kbps.

GSM (Global System for Mobile communications) network: GSM is a global second-generation digital mobile telephony standard which, in addition to voice and data transmission, enables services such as SMS messages and phone calls to and from other countries (international roaming).

Housing: Housing is defined as the placement and network connection of server infrastructure in a data centre.

HSPA (High Speed Packet Access): HSPA is an enhancement of the third generation of the UMTS mobile communications standard. Compared to UMTS, HSPA enables large volumes of data to be transmitted at faster speeds. HSPA enables far more customers to use the same radio cell simultaneously and at a consistently high speed than would be possible with UMTS. At locations where mobile Internet use is particularly concentrated, HSPA was upgraded to HSPA+ (also referred to as HSPA Evolution). The maximum transmission speed currently delivered by this technology is 42 Mbps.

ICT (Information and Communication Technology): A term coined in the 1980s, combining the terms information and communication technology. It 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.

MVNO (Mobile Virtual Network Operator): MVNO denotes a business model for mobile communications. In this case, the corresponding business (the MVNO) has either a limited network infrastructure or no network infrastructure at all. It therefore accesses the infrastructure of other mobile communication providers.

Net Promoter Score (NPS): NPS is a key figure that quantifies customer satisfaction directly and willingness to recommend the service to other customers indirectly. NPS is thus a tool used to determine customer satisfaction.

Network convergence: The dismantling and reorganisation of previously separated networks to form a large, convergent network – for example, the Swisscom fixed-line and mobile network.

Optical fibre: Fibre-optic cables enable optical data transmission, unlike copper cables, which use electrical signals to transmit data.

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.

Petabyte: Unit of measurement for data size. 1 petabyte is equivalent to approximately 1,000 terabytes, 1,000,000 gigabytes or 1,000,000,000 megabytes.

PWLAN (Public Wireless Local Area Network): PWLAN denotes a wireless, local public network based on the IEEE 802.11 WiFi standard family. A PWLAN typically offers data transmission speeds of 5–10 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 (routing). Routers come in different forms, from large-scale network devices to small devices for the home.

Smart data: Primarily refers to the processing and understanding of large, complex and rapidly changing data volumes in the aim of creating added value.

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 the information signal is first demultiplexed and then demodulated.

Terabyte: Unit of measurement for data size. 1 terabyte is equivalent to approximately 1,000 gigabytes or 1,000,000 megabytes.

TIME: Acronym for Telecommunication, Information, Multimedia and Entertainment. It refers to the way in which these areas have grown together within the scope of digitisation.

Ultra-fast broadband: Ultra-fast broadband denotes broadband speeds of more than 50 Mbps – on both fixed and mobile networks.

UMTS (Universal Mobile Telecommunications System): UMTS is an international third-generation mobile communications standard that combines mobile multimedia and voice services. A further development of GSM, UMTS complements GSM and Public Wireless LAN in Switzerland. Today the UMTS network covers around 99% 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 telephony, PDAs, instant messaging and presence functions are coordinated to improve the reachability of communication partners working on distributed projects, thereby speeding up business processes.

Vectoring: Vectoring is a technology used in conjunction with VDSL2. It eliminates interference (disruptions) between pairs of copper lines to achieve up to a twofold increase in bandwidth.

VDSL (Very High Speed Digital Subscriber Line): VDSL is currently the fastest DSL technology, allowing data transmission speeds of up to 100 Mbps. The current form of VDSL is called VDSL2.

Video on Demand: A service that allows subscribers to choose from a selection of (video) films and to watch the selected film at any time. The film is delivered to the subscriber either over the broadband cable network, over the original telephone network (DSL transmission), or over the new fibre-optic network (optical transmission).

VoIP (Voice over Internet Protocol): VoIP is used to set up telephone connections via the Internet.

VoLTE (Voice over LTE): LTE is, in effect, a pure data network. VoLTE enables phone calls via the LTE data network.

VPN (Virtual Private Network): Colloquially, VPN is now used to refer to a virtual IP network (usually encrypted) that acts as a closed subnetwork within another IP network (often the public Internet).

WiFi Calling: WiFi Calling enables users to make calls via their mobile phone and the WLAN/WiFi network. This technology significantly improves mobile phone reception in houses.

WLAN (Wireless Local Area Network): WLAN stands for wireless local area network. A WLAN connects several computers wirelessly to a central information system, printer or scanner.

Networks

Leased lines: Swisscom operates various data networks. These data networks support leased lines based on a range of different technologies such as SDH (Synchronous Digital Hierarchy) and, of course, Ethernet. Business customers can take advantage of permanent, overload-free point-to-point connections using bandwidths of between 2 Mbps and 10 Gbps. Redundancies are tailored to customers' individual requirements in terms of availability and security.

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 a network infrastructure that is based exclusively on All-IP. This infrastructure 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 since then 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 a wide area network that connects the regional parts of the fixed network as well as the regional parts of the mobile network with each other as well as with the respective central network core. It also provides the link to computer centres and the global Internet. The transport network is used for all services (voice, video and data) and all customers (residential/business).

Wired access network: Swisscom's copper access network is comprised primarily of twisted copper wire pairs. It reaches practically every household in Switzerland. Swisscom began with the expansion of fibre-to-the-home (FTTH) in 2008. It started rolling out broadband technology in 2000, first based on ADSL. ADSL was followed in 2006 by VDSL2 and from 2013 onwards by FTTS/B (fibre-to-the-street or basement) and vectoring. In addition, in September 2016 Swisscom became the first European telecommunications provider to introduce G.fast in the live network. This new transmission standard enables bandwidths of up to 500 Mbps in FTTS/B networks. To fulfil its mandate for basic broadband provision, Swisscom also uses wireless technologies such as UMTS and satellite. At present, ADSL is mainly used to provide Internet access. Internet access using very high bandwidths and more broadband-intensive services such as IPTV and video telephony are transmitted only over VDSL2 or optical fibre. At the end of 2013 Swisscom launched a service on the fibre-optic network offering speeds of 1 Gbps.

Wireless access network: Swisscom operates a nationwide mobile network in Switzerland. The mobile services it provides are based on 4G, 3G and 2G, the 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 and 200 kbps. Swisscom launched UMTS back in 2004, and has continuously expanded its mobile network to include the UMTS extension HSPA/HSPA+ since 2006. This ensures download speeds of up to 42 Mbps. Swisscom took another major step in 2011 when it became the first mobile provider in Switzerland to launch a field trial with LTE. Swisscom launched its 4G/LTE offerings on the Swiss market in December 2012. At present, LTE enables bandwidths of up to 150 Mbps. However, it is continuously being developed, and since end-2015, customers can now enjoy 4G+/LTE Advanced in 28 Swiss cities. Swisscom thus possesses the most efficient mobile network in Switzerland and will continue to expand its technological lead. Bandwidths of up to 450 Mbps are already being tested in laboratory conditions.

Other terms

Bit-stream access (BSA): Regulated bitstream access is a high-speed link that travels the last mile from the local exchange to the customer's home connection via a metallic pair cable. The BSA is set up by Swisscom and is provided 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 in order to foster competition. ComCo combats harmful cartels and monitors market-dominant companies for signs of anti-competitive conduct. It is responsible for monitoring mergers. In addition, it provides comments 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 improve the quality of financial reporting by promoting 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 regulation approach, 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).

Federal Office of Communications (OFCOM): 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).

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).

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.

Termination charges: Termination charges are levied by a network operator for forwarding calls to another third-party network.

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. There are two types of unbundling: unbundling at the exchange (unbundling of the local loop/ULL or LLU, referred to as TAL in Switzerland), currently available at around 600 unbundled locations, and unbundling at the neighbourhood distribution cabinet (sub-loop unbundling, referred to as T-TAL in Switzerland), in which Swisscom's competitors have so far shown no interest.

Index of keywords

Swisscom Group five-year review

In CHF million, except where indicated		2012	2013	2014	2015	2016
Net revenue and results						
Net revenue		11,384	11,434	11,703	11,678	11,643
Operating income before depreciation and amortisation (EBITDA)		4,477	4,302	4,413	4,098	4,293
EBITDA as % of net revenue	%	39.3	37.6	37.7	35.1	36.9
Operating income (EBIT)		2,527	2,258	2,322	2,012	2,148
Net income		1,815	1,695	1,706	1,362	1,604
Share of net income attributable to equity holders of Swisscom Ltd		1,808	1,685	1,694	1,361	1,604
Earnings per share	CHF	34.90	32.53	32.70	26.27	30.97
Balance sheet and cash flows						
Equity at end of year		4,717	6,002	5,486	5,242	6,522
Equity ratio at end of year	%	23.8	29.3	26.2	24.8	30.4
Cash flow provided by operating activities		4,245	4,131	3,770	3,867	3,862
Capital expenditure in property, plant and equipment and other intangible assets		2,529 [1]	2,396	2,436	2,409	2,416
Net debt at end of period		8,071	7,812	8,120	8,042	7,846
Employees						
Full-time equivalent employees at end of year	number	19,514	20,108	21,125	21,637	21,127
Average number of full-time equivalent employees	number	19,771	19,746	20,433	21,546	21,453
Operational data at end of period						
Fixed telephony access lines in Switzerland	in thousand	3,013	2,879	2,778	2,629	2,367
Broadband access lines retail in Switzerland	in thousand	1,727	1,811	1,890	1,958	1,992
Mobile access lines in Switzerland	in thousand	6,217	6,407	6,540	6,625	6,612
Swisscom TV access lines in Switzerland	in thousand	791	1,000	1,165	1,331	1,476
Revenue generating units (RGU) Switzerland	in thousand	11,748	12,097	12,373	12,543	12,447
Unbundled fixed access lines in Switzerland	in thousand	300	256	180	128	128
Broadband access lines wholesale in Switzerland	in thousand	186	215	262	315	364
Broadband access lines in Italy	in thousand	1,767	1,942	2,072	2,201	2,355
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	51.802	51.802	51.802	51.802	51.802
Market capitalisation at end of year		20,400	24,394	27,067	26,056	23,627
Closing price at end of period	CHF	393.80	470.90	522.50	503.00	456.10
Closing price highest	CHF	400.00	474.00	587.50	580.50	528.50
Closing price lowest	CHF	334.40	390.20	467.50	471.10	426.80
Ordinary dividend per share	CHF	22.00	22.00	22.00	22.00	22.00 [2]
Ratio payout/earnings per share	%	63.04	67.63	67.27	83.75	71.04
Informations Switzerland						
Net revenue		9,268	9,358	9,586	9,764	9,665
Operating income before depreciation and amortisation (EBITDA)		3,864	3,685	3,788	3,461	3,572
Capital expenditure in property, plant and equipment and other intangible assets		1,994 [1]	1,686	1,751	1,822	1,774
Full-time equivalent employees at end of year	number	16,269	17,362	18,272	18,965	18,372

[1] Including expenses of CHF 360 million for mobile frequencies.
[2] In accordance with the proposal of the Board of Directors to the Annual General Meeting.

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- **8 February 2017**
  Publication of 2016 Annual Results and Annual Report
- **3 April 2017**
  Annual General Meeting in Zurich
- **5 April 2017**
  Ex dividend date
- **7 April 2017**
  Dividend payment
- **3 May 2017**
  2017 First-Quarter Results
- **17 August 2017**
  2017 Second-Quarter Results
- **2 November 2017**
  2017 Third-Quarter Results
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General information
Swisscom Ltd
Head office
CH-3050 Berne
Phone: +41 58 221 99 11
E-mail: swisscom@swisscom.com

Financial information
Swisscom Ltd
Investor Relations
CH-3050 Berne
Phone: +41 58 221 99 11
E-mail: investor.relations@swisscom.com
Internet: www.swisscom.ch/investor

Social and environmental information
Swisscom Ltd
Group Communications & Responsibility
CH-3050 Berne
E-mail: corporate.responsibility@swisscom.com
Internet: www.swisscom.ch/responsibility

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