2011

Annual Report

swisscom

About this Report

Reporting structure

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

Topics

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

Swisscom also provides a report for stakeholders on the Group's economic, social and ecological performance. The scope and content of the sustainability report are based on the guidelines of the Global Reporting Initiative (GRI 3.0). GRI is the leading global standard for corporate sustainability reporting.

The GRI Index offers a standardised overview of sustainability reporting by subject area. The Index contains references to the relevant pages in the Annual Report or other information sources and can be viewed online.

- Global Reporting Initiative at www.globalreporting.org
- GRI Index at www.swisscom.ch/GRI-2011/en

External auditing and evaluation

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

The Sustainability Report, prepared in accordance with GRI 3.0, was audited by SGS AG and certified with Level A+ of the Global Reporting Initiative.

- Reports of the Statutory Auditors Pages 234 and 245
- GRI certified by SGS Page 126

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Facts & Figures

Net revenue

11,467m
CHF net revenue in 2011

9,326m
CHF net revenue in 2011
(excl. Fastweb)

–2.3%
net revenue in local currency
in 2011

Operating income

4,584m
CHF operating income before
depreciation and amortisation
(EBITDA) in 2011

694m
CHF net income in 2011

40.0%
EBITDA margin in 2011

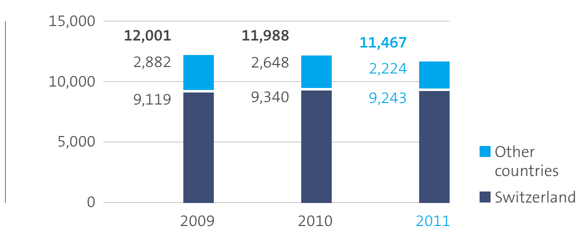
Customers

6.0m
mobile access lines in Switzerland
at end of year 2011

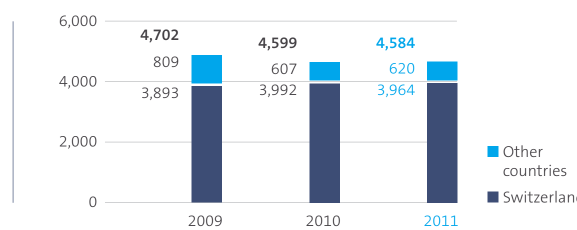
608,000
Swisscom TV subscribers at end
of year 2011

1.6m
broadband access lines in Italy
at end of year 2011

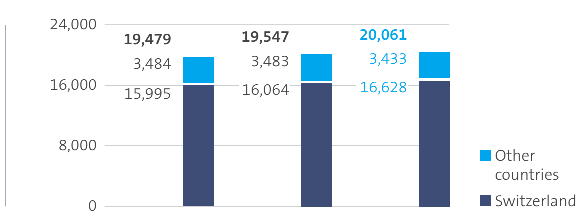
Net revenue in CHF million



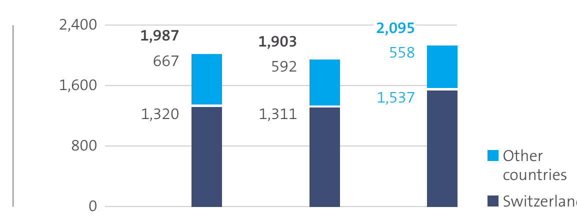
EBITDA in CHF million



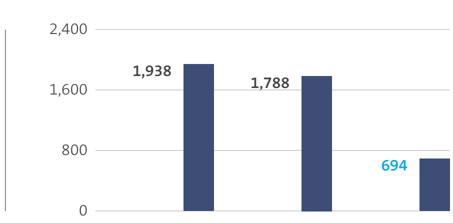
Number of employees in full-time equivalent



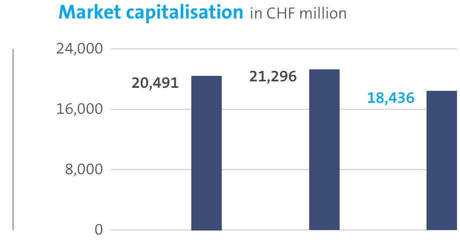
Capital expenditure in CHF million



Net income in CHF million



Market capitalisation in CHF million



KPI's of Swisscom Group

In CHF million, except where indicated		2011	2010	Change
Net revenue and results				
Net revenue		11,467	11,988	–4.3%
Operating income before depreciation and amortisation (EBITDA)		4,584	4,599	–0.3%
EBITDA as % of net revenue	%	40.0	38.4	
Operating income (EBIT) before impairment losses on goodwill		2,681	2,627	2.1%
Operating income (EBIT)		1,126	2,627	–57.1%
Net income		694	1,788	–61.2%
Share of net income attributable to equity holders of Swisscom Ltd		683	1,813	–62.3%
Earnings per share	CHF	13.19	35.00	–62.3%
Balance sheet and cash flows				
Equity at end of year		4,296	5,350	–19.7%
Equity ratio at end of year	%	22.1	25.4	
Operating free cash flow		2,068	2,512	–17.7%
Capital expenditure in property, plant and equipment and other intangible assets		2,095	1,903	10.1%
Net debt at end of period		8,309	8,848	–6.1%
Employees				
Full-time equivalent employees at end of year	number	20,061	19,547	2.6%
Average number of full-time equivalent employees	number	19,832	19,464	1.9%
Operational data				
Telephone access lines PSTN/ISDN in Switzerland	in thousand	3,120	3,233	–3.5%
Unbundled fixed access lines in Switzerland	in thousand	306	255	20.0%
Telephone PSTN/ISDN and unbundled subscribers	in thousand	3,426	3,488	–1.8%
Broadband access lines retail in Switzerland	in thousand	1,661	1,584	4.9%
Mobile access lines in Switzerland	in thousand	6,049	5,828	3.8%
Swisscom TV access lines in Switzerland	in thousand	608	421	44.4%
Broadband access lines in Italy	in thousand	1,595 [1]	1,724	–7.5%
Swisscom share				
Par value per share at end of year	CHF	1.00	1.00	–
Number of issued shares at end of period	in million of shares	51.802	51.802	–
Closing price at end of period	CHF	355.90	411.10	–13.4%
Market capitalisation at end of year		18,436	21,296	–13.4%
Dividend per share	CHF	22.00 [2]	21.00	4.8%
Ratio payout/earnings per share	%	166.85	60.00	
Environmental key figures in Switzerland				
Energy consumption	GWh	507	510	–0.6%
Carbon dioxide CO_2	tons	23,242	25,422	–8.6%
Average carbon dioxide CO_2 emission vehicle fleet	Gram per km	140.0	150.0	–6.7%
Rate of return handy recycling	%	8.9	6.0	

[1] As a result of the settlement of litigations, Fastweb reduced the number of access lines by 197,000 in the third quarter of 2011.
[2] In accordance with the proposal of the Board of Directors to the Annual General Meeting.

Business Overview

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

Swisscom Switzerland

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

In CHF million, except where indicated	2009	2010	2011
Net revenue	8,453	8,566	8,461
Segment result before depreciation and amortisation	3,675	3,804	3,774
Margin as % of net revenue	43.5	44.4	44.6
Capital expenditure	1,219	1,204	1,400
Full-time equivalent employees at end of year	11,866	11,716	12,096

Residential Customers

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

Small and Medium-Sized Enterprises

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

Corporate Business

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

Wholesale

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

Network & IT

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

Fastweb

Fastweb is Italy's third largest broadband telecoms company.

In EUR million, except where indicated	2009	2010	2011
Net revenue	1,853	1,880	1,746
Segment result before depreciation and amortisation	551	433	506
Margin as % of net revenue	29.7	23.0	29.0
Capital expenditure	434	427	448
Full-time equivalent employees at end of year	3,125	3,123	3,081

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

Other operating segments

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

In CHF million, except where indicated	2009	2010	2011
Net revenue	1,727	1,736	1,738
Segment result before depreciation and amortisation	351	340	338
Margin as % of net revenue	20.3	19.6	19.4
Capital expenditure	121	130	169
Full-time equivalent employees at end of year	4,151	4,368	4,515

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

Group Headquarters

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

Shareholders' Letter

Hansueli Loosli (right)
and Carsten Schloter

Dear Shareholders

Swisscom can look back on an eventful year which had both bright and not-so-bright sides. As in the previous year, mobile data services and TV business produced the biggest growth, posting growth figures in the double digits. Nevertheless, the price erosion in the Swiss core business could not be fully offset. 2011 was characterised by a very high level of investment in new-generation networks in Switzerland. In Italy, the difficult economic situation and rising interest rates led to reduced prospects for growth and higher capital costs. As a consequence, the value of the shareholding in Fastweb was corrected, lowering Swisscom's net income by around CHF 1.2 billion.

Marginal decline in operating profit

Group revenue was CHF 11.5 billion, thus falling short of the prior-year level by CHF 0.5 billion. Net income fell by 61.2% to CHF 0.7 billion. Swisscom closed the 2011 financial year with a 4.3% decline in net revenue to CHF 11,467 million and with operating income before depreciation and amortisation (EBITDA) 0.3% lower at CHF 4,584 million. Operating free cash flow decreased by CHF 444 million to CHF 2,068 million owing to the higher investments in Switzerland. Growth in customer numbers and volume amounting to around CHF 400 million could not offset the price erosion in Swiss core business, which amounted to around CHF 500 million. Capital expenditure in Switzerland increased by CHF 226 million to CHF 1.54 billion and the number of workplaces in Switzerland rose by 3.5%. The net revenue of the Italian subsidiary Fastweb fell in local currency terms by 7.1% to EUR 1,746 million as a result of aggressive price competition. The difficult economic situation in Italy and rising interest rates led to reduced prospects for growth and higher capital costs. As a result, the business plan of the Italian subsidiary Fastweb was revised and the value of this shareholding was corrected. This reduced Swisscom's net income in the 2011 financial statements by CHF 1.2 billion to CHF 0.7 billion. This value adjustment will not negatively affect cash flow or dividends to shareholders nor will it impact on the level of investments and prices in Switzerland.

Swisscom share performance in 2011

The Swisscom share dropped 13.4% in value over the course of the year, while the Swiss Market Index (SMI), which comprises the 20 leading listed Swiss companies, fell by 7.8%. The European Telco Index was 8.6% lower in Swiss francs. Payment of an ordinary dividend of CHF 22 per share (prior year CHF 21) will be proposed to the Annual General Meeting of Shareholders. This will represent a total dividend payout of CHF 1,140 million. The Board of Directors is thus continuing the dividend policy that it has pursued for the last few years.

Business performance from the perspective of the three-pillar strategy: maximise, extend and expand

Maximise

Swisscom wants to strengthen and expand its position in Swiss core business in the long term. Price erosion caused by fierce competition and regulation amounted to around CHF 500 million in 2011, which could not be offset by customer growth in mobile and broadband business and increased data traffic. The number of mobile customers in Switzerland increased year-on-year by 221,000 or 3.8% to 6 million. Swisscom sold 1.5 million mobile handsets (+5.7%), of which 60% were smartphones. While strong growth in smartphone sales led to an increase in subsidies for handsets, it also doubled the volume of mobile data traffic year-on-year. Bundled offerings such as Vivo Casa, which combines fixed-line access with telephony, Internet and TV, were very much in demand in 2011. At the beginning of August, Swisscom launched Vivo Tutto, the first nationwide bundled offering to also include a mobile line. By the end of 2011 a total of 613,000 customers were using bundled offerings. The number of broadband access lines with end customers grew by 77,000 or 4.9% year-on-year to 1.66 million, while the number of Swisscom connections used by alternative providers rose slightly in 2011 to 487,000.

Extend

The focus of this strategic pillar is on extending core business along the value chain. Although income from the transmission of voice and data has been steadily declining for a number of years, technological developments have repeatedly allowed Swisscom to break into new areas of business. In 2011, Swisscom became the leading provider of digital TV in Switzerland, five years after launching its product, with the number of Swisscom TV customers rising by 44.4% year-on-year to 608,000. In the fourth quarter of 2011 alone, 52,000 customers subscribed to Swisscom's TV offering. The functionality and range of programmes of Swisscom TV has been expanded. Special apps now allow customers direct access to Internet-based applications and programmes broadcast up to 24 hours earlier. The Group's subsidiary Swisscom IT Services, which offers a broad portfolio of IT services, has been going from strength to strength in the last few years. In IT outsourcing, Swisscom IT Services is now one of the biggest providers on the Swiss market. With the goal of increasing its business in the field of SAP services, Swisscom IT Services acquired the Cirrus Group and the EFP Group.

Expand

Business in Switzerland is subject to constant, high risks associated with regulation due to Swisscom's position as historical supplier. Swisscom therefore invests in alternative business models abroad which could potentially benefit from regulation that would rather impair business in Switzerland. Swisscom's international business is focussed on Fastweb in Italy. The difficult economic situation and rising interest rates are reducing growth prospects and increasing capital costs in Italy. As a result, the business plan of the Italian subsidiary Fastweb had to be revised and the value of this investment corrected, which reduced the net income in Swisscom's 2011 financial statements by CHF 1.2 billion. This value adjustment will not have a lasting effect on cash flow or dividends to shareholders. The new business plan envisages further expansion of sales channels, intensification of the partnership with pay-TV provider Sky and expansion of the mobile communications product range. With the measures introduced at the end of 2010 and in conjunction with the company's new leadership, Swisscom was able to secure itself a significantly larger share of new customers in the course of 2011. In order to further increase efficiency, a variety of cost-cutting initiatives were introduced. The measures for reducing bad debt losses are also proving successful in a year-on-year comparison, with, for example, the proportion of new customers with payment difficulties being reduced by half against the previous year. Overall, the measures for cutting costs and reducing bad debt losses should boost the company's results by EUR 120 million per year over the next two years. Fastweb is the only alternative provider in Italy with an extensive fibre-optic network and, even though the prospects for growth had to be adjusted because of the economic situation, we are convinced that demand in Italy for increasingly efficient networks will continue to climb – and in turn Fastweb will greatly benefit.

Investments in infrastructure and customer service in Switzerland

Customers' growing expectations regarding the security and performance of the infrastructure provided by Swisscom and the quality of advisory and other services make higher capital expenditure a necessity. Investments in 2011 rose by CHF 226 million versus the previous year. A total of CHF 1.54 billion was spent on enhancing the performance and security of the Swiss infrastructure, in particular the expansion of the fibre-optic network. Statistically speaking, every two minutes a new connection is added to the fibre-optic network. By the end of 2011, around 364,000 households and businesses had already been connected to the fibre-optic network, a figure which is set to rise to around a million by the end of 2015, which approximately represents a third of the Swiss population. Some of these connections are realised in cooperation with electrical utility companies or cable network operators. A number of cooperation agreements have already been renegotiated and amended, following intervention by the Competition Commission. Swisscom is looking to establish further partnerships with electrical utilities willing to invest and is testing various fibre-optic technologies in an effort to supply the population with more bandwidth and enhanced performance even more quickly – also outside the main urban centres. Mobile Internet services are continuing to grow in popularity, with the demand for mobile bandwidth doubling every twelve months. The trade journal "connect" and the Swiss consumer TV programme "Kassensturz" both rated Swisscom has having the best network in Switzerland in 2011. To ensure that this remains so, Swisscom is continuously investing in new mobile communication technologies. Investment in Swiss infrastructure will again increase in 2012, to CHF 1.7 billion. These investments are a major contribution to ensuring that Switzerland, as an information and knowledge society, will continue to boast one of the world's best telecoms infrastructures. To consolidate our leading position in infrastructure and service quality, investments will also remain high in the coming years.

Sustainability from a Swisscom perspective

Sustainable management and long-term responsibility are firmly enshrined in Swisscom's corporate culture. Swisscom has a responsibility towards the environment and society – now and in the future and so, for example, Swisscom obtains all its electricity from renewable energy sources. We firmly believe that in the future customers will pay even more attention than they do today to Swisscom's track record of sustainable economic, ecological and social policies. The goals of our Corporate Responsibility Strategy are formulated around four strategic priorities: "Sustainable living and working", "Sustainable use of resources and responsibility in the supply chain", "Telecommunications for all" and "Responsible employer". Details about how Swisscom is meeting its objectives can be found in the section on "Corporate Responsibility" in this Annual Report.

Management changes

After five successful years with the company, Daniel Ritz, Swisscom's Chief Strategy Officer and member of the Group Executive Board since 2006, left Swisscom at the end of January 2012 to take up a new professional challenge outside Switzerland. Daniel Ritz headed up Group Strategy & Business Development during his time at Swisscom, and in this function he played a major role in shaping and implementing Swisscom's strategy. The Swisscom Board of Directors and the Group Executive Board would like to thank Daniel Ritz for his outstanding contribution. His duties will be assumed by current management from February 2012 until a definitive successor has been chosen. On 1 September 2011, Hans C. Werner was appointed as the new Head of Human Resources, taking over from Günter Pfeiffer, who left the company in 2010.

Changes to the Board of Directors

Major changes occurred in the Board of Directors in 2011: Hansueli Loosli was appointed as the new Chairman at the Annual General Meeting on 20 April 2011 and assumed this role following the handover of his executive responsibilities at Coop on 1 September 2011. We would like to thank the outgoing Chairman, Dr. Anton Scherrer, for his outstanding contribution to Swisscom. Anton Scherrer served Swisscom for eight years as a member of the Board of Directors and as Chairman of the Board and was a constant advocate for our customers. We wish him all the best for the future. The Annual General Meeting appointed Theophil Schlatter, former CFO of Holcim, to the Board of Directors. Dr. Hans Werder, former General Secretary of the Department of Environment, Transport, Energy and Communication (DETEC), was elected by the Federal Council as its new representative on the Swisscom Board of Directors. Hans Werder succeeded Felix Rosenberg on 20 April 2011. We thank Felix Rosenberg for his valuable commitment and wish him all the best for the future.

Financial outlook 2012

Assuming an average CHF/EUR exchange rate in 2012 of 1.23, Swisscom expects to close the year with net revenue of CHF 11.4 billion and EBITDA of CHF 4.4 billion. Consumers in Switzerland are extremely quality conscious. With high capital expenditure, Swisscom aims to consolidate both its leading position in network and service quality and its market position. Capital expenditure of up to CHF 2.2 billion is projected for 2012, of which CHF 1.7 billion will be invested in Swiss business, which corresponds to an increase of CHF 100 million. This amount does not include expenses arising in connection with the mobile frequencies. A similarly high investment level is projected for the following years. If all targets are met for 2012, Swisscom plans to once again propose payment of a dividend of CHF 22 per share to the Annual Meeting of Shareholders in 2013 despite the additional expenses arising in connection with mobile frequencies.

Thank you

All in all, we can look back on an intensive and eventful year. We owe our achievements in 2011 to the trust of our customers, the loyalty of our shareholders and the tireless dedication and commitment of our employees. A warm thank you to you all.

Yours sincerely

Hansueli Loosli
Chairman of the Board of Directors
Swisscom Ltd

Carsten Schloter
CEO Swisscom Ltd

Highlights 2011

Market

- Swisscom rated by Swiss companies as best ICT service provider.
- Federal Court ruling on mobile termination: Swisscom did not abuse its position and the fine was waived.
- Preliminary clarification by the Competition Commission (ComCo) led to a review of the fibre-optic partnership agreements and amendments to individual provisions.
- Test by the TV program "Kassensturz" and the magazine "Connect" show Swisscom as having the best mobile network in Switzerland.

Products and Services

- Vivo Tutto: first subscription package to combine Swisscom TV, Internet, fixed-line and NATEL®.
- Swisscom clocks up 608,000 customers to become Switzerland's biggest digital television provider.
- Swisscom reinforces its position as cheapest roaming provider by reducing its roaming rates.
- Same price, greater capacity: Swisscom increases DSL bandwidths.
- 364,000 households and businesses connected to the high-speed fibre-optic network.
- Fastweb rolls out new bundled offering in partnership with Sky Italia.
- Swisscom launches pilot trial with fourth-generation mobile technology LTE in seven tourist regions.

Business review

- New Chairman: Hansueli Loosli takes over as Chairman of the Board of Directors on 1 September 2011.
- Hans C. Werner appointed new Head of Human Resources.
- Daniel Ritz, Head of Strategy & Business Development, left Swisscom at 31 January 2012 to take up a new challenge abroad.
- All companies of Swisscom IT Services adopt the Swisscom umbrella brand.
- Swisscom IT Services expands its SAP expertise by acquiring Cirrus Group and EFP Group.
- Difficult economic climate and low growth expectations result in a value adjustment at Fastweb, reducing net income by CHF 1.2 billion.

Sustainability

- Green ICT: Swisscom is one of the five most ecologically sustainable telecoms companies in Europe.
- Swisscom trains 886 apprentices throughout Switzerland in six vocational areas.
- Swisscom joins the Global e-Sustainability Initiative.

Management Commentary

We combine the best ideas for our customers' benefit.

We penetrate new markets, foster partnerships and promote innovations.

Management structure

Swisscom Group		
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Swisscom Switzerland	Fastweb	Others
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Environment, strategy and organisation

Swisscom is Switzerland's leading telecommunications provider, with some 6.0 million mobile lines and 1.8 million broadband access lines. Over 20,000 employees generated net revenue in 2011 of around CHF 11.5 billion.

Business activities

Company profile

Swisscom is the Swiss market leader in telecommunications. As one of Switzerland's largest companies, it is also listed on the SMI of the 20 largest and most liquid stocks in the Swiss equities market. Swisscom's activities abroad mainly focus on Italy. The majority shareholder, with a stake of 56.9%, is the Swiss Confederation, which by law must hold a majority of the capital and voting rights. Swisscom owes its business success to the dedication and commitment of more than 20,000 employees, who continually develop optimal solutions for customers and the information society. Major investments in the network infrastructure ensure that Swisscom will continue to cater to all of its customers' needs well into the future.

Swisscom is primarily active in Switzerland, where it generated around 80% of net revenue in 2011. Swisscom offers customers a full range of telecommunications products and services for fixed-line telephony, broadband, mobile communications and digital television, and is also active in IT infrastructure outsourcing as well as in the management of communications infrastructures for business customers. In keeping with its mandate to provide basic service provision nationwide, Swisscom also has a presence in sparsely populated regions of Switzerland. Swisscom TV reflects Swisscom's evolution to a multimedia company, offering customers products and services through a large number of sales channels. Customers can check out products and services first hand and receive comprehensive advice in Swisscom's own shops as well as in numerous partner outlets. Customers can also obtain comprehensive product information and order products and services at any time of the day or night online via Swisscom's website. The customer centre, which is also accessible online, allows customers to manage their personal details, subscriptions and bills on their own. They can also contact Swisscom at any time via a free hotline. Special SME centres provide small and medium-sized enterprises with individual advice. And customers – particularly business customers – can also receive advice on their own premises from Swisscom customer and sales consultant.

See www.swisscom.ch

Swisscom fosters close ties with its stakeholder groups: shareholders, investors, employees, suppliers, the public and, above all, its customers, to whom Swisscom offers "Exactly what you need", "Simple, one-stop solutions" and "Unbeatable quality and service."

Swisscom brand

The Swisscom brand was created in 1997 following the transformation of the former PTT into a postal and telecommunications company and in anticipation of its flotation in the following year, 1998. Since then, it has systematically undergone further development. In spring 2008, Swisscom simplified its brand architecture in line with its guiding principles and corporate strategy. All core-business products and services have since been offered in Switzerland under the Swisscom brand. Swisscom operates under a range of other brands in related business fields, and in Italy the Fastweb brand commands a strong position as a triple-play provider.

Swisscom Ltd

swisscom

Swisscom Switzerland	Fastweb	Swisscom IT Services	Swisscom Participations	Others
swisscom	FASTWEB	swisscom	swisscom	swisscom
AXEPT			alphapay	WORK_LINK
directories			BILLAG	
local.ch einfach finden			cablex	
webcall			curabill	
			evita	
			sicap	

Since its inception, Swisscom has consistently pursued a strategy of growing the Swisscom brand from a telecommunications and IT brand to an integrated brand positioned more broadly to cover the entire field of telecommunications, IT, media and entertainment. The success of Swisscom TV in particular has confirmed the Swisscom brand's competence in the field of digital entertainment. New interfaces such as the TV-Guide app have boosted the brand's innovative character, and it has become firmly established as a practical companion for Swisscom customers in the rapidly changing digital world.

The brand has also developed further in the business customer area. On 1 June 2011 the IT offerings of the Comit, Sourcag and Resource subsidiaries were incorporated under the Swisscom umbrella brand, since when Swisscom has been delivering comprehensive IT expertise all from a single source.

The brand's strength was also confirmed in 2011 by a survey of leading Swiss brands in which the Swisscom brand was ranked in one of the top positions over other brands in the sector, scoring the highest ratings for brand relevance, recognition and purchase consideration. According to an Interbrand study conducted in 2009, the Swisscom brand is valued at CHF 4.8 billion, putting it in seventh place on the list of Switzerland's leading brands.

The traditional cornerstones of the Swisscom brand are quality, trust and service. Since September 2011 a new communication platform has been conveying Swisscom's commitment to sustainability and its close ties with customers, which it demonstrates day after day all over Switzerland. The platform enhances the consistency of Swisscom's diverse communications media and fosters a more emotional attachment to the brand.

Swisscom's network infrastructure

Network infrastructure in Switzerland

Switzerland boasts one of the world's best telecommunications infrastructures. According to the International Telecommunications Union, it ranks seventh in terms of information and communications technologies (ICT). Fixed and mobile networks provide blanket coverage throughout Switzerland.

The fixed network comprises two levels: an access network and a transport network. The access network covers 1,200 local exchanges and 3.4 million subscriber access lines to end customers. Swisscom already started to upgrade the fixed network with fibre-optic lines several years ago. As a first step, Swisscom laid fibre-optic lines between the local exchanges and subsequently extended them to residential districts. The subscriber access lines largely consist of copper cables. For some years now numerous large companies and office complexes have been enjoying fibre-optic connectivity. Since autumn 2008 Swisscom has been extending access to residential customers (Fibre To The Home, FTTH) and small and medium-sized enterprises. By the end of 2011 364,000 households and businesses had been equipped with a fibre-optic link, and around a million households and businesses, equivalent to approximately a third of the Swiss population, are expected to be connected by the end of 2015. Swisscom is also planning to systematically expand broadband access throughout Switzerland by bringing fibre to the curb (FTTC) and even to the home.

For mobile communications Swisscom holds GSM and UMTS licences which are due to expire at the end of 2013 and 2016 respectively. The existing mobile communications spectrum as well as new frequency bands at 800 Mhz and 2,600 Mhz is to be auctioned in the first quarter of 2012. All mobile antenna sites are equipped with second- or third-generation technologies such as EDGE or extended UMTS with HSPA/HSPA+. In 2010 Swisscom was the first mobile provider in Switzerland to conduct a field trial using fourth-generation LTE technology, and at the end of 2011 the first antenna sites went into regular operation in seven tourist regions as part of a pilot project.

Data traffic in the mobile network is rising exponentially, doubling in volume every twelve months, and new mobile devices such as smartphones are accelerating this trend. To address this growing demand, Swisscom is continually expanding its broadband network, extending the range of products and increasing the number of antenna sites. At the same time, Swisscom is committed to using modern, needs-appropriate technologies in order to ensure efficiency and compliance with zoning requirements while also reducing emissions to a minimum. Moreover, wherever possible, site expansion is coordinated with other mobile providers. Today Swisscom already shares around 23% of its 6,000 or so antenna sites with other providers. And with more than 1,200 hotspots across Switzerland, Swisscom is also the country's leading provider of public wireless local area networks (PWLAN).

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

Network infrastructure in Italy

Fastweb operates one of Italy's largest network infrastructures, and is a leader in the development of multimedia and broadband communication services. The network infrastructure consists of an all-IP fibre-optic network with high-speed connections providing residential and corporate customers with fibre-optic or copper-based broadband access infrastructures. The entire fixed network infrastructure covers more than 32,000 kilometres and serves more than 50% of the Italian population. Since 2008, Fastweb has also been offering mobile communications on the basis of an MVNO agreement with a mobile provider.

General conditions

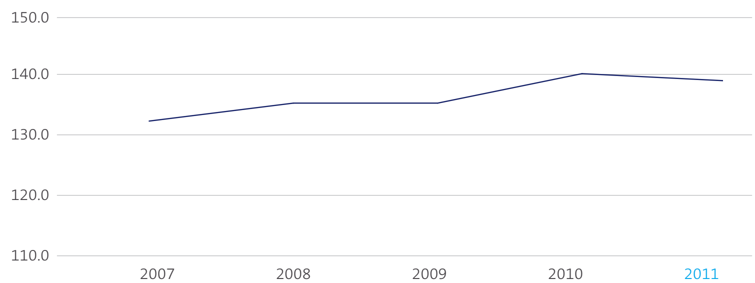
Macroeconomic environment

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

Economy

International economic prospects deteriorated significantly in the course of 2011, among other things due to uncertainty regarding the outcome of the European debt crisis as well as signs of a slowing global economy.

Gross domestic product Switzerland, quarterly in CHF billion

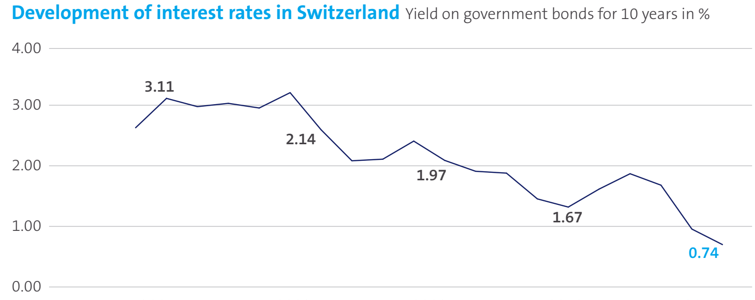


In Switzerland gross domestic product (GDP) grew by 1.8% in 2011, driven mainly by growth in exports and private consumption. The year saw a further drop in unemployment and very low inflation. The extremely strong Swiss franc, coupled with dampened prospects for global growth, may have significant repercussions for the Swiss export industry, and result in much slower or even negative economic growth.
A substantial share of revenue from fixed and broadband access lines as well as mobile subscriptions is based on monthly flat rates. Short-term economic fluctuations therefore have little impact on these revenue items. On the other hand, project business with business customers and revenue from international roaming are more subject to cyclical factors. If Switzerland's economy persists in growing only weakly or even falls into recession, the effect on consumer demand for traditional fixed-line and mobile services is likely to be negative.

Interest rates

For many years the general level of interest rates in Switzerland has been lower than in most other industrialised countries. Interest rates have fallen to historically low levels in the last four years, one example of which is the yield on ten-year government bonds, which fell by around 2.4 percentage points to 0.7%.

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

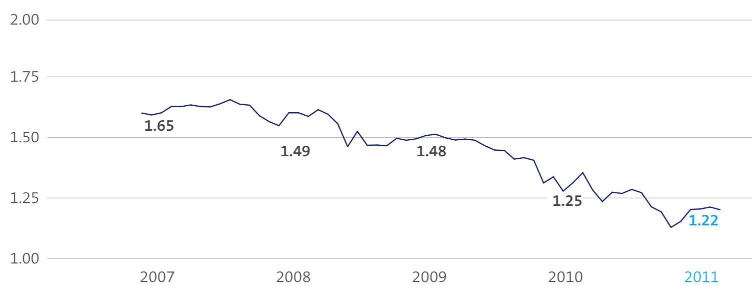


Back in 2010, Swisscom took advantage of favourable bond market conditions with a view to further optimising the interest and maturity structure of the Group's financial liabilities. The share of the Group's variable-rate financial liabilities is around 30%.
Market-based interest rates influence the valuation of various items in the Swisscom consolidated financial statements, such as goodwill related to Fastweb, defined benefit obligations and non-current provisions for dismantlement and restoration costs. The interest rate level also has a considerable influence on the return potential and thus on the financial situation of the Swisscom pension fund.

Exchange rates

In 2011 the value of the Swiss franc rose sharply against other currencies which are important for Swisscom's operations, reaching an all-time high against the euro and US dollar in July 2011. The Swiss National Bank responded by fixing a minimum CHF/EUR exchange rate of 1.20, as a result of which the Swiss franc depreciated in value. In 2011 the Swiss franc appreciated by around 3% against the euro.

Development of exchange rate CHF/EUR



Swisscom's business activities in Switzerland are not significantly influenced by currency movements. Only a small share of revenue is generated in foreign currencies. The procurement of handsets and technical equipment as well as roaming rates for the use of fixed networks and mobile networks abroad by Swisscom customers give rise to transaction risks in foreign currencies (notably EUR and USD), which are largely hedged by forward foreign exchange transactions.
Outstanding financial liabilities are almost exclusively denominated in Swiss francs. Currency translations in respect of foreign Group companies, in particular Fastweb in Italy, affect the presentation of the financial position and results of operations in the consolidated financial statements. Cumulative currency translation differences in respect of foreign subsidiaries recognised in Group equity rose by around CHF 150 million to CHF 2.0 billion (before deduction of tax effects) in 2011.

Capital markets

International equity markets performed negatively in 2011, with the SMI index falling by around 7.8%. Bond markets profited from a further drop in interest rates. Swisscom holds surplus liquidity in the form of cash and cash equivalents and short-term money-market investments. There are no direct financial investments in equities, bonds or other non-current financial assets. Swisscom pension fund assets of around CHF 7 billion, which are invested in equities, bonds and other investment categories, are subject to capital market risks and therefore indirectly affect the financial position presented in Swisscom's consolidated financial statements.

See www.swisscom.ch/investor/en

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, and the company's Articles of Incorporation and company law, and its business operations are governed primarily by telecommunications and broadcasting legislation. Swisscom is also subject to rules governing business as a whole, namely competition law. As a listed company, Swisscom is also required to comply with capital market legislation.

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

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

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

Telecommunications Act

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

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

Competition law/Federal Cartel Act

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

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

Capital market law

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

Regulatory developments in Switzerland in 2011

Ongoing proceedings relating to telecommunications and competition legislation

In recent years various proceedings relating to telecommunications and competition law have been initiated against Swisscom. In 2011, several important rulings were issued by the court of last instance. In its ruling of 11 April 2011 the Federal Supreme Court rejected the complaint of the Federal Department of Economic Affairs (FDEA) concerning mobile termination rates, and upheld Swisscom's appeal against the allegation that it commanded a market-dominant position. The Federal Supreme Court concurred with Swisscom's arguments and fully overturned the sanction ruling imposed by the Competition Commission (ComCo) in respect of mobile termination rates. In its ruling of 8 April 2011 concerning access to cable ducts, the Federal Administrative Court judged that, in accordance with the Ordinance on Telecommunications Services, the regulated prices for cable ducts must be calculated based on the replacement value (Long Run Incremental Cost method or LRIC) rather than historical costs. The ongoing proceedings in connection with the Telecommunications Act and Cartel Act are described in Notes 28 and 29 to the consolidated financial statements.

See Report
pages 210-214

Preliminary clarifications concerning FTTH (Fibre to the Home)

As required by the Cartel Act, between August 2010 and January 2011 Swisscom and the electrical utilities of the cities of Basel, Berne, Geneva, Lucerne, St. Gallen and Zurich notified ComCo of six collaborative projects for the joint construction of a fibre-to-the-home (FTTH) infrastructure. In spring 2011 the ComCo Secretariat opened preliminary investigations into all the aforementioned projects, and on 4 September 2011 published a final report covering the partnerships in Basel, Berne, Lucerne, St. Gallen and Zurich, leaving only the Geneva project pending. The final report views Layer 1 exclusivity, investment protection clauses and the balancing mechanism as particularly problematic from a cartel law standpoint. Due in particular to the existing threat of sanctions, the concerns expressed by the competition authority render it necessary to change the way in which the projects are implemented. In the case of Basel, Berne, Lucerne and Zurich, solutions have been found which extensively address the needs of the companies involved as well as the concerns of the competition authority. In the case of Zurich, the outcome ultimately depends on the results of the people's referendum to be held in 2012. Negotiations with other partners are still in progress. On 30 November 2010, Swisscom and Groupe E submitted a notice of intent to found a joint venture with the aim of building and operating an FTTH network in the canton of Fribourg. In it decision of 27 April 2011, ComCo concluded that the intended joint venture did not constitute a fully-functioning enterprise and hence could not be examined in the context of merger control. At the same time the Secretariat also launched a preliminary investigation into the proposed collaborative venture under cartel law.

Invitation by ComCom to tender for mobile communication frequencies

Back in November 2010, the Federal Communications Commission (ComCom) commissioned the Federal Office of Communication (OFCOM) to invite bids for all mobile frequencies to be awarded in an auction scheduled for the first quarter of 2012. Parties interested in participating in the auction were required to submit a dossier by the end of September 2011. Swisscom (Switzerland) Ltd submitted its candidature in good time. In November 2011 ComCom issued its decision on the candidates permitted to take part in the auction.

Telecommunications market evaluation

In 2010 the Federal Council published an analysis of the telecommunications market in which it concluded that Switzerland essentially enjoys adequate provision of telecommunications services. The identified deficiencies were deemed too insignificant to justify a revision of the law. Parliamentary committees shared the Federal Council's opinion but expressed the wish for a supplementary report, to be published by the beginning of 2012, on the market trend, with particular emphasis on the protection of young people in the media, consumer protection, fibre-optic expansion and roaming.

Roaming

On 20 September 2011, contrary to the Federal Council's proposal, the National Council approved the motion for "No more exorbitant charges for using mobiles abroad". The motion calls for the Federal Council to fix binding maximum tariffs to be adopted by all telecommunications providers for incoming and outgoing calls, SMS messages and data transfers over mobile devices when used abroad, in line with the requirements imposed by the European Union.

Regulatory differences between Switzerland and the European Union

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

Legal and regulatory environment in Italy

Fastweb's legal framework

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

Regulatory developments in Italy in 2011

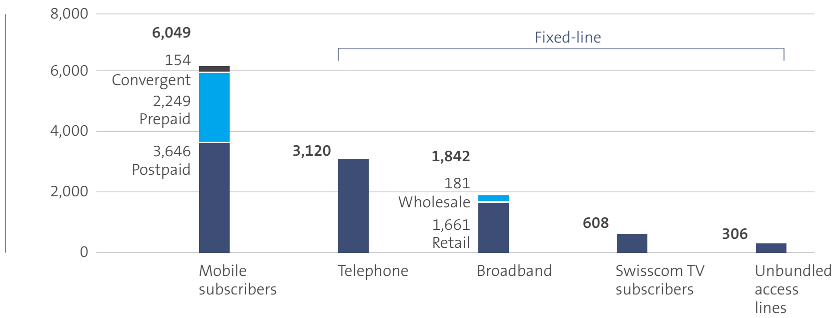
In December 2010 the Italian regulator AGCOM approved a decision to raise the prices for wholesale access lines. Alternative operators such as Fastweb appealed against this decision, arguing that the current cost structure of the established network operator did not justify such an increase and that it would reduce the incentive for Telecom Italia to invest in new networks. AGCOM has also confirmed the fixed network termination rates for 2011 and intends to define a model for calculating termination rates based on IP technology by the end of 2012.
AGCOM submitted an application to the EU for new mobile termination rates with a reference rate of EUR 0.98 cent per minute for the four years beginning in January 2015. The EU criticised the application since the proposed rates are higher than the EU average and the timing for reaching the reference rate (2015) is not in line with the EU target of 2012. In November 2011 AGCOM ultimately decided to reduce mobile termination rates to EUR 0.98 cent per minute with effect from 1 July 2013.

Market trend for telecommunications and IT services

Swiss telecoms market

The Swiss telecoms market is highly developed by international standards and characterised by a wide range of voice and data communications services and ongoing innovation. It has an estimated total revenue volume of some CHF 18 billion and can be broken down into the market segments of relevance to Swisscom: fixed line, mobile, broadband and digital TV.

Swisscom Switzerland access lines in thousand



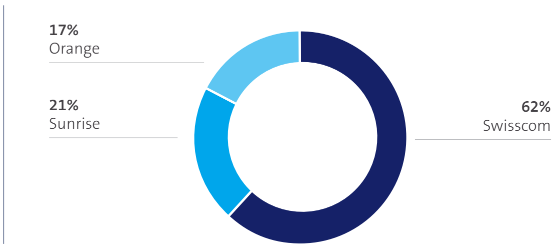
Fixed-line market

Fixed-line telephony is based mainly on the lines of the telephone network and of cable network operators. The spread of mobile telephony in recent years has led to a sharp drop in the number of phone calls made over the fixed network. The number of Swisscom fixed lines has likewise been declining steadily. This trend continued in 2011, with the number of fixed lines falling by 3.5% to 3.12 million. Besides substitution by mobile telephony, this decline was also driven by unbundled access to subscriber lines. By the end of 2011, the number of unbundled lines totalled 306,000. Prices have plummeted as a consequence of competition in the wake of market liberalisation and are currently on a par with the rest of Europe as a whole. Prices are increasingly based on monthly flat rates, and fixed-line services are being offered in combination with other products such as broadband, digital TV and mobile telephony.

Mobile communications market

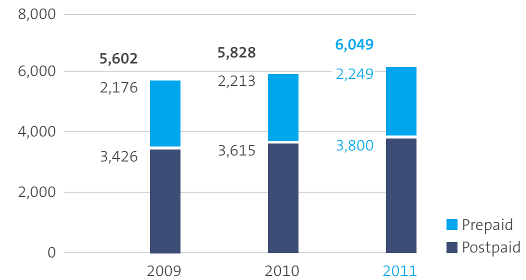
Three companies operate their own nationwide mobile networks in Switzerland: Swisscom, Orange Switzerland and Sunrise. Orange Switzerland is a subsidiary of France Telecom. In December 2011 France Telecom signed an agreement with Apax Partners under which Apax Partners is to acquire Orange Switzerland. The transaction is pending the approval of the competition authority. In October 2010 Sunrise was sold by its Danish parent company TDC to CVC Capital Partners. Compared with earlier years, 2011 saw slower growth (around 2.4%) in the number of mobile lines (SIM cards) in Switzerland as a result of already high market penetration. By the end of September 2011 the three network operators were operating around 9.6 million lines – more than the total population – with many customers using additional SIM cards for mobile computers, tablets, smartphones and other devices. A growing number of customers also access the Internet, e-mail and other data while on the move. Swisscom's mobile communication services are designed to fit the varying habits of customers and allow them to take full advantage of the additional new options provided by modern communications devices. Prepaid offerings with no monthly subscription fee are the most suitable option for occasional users of the mobile network, as they are charged only as and when they access the network. For customers who regularly use the mobile network, Swisscom offers several price plans under which the monthly flat rate includes services such as free SMS messaging, voice and/or data traffic. These price plans are becoming increasingly popular since they provide customers with a transparent means of keeping track of their costs. Machine-to-machine mobile data traffic is a growth market, which in future will support a wide variety of applications such as automatic localisation if your car breaks down. Swisscom also makes its mobile communications network available to third-party providers (MVNO, Mobile Virtual Network Operators) so that they can offer their customers their own products and services over the Swisscom network.

Market shares mobile subscribers in Switzerland* in %



* Estimate Swisscom

Swisscom mobile access lines in thousand

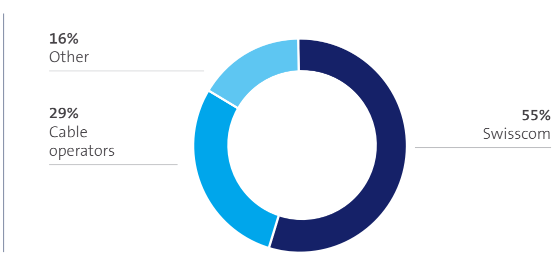


In 2011 Swisscom increased the number of mobile lines to match growth of the overall market by some 3.8%, defending its market share of 62%. Switzerland has a much higher percentage of post-paid customers (around 62%) compared with the European average of 45%. Prices for mobile services were squeezed again by the competition in 2011, resulting in a corresponding decline in average monthly revenue per user. The increasing use of smartphones led to further strong growth in mobile data traffic in 2011.

Broadband market

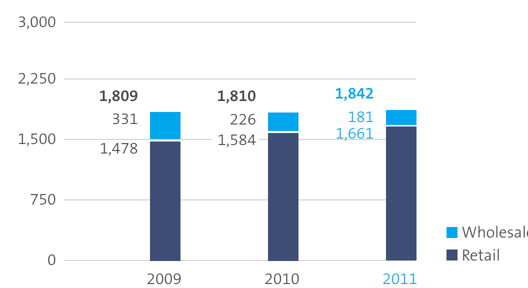
The most widespread access technologies for fixed broadband access lines in Switzerland are the telephone network on a DSL basis (Digital Subscriber Line) and the cable television networks. At the end of 2011 the number of retail broadband access lines in Switzerland totalled around 3.0 million, corresponding to around 88% of households, making market penetration in Switzerland significantly higher than the European average, exceeded only by Denmark, the Netherlands and Norway. Swisscom reaches more than 98% of the Swiss population with its DSL-based offerings.

Market shares broadband access lines in Switzerland* in %



* Estimate Swisscom

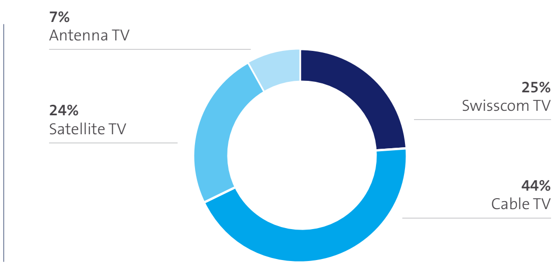
Swisscom Broadband access lines in thousand



In recent years, growth in telephone-based DSL broadband access lines has far outpaced broadband access lines provided by cable network operators, and this trend discontinued in 2011. DSL broadband accounted for around half of new access lines, corresponding to an increase in market share of all broadband access lines at the end of 2011 to around 71%. Of these, Swisscom end customers accounted for 55% and Swisscom wholesale offerings together with fully unbundled lines around 16%. Broadband access lines are increasingly becoming the basic access line for households, through which customers are offered additional services or bundled offerings. To meet varying customer needs, different combinations of bundled offerings are provided. For example, broadband access combined with a mobile subscription. Vivo Casa offers customers broadband access, a telephone line and digital TV with an attractive price/performance ratio. Vivo Tutto, launched in August 2011, added mobile network access to this increasingly popular range of bundled offerings.

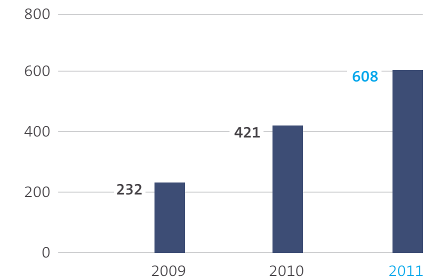
Digital TV market
The importance and market penetration of digital television is rising constantly. The most important modes of transmission for digital television in Switzerland are satellite, antenna (terrestrial), cable, Internet and mobile. Cable television, satellite reception and Swisscom TV account for the largest market shares. Roughly 85% of all households have an analogue or digital cable television connection, of which some 65% have a digital TV connection (as of September 2011). With 608,000 digital TV customers, Swisscom is now the market leader in digital cable television only five years after entering the television market. Sunrise has announced plans to enter the market with its own digital TV offerings at the beginning of 2012.

Market shares digital TV in Switzerland* in %



* Estimate Swisscom

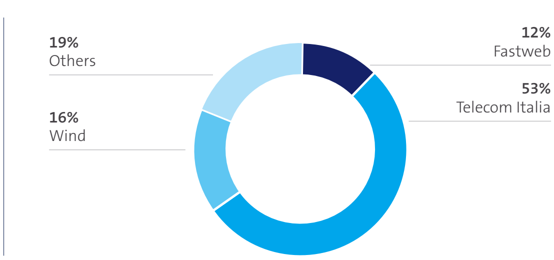
Swisscom TV subscribers in thousand



Having continuously increased the market share of its own digital TV offering over the past few years, Swisscom boasted a share of 25% at the end of 2011. Swisscom posted further strong growth in new customers, recording an increase of 187,000 in 2011. Swisscom TV offers more than 160 TV channels, some 16 of which are in HD quality, as well as around 2,000 films (video on demand), exclusive live transmission of sports events (football and ice hockey in particular), and other practical features such as live pause, simple record function, picture-in-picture, Swisscom TV apps for weather, news, photos and other services, and a TV guide. With Swisscom TV air and a mobile app, customers can access the services and schedule at all times when on the move. Swisscom TV is available in a range of different offerings to meet all customer needs.

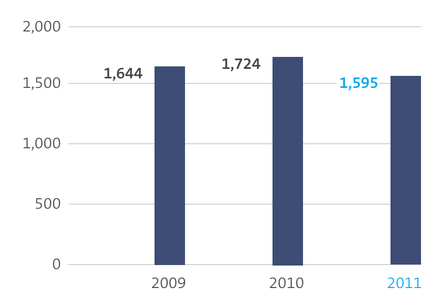
Italian broadband market
With revenue of EUR 14 billion, Italy's broadband market is the fourth largest in Europe. Unlike most other European countries, Italy's broadband market has no full-scale infrastructure competition between DSL-based providers and cable network operators. The market penetration of 51% of households is therefore still well below the European average. In 2011 the number of broadband access lines in Italy increased by 6% to around 13.5 million, while the number of Fastweb access lines fell year-on-year by 8% or 129,000 to 1.6 million due to the settlement of lawsuits with another telecommunications provider which resulted in Fastweb reducing its customer base by 197,000 and transferring the customer relationships to the other provider.

Market shares broadband access lines in Italy* in %



* Estimate Swisscom

Fastweb broadband access lines in thousand

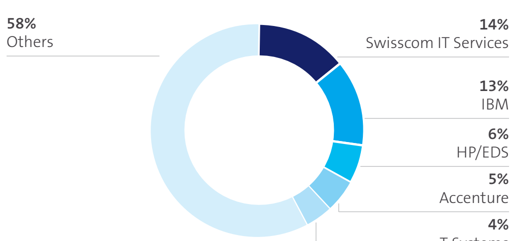


Telecom Italia is market leader in broadband access, with a share of 53%. Fastweb is the third largest provider with a market share of 12%. Three integrated players dominate the market: Telecom Italia, Vodafone and Wind, which thanks to their economies of scale are able to maintain a larger advertising presence and build a denser sales network. The need to maintain a nationwide physical presence is becoming increasingly important for providers, on account of the growing complexity of products and services and the legal constraints on telephone sales due to data privacy considerations. Fastweb has decided to expand its own sales network by improving the efficiency of its dealer structure and investing in its own sales outlets in large Italian cities.

IT services market in Switzerland

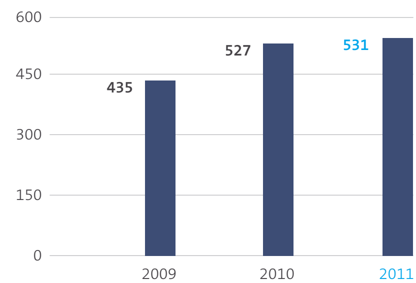
The market for IT services generated a revenue volume of around CHF 6.4 billion in 2011. It comprises two business areas, outsourcing and project business, each with different growth prospects. Swisscom expects revenue from outsourcing to grow by a good 5% over the next three years, while revenue from project business is expected to increase by around 3%. Swisscom estimates that the entire market for IT services will be worth around CHF 7.2 billion in 2014. Despite a recovery on the market in 2010 and 2011, Swisscom expects to see lower growth rates, with prices coming under greater pressure than in previous years.

Market shares IT services in Switzerland* in %



* Estimate Swisscom

Swisscom IT Services
Revenue from external customers in CHF million



Including the services it delivers to other Group companies, Swisscom IT Services is the leading provider in the Swiss market with a share of around 14%, followed by IBM, and remains the clear market leader in the segment for integrated systems for banks. Together with expertise in BPO (business process outsourcing), it offers a full range of services for the financial sector. Swisscom IT Services is also active in the segment for IT workplaces and, as an authorised system integrator, supplies companies with all Apple products and integrates these systems in their IT infrastructure. Following the acquisition of the Cirrus Group and the EFP Group, Swisscom IT Services is now the third-largest SAP service provider with a market share of around 8%, and one of the few companies to provide a full-service offering. Swisscom IT Services continues to focus on outsourcing. The markets in which Swisscom IT Services operates still offer attractive growth opportunities, despite increased competition and price pressure and changing customer requirements. More and more international providers are penetrating the Swiss market with on-demand offerings and services delivered by low-income countries. The trend towards selective outsourcing continues, as customers who no longer wish to source their IT from a single service provider enter into contracts with several providers for specific IT services. Demand for horizontal services such as service level management is growing, as customers seek to purchase integrated IT services instead of individual services. Finally, globally active Swiss customers seek a partner who can deliver national as well as international IT services. In the financial sector, Swisscom IT Services anticipates a shift from new system launches to system integration and optimisation, while in the IT workplace market, Swisscom IT Services expects to see a trend towards customisation and the use of mobile devices. As a Swiss company characterised by “Swissness”, Swisscom IT Services is well positioned compared to major competitors thanks to its data centres and service delivery in Switzerland, proprietary on-demand solutions and an international partner for delivering services outside Switzerland. Swisscom IT Services is aiming to establish itself as a leading service integrator in Switzerland, specialising not only in services developed in-house but also in the integration and optimisation of third-party services.

Group structure and organisation

Management structure

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

Group structure

Swisscom Ltd and its four Group divisions, Finance & Controlling, Strategy & Business Development, Group Communications and Human Resources, together with its subsidiaries, comprise the Swisscom Group. The shares of Swisscom Ltd are listed on the SIX Swiss Exchange in Zurich and are also traded over the counter (OTC) in the form of Level 1 American Depositary Receipts (ADR). The majority shareholder at 31 December 2011 was the Swiss Confederation, with a share of 56.9% of the voting rights and capital.
Twenty-seven Swiss subsidiaries (prior year: 25) and 31 foreign subsidiaries (prior year: 32) are fully consolidated in Swisscom's 2011 financial statements, and 10 associates (prior year: 9) were included according to the equity method. In March 2011 Swisscom Broadcast Ltd acquired Solutionpark AG (Switzerland), which was subsequently renamed Swisscom Event & Media Solutions Ltd. In November 2011 Swisscom IT Services Ltd acquired the EFP Group and the Cirrus Group, which were merged with Swisscom IT Services Enterprise Solutions Ltd as of 1 January 2012. Swisscom Ltd holds direct shareholdings in Swisscom (Switzerland) Ltd, Swisscom IT Services Ltd, Swisscom Broadcast Ltd and Swisscom Real Estate Ltd. Fastweb S.p.A. (Fastweb) is indirectly held via Swisscom (Switzerland) Ltd and intermediate companies in Belgium and Italy. Following the buyout of minority shareholders, Fastweb was delisted from the Italian stock exchange in March 2011. While Swisscom Participations does not constitute a legal entity, it is responsible for managing a portfolio comprising various small and medium-sized enterprises. Swisscom and PubliGroupe have reciprocal interests of 49% each in LTV Yellow Pages Ltd and Swisscom Directories Ltd respectively.

Board of Directors

Group Executive Board

Headquarters

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

Swisscom Switzerland[1]

Subsidiaries
- Swisscom (Switzerland) Ltd
- Swisscom Directories Ltd
- local.ch Ltd
- Webcall GmbH
- Wingo Ltd
- Axept Ltd

Associates[6]
- CT Cinetrade Ltd
- LTV Yellow Pages Ltd
- Belgacom International Carrier SA

Fastweb

Subsidiaries
- Fastweb S.p.A.[6]
- Fastweb Wholesale S.r.l.[6]
- e.BisMedia S.p.A.[6]

Swisscom IT Services (SIS)

Subsidiaries
- Swisscom IT Services Ltd
- SIS Finance Ltd[2]
- SIS Finance Custom Solutions Ltd
- SIS Enterprise Solutions Ltd
- SIS Sourcing Ltd
- SIS Workplace Ltd

Swisscom Participations

Subsidiaries
- Alphapay Ltd
- Billag Ltd
- cablex Ltd
- Curabill Ltd
- Evita Ltd
- Sicap Ltd[3]
- Swisscom Broadcast Ltd
- Swisscom Event & Media Solutions Ltd
- Swisscom Real Estate Ltd

Associates[6]
- Medgate Holding Ltd

Other operating segments

Subsidiaries
- Hospitality Services Plus Ltd[4]
- Venturing Investments[5]

Associates[6]
- Venturing Investments

Group Headquarters

Subsidiaries
- Swisscom Ltd
- Worklink AG
- Swisscom Belgium N.V.[6]
- Swisscom Re Ltd[6]
- Swisscom Italia S.r.l.[6]

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

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

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

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

[5] Fully consolidated Venturing Investments is the Mona Lisa Capital Ltd.

[6] All subsidiaries based abroad – noted in the Notes 2, 3, 4 and 6 – as well as all holdings in associates and joint ventures are excluded in the scope of GRI. See the definition of GRI-Scope in the chapter of Corporate Responsibility.

Guiding principles

Our promise

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

Our goals

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

Our principles

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

Corporate strategy

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

Maximise

Expand our market position in our core business in Switzerland

Extend

Grow business in Switzerland in areas related to our core business

Expand

Exploit growth opportunities in related business and global niches

1. Maximise

For Swisscom, maximising existing core business means strengthening its competitive position in Switzerland on the basis of high customer loyalty and cost-efficient service provision.
Swisscom Switzerland is boosting its already high level of customer loyalty by further developing its customer-centric service culture. Targeted investments, particularly in fibre-optic expansion and further expansion of the mobile network, are improving the high quality of the network infrastructure. With the most trustworthy and reliable infrastructure combined with outstanding services and a strong brand, Swisscom commands a high market share. It aims to set itself clearly apart through personal, proactive, added-value interaction with customers, backed by top-quality products that generate compelling customer benefits and justify its price premium vis-à-vis rival providers. New bundled offerings are another element in the differentiation strategy. In the corporate business segment, reliability, quality and flexibility make Swisscom the partner of choice for communication and collaboration services. In strategic terms, systematic transformation of the corporate culture, processes and systems is becoming increasingly important in the bid to enhance cost efficiency and return on investment. Alongside continual improvement, efficiency enhancements will be achieved by reducing complexity as well as through integration synergies and technology transformation such as the switch to an all-IP based infrastructure. By minimising the consumption of energy and resources within Swisscom, using electricity generated from renewable energies, imposing ecological and social standards on its suppliers and acting as a responsible employer, Swisscom honours its responsibility towards the environment and the community at large.
As an internal service provider, Swisscom IT Services supports Swisscom Switzerland by helping to reduce IT costs and by delivering flexible services. Swisscom Participations also supports Swisscom Switzerland in its bid to achieve further efficiency gains in the areas of fibre-optic expansion and real estate management.

2. Extend

Swisscom is extending its current core business by offering customers a broad range of information and communication services. To this end it is continually developing its business activities in telecoms, informatics, media and entertainment along the entire value chain.
In Switzerland the switch from analogue to digital television is in full swing. In 2011 Swisscom succeeded in gaining leadership of the digital TV market. This position will be further expanded in future, driven by systematic further development of the range of digital TV services. Swisscom aims to differentiate itself with a compelling range of entertainment products.
In the corporate business segment, the aim is to ensure the growth of Swisscom Switzerland and Swisscom IT Services. Both entities' plan is to further expand their service portfolios, with the emphasis on communication and collaboration solutions and the rollout of cloud services. Cloud services enable customers to improve their efficiency and cost structure through the flexible procurement of IT infrastructure services. The introduction of unified communication & collaboration solutions allows corporate customers to optimise their communication processes and, in so doing, cut costs. Ongoing improvements and the harmonisation of operating processes and customer focus will further increase the competitiveness and profitability of Swisscom Switzerland and Swisscom IT Services.
Swisscom Participations is pursuing various eHealth activities with the aim of capturing a slice of the growing healthcare market. It also plans to further develop the growth segment "Smart & Secure Living" in conjunction with iControl Networks. Swisscom and iControl are working on new products and services for residential customers that enable them to stay connected to their home while out and about.

3. Expand

Swisscom seeks to identify and capitalise on growth opportunities outside its core business in Switzerland, based on industrial and strategic criteria. Fastweb's successful further development and consolidation is accorded top priority.
The acquisition of Fastweb in 2007 marked Swisscom's entry into the Italian broadband market. In March 2011 the remaining Fastweb shares were acquired by Swisscom and the Fastweb shares were delisted from the Italian stock exchange, making Swisscom the sole owner of Fastweb. Against the backdrop of dynamic market development and the possibility of further consolidation in the Italian telecommunications market, Swisscom has gained strategic and operational flexibility thanks to this 100% takeover.
A new CEO was appointed to Fastweb in November 2010. Under his leadership the strategy was revised in order to tackle the challenges of market saturation, intense price competition and the regulatory environment, and to exploit new opportunities. Fastweb is aiming for differentiation and growth backed by a superior infrastructure, innovative service offerings, a high-quality sales force in the corporate business segment, outstanding project management and integration expertise, and first-class customer service. This new strategy is now being implemented and will allow Fastweb to further increase market share, tap new revenue sources – particularly in the corporate business segment – and improve cash flow thanks to rigorous cost management.
Major investments in shareholdings are strategically restricted to the two core markets of Switzerland and Italy. At the same time Swisscom is also making targeted investments with a view to further expanding existing interests, for example in Swisscom Hospitality Services, a company that provides Internet access and TV services for hotel chains and their guests. By forging a strategic partnership with the Singapore-based Planet One Group, Swisscom Hospitality Services gained access to markets in Asia, in particular China. Swisscom Hospitality Services also intends to secure a foothold in additional new markets such as the Middle East and South Africa. Besides this geographic expansion, Swisscom Hospitality Services is aiming to enlarge its service portfolio and increase efficiency in order to grow revenue and enhance profitability.
Finally, Swisscom invests smaller amounts in venture capital funds as well as directly in start-up companies in order to secure early access to new technologies and business ideas.

Value-driven corporate steering

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

Enterprise value

In CHF million, except where indicated	31.12.2011	31.12.2010
Enterprise value		
Market capitalisation at end of year	18,436	21,296
Net debt	8,309	8,848
Non-controlling interests in subsidiary companies	24	20
Enterprise value (EV)	**26,769**	**30,164**
Operating income before depreciation and amortisation (EBITDA)	4,584	4,599
Ratio enterprise value/EBITDA	**5.8**	**6.6**

The sum of market capitalisation, net debt and minority interests in subsidiaries is the enterprise value (EV) derived from the share price. The minority interests are stated at carrying amount. In 2011 the enterprise value fell by 11.3% to CHF 26.8 billion. Market capitalisation and net debt also declined. The enterprise value/EBITDA ratio is a key figure used in relative comparisons with other companies in the sector. With a factor of 5.8 (prior year: 6.6), Swisscom is above the average for Europe's former state telecom companies. A lower interest rate and lower average tax rates make a significant contribution to this higher factor.

Current operations value and enterprise value

In CHF million, except where indicated	31.12.2011	31.12.2010
NOPAT and COV		
Operating income (EBIT)	1,126	2,627
Adjustments [1]	1,692	187
Share of results of associates	30	28
Operating taxes	(598)	(603)
NOPAT [2]	**2,250**	**2,239**
Weighted avarage cost of capital (WACC)	6.5%	6.5%
Current operations value (COV)	**34,614**	**34,446**
Enterprise value (EV), for comparison	**26,769**	**30,164**

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

The current operations value is obtained by dividing NOPAT (net operating profit after tax) by the weighted average cost of capital (WACC). This assumes zero future growth and capital expenditure at the level of depreciation and amortisation. Capital costs are calculated on the basis of the enterprise value. In both years an estimated long-term average rate of 6.5% was used as the weighted average cost of capital, which does not take into account the current exceptionally low interest rate. A comparison of the enterprise value – derived from the share price – with the current operations value gives the present value of the future long-term growth of the operating results or cash flows which is implicit in the share price and expected by the capital market. Based on the assumptions made, the current operations value at the end of 2011 was around CHF 35 billion, approximately 29% higher than the enterprise value of around CHF 27 billion. Based on market capitalisation, the difference is over 40%. Comparable valuations implicit in the share price can also be observed in the other established former state telecom companies in Europe.

Added value calculation

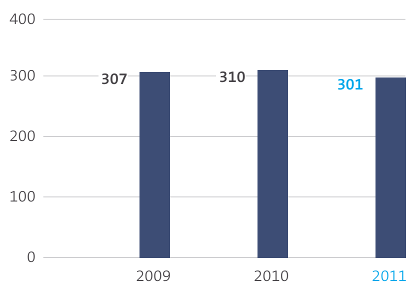
Added value is equivalent to revenue less goods and services purchased, other operating expense and depreciation and amortisation. Personnel expense is regarded as use of added value rather than as goods and services purchased. The bulk of added value is generated by Swisscom in Switzerland, with activities abroad accounting for 3.5% of the Group's added value from operations in the year under review (prior year: 3.3%).

			2011			2010
In CHF million	Switzerland	Abroad	Total	Switzerland	Abroad	Total
Added value						
Net revenue	**9,243**	**2,224**	**11,467**	**9,340**	**2,648**	**11,988**
Capitalised self-constructed assets and other income	(273)	(147)	(420)	(203)	(101)	(304)
Goods and services purchased	1,611	791	2,402	1,670	995	2,665
Other operating expenses	1,727	661	2,388	1,691	819	2,510
Depreciation	1,168	735	1,903	1,205	767	1,972
Intermediate inputs	**4,233**	**2,040**	**6,273**	**4,363**	**2,480**	**6,843**
Operating added value	**5,010**	**184**	**5,194**	**4,977**	**168**	**5,145**
Share of results of associates			30			28
Impairment losses on goodwill			(1,555)			–
Other financial result			(37)			(104)
Total added value			**3,632**			**5,069**
Allocation of added value						
Employees (personnel costs)	2,217	296	2,513	2,182	336	2,518
Authorities (income taxes)			151			502
Shareholders (dividends)			1,095			1,044
External investors (net interest expense)			274			261
Company (retained earnings)			(401)			744
Total added value			**3,632**			**5,069**

In 2011 added value from operations amounted to around CHF 5.2 billion, 1.0% more than in 2010. Added value in Switzerland increased year-on-year by 0.7% to CHF 5,010 million, while added value from activities abroad rose by CHF 16 million to CHF 184 million. Added value from operations in Switzerland amounts to 54.2% of net revenue (prior year: 53.3%).

A significant number of activities along the value chain in Switzerland are performed by Swisscom's 16,600 or so employees. In 2011 added value from operations fell by 2.9% to CHF 301,000 per full-time position (prior year: CHF 310,000). Personnel expense in relation to added value in Switzerland increased slightly from 43.8% to 44.3%.

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



Capital market

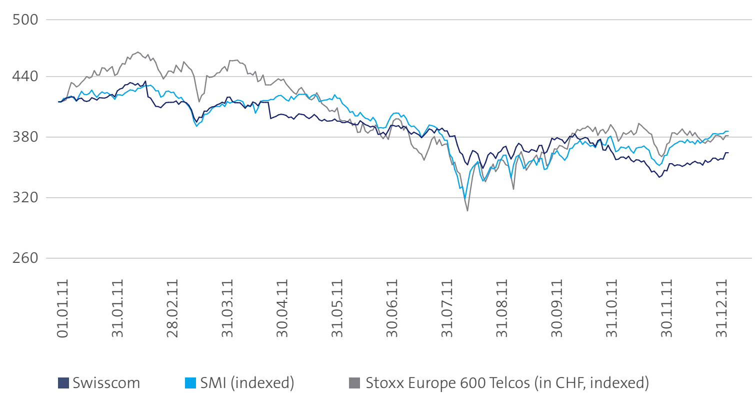
Swisscom's shares are listed on the SIX Swiss Exchange. The Group's creditworthiness is regularly assessed by international rating agencies.

Swisscom share

Swisscom's market capitalisation as of 31 December 2011 amounted to CHF 18.4 billion, with 51.8 million shares outstanding. Swisscom shares are listed on the SIX Swiss Exchange under the symbol "SCMN" (Securities No. 874251). In the United States they are traded in the form of American Depositary Receipts (ADR) at a ratio of 1:10 (Over the Counter, Level -1) under the symbol "SCMWY" (Pink Sheet No. 69769). The majority shareholder at 31 December 2011 was the Swiss Confederation, with a share of 56.9% of the voting rights and capital. By law, the Confederation must hold the capital and voting majority.

Share performance in 2011

Share performance 2011 in CHF



For stock markets, 2011 was a year dominated by many uncertainties such as the European debt crisis and growing fears of a global economic slowdown. This had a negative impact on capital markets. The Swiss Market Index (SMI) lost 7.8% versus the prior year, while the price of the Swisscom share dropped by 13.4% to CHF 355.90. The Swisscom share outperformed the European Stoxx Europe 600 Telco index in Swiss francs (–8.6% in CHF; –6.2% in EUR). Average daily trading volume fell by 4.9% to 110,549 shares. The total trading volume of Swisscom shares in 2011 amounted to CHF 10.7 billion.

Earnings per share in 2011

See www.swisscom.ch/shareprice

On 29 April 2011, Swisscom paid out an ordinary dividend of CHF 21 per share. Based on the closing price at the end of 2010, this equates to a return of 5.1%. Taking into account the decline in share price, the Swisscom share achieved a TSR (total shareholder return) of –8.8% in 2011, which is lower than the TSR of the SMI (–5.6%) and the Stoxx Europe 600 Telco index in Swiss francs (–1.1% in CHF; +1.6% in EUR).

Swisscom share performance indicators

		2007	2008	2009	2010	2011
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	56,719	53,441	51,802	51,802	51,802
Closing price at end of period	CHF	442.00	339.50	395.60	411.10	355.90
Closing price highest	CHF	486.00	442.75	400.90	420.80	433.50
Closing price lowest	CHF	402.50	292.00	293.50	358.00	323.10
Earnings per share	CHF	40.17	33.87	37.47	35.00	13.19
Ordinary dividend per share	CHF	18.00	19.00	20.00	21.00	22.00 [1]
Extraordinary dividend per share	CHF	2.00	–	–	–	–
Ratio payout/earnings per share	%	49.79	56.10	53.38	60.06	166.85
Equity per share	CHF	90.76	85.33	113.91	102.89	82.47
Market capitalisation at end of year	in CHF million	22,896	17,587	20,491	21,296	18,436

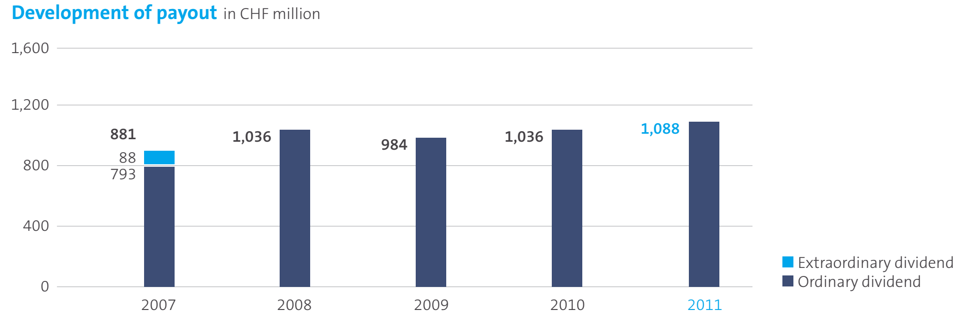
[1] In accordance with the proposal of the Board of Directors to the Annual General Meeting.

Payout policy

In accordance with Swisscom's payout policy, around half of the operating free cash flow is paid out to shareholders in the following year. Subject to targets being met, Swisscom aims to pay a dividend which is not lower than that of the previous year. Swisscom's payout policy provides for the following forms of distribution: dividend, extraordinary dividend and, to the extent possible, share buy-backs.

Operating free cash flow in 2011 amounted to CHF 2,068 million. At the Annual General Meeting on 4 April 2012, the Swisscom Board of Directors will propose that the ordinary dividend be increased to CHF 22 per share (prior year: CHF 21). This will represent a total dividend payout of CHF 1,140 million or 55.1% of operating free cash flow.

Development of payout in CHF million



Since going public in 1998 Swisscom has distributed a total of CHF 23.9 billion to shareholders: CHF 11.9 billion in dividend payments, CHF 1.6 billion in capital reductions and CHF 10.4 billion in share buybacks. Since the initial public offering Swisscom has paid out a total of CHF 235 per share. Together with the overall increase in share price of CHF 15.90 per share, this corresponds to an average annual total return of 4.3%.

Analysts' recommendations

Investment specialists continually analyse Swisscom's business performance, results and market situation. Their findings and recommendations offer valuable indicators for investors. More than 20 analysts regularly publish studies on Swisscom. At the end of 2011, 56% of the analysts recommended a buy rating for the Swisscom share, 33% a hold rating and 11% a sell rating. The average price target at 31 December 2011 according to the analysts' estimates was CHF 395.

Indebtedness

Credit ratings and financing

With A (stable) and A2 (stable) respectively, Swisscom enjoys good ratings with the Standard & Poor's and Moody's rating agencies. To avoid structural downgrading, Swisscom endeavours to raise financing at Swisscom Ltd level. Swisscom aims for a broadly diversified debt portfolio, taking particular care to balance maturities and spread financing instruments and financial markets. Swisscom set itself the goal of achieving a maximum ratio of net debt to EBITDA of around 2.x.
Swisscom's solid financial standing enabled unrestricted access to money and capital markets also in 2011. Net debt fell by CHF 0.5 billion to CHF 8.3 billion, corresponding to a net debt/EBITDA ratio of 1.8. Around 90% of financial liabilities have a term to maturity of more than one year. At 31 December 2011 financial liabilities with a term of one year or less amounted to CHF 0.7 billion.

Ongoing dialogue with the capital market

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

Financial calendar

> 4 April 2012	Annual General Meeting
> 10 April 2012	Ex-dividend
> 13 April 2012	Dividend payment
> 2 May 2012	First-quarter results 2012
> 8 August 2012	Half-year results 2012
> 8 November 2012	Third-quarter results 2012
> in February 2013	Annual results 2012

Employees

Headcount at Swisscom grew year-on-year by 514 FTEs.
In Switzerland the workforce increased by 564 FTEs.

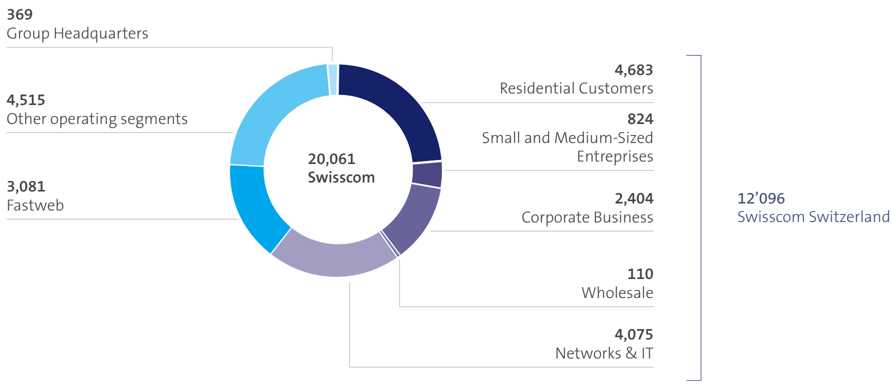
Headcount

At the end of 2011 Swisscom had 20,061 full-time equivalent employees, of which 16,628 or 82.9% of the total workforce were in Switzerland (prior year: 82.2%). In addition, Swisscom provides training to 886 apprentices. The following chart shows a breakdown of full-time equivalent positions by segment:

	31.12.2009	31.12.2010	31.12.2011
Full-time equivalent employees at end of year			
Residential Customers	4,671	4,607	4,683
Small and Medium-Sized Enterprises	765	733	824
Corporate Business	2,224	2,312	2,404
Wholesale	92	100	110
Networks & IT	4,114	3,964	4,075
Swisscom Switzerland	**11,866**	**11,716**	**12,096**
Fastweb	**3,125**	**3,123**	**3,081**
Swisscom IT Services	2,677	2,858	2,895
Swisscom Participation	1,223	1,241	1,363
Swisscom Hospitality Services	236	263	257
Other	15	6	–
Other operating segments	**4,151**	**4,368**	**4,515**
Group Headquarters	**337**	**340**	**369**
Total Group	**19,479**	**19,547**	**20,061**
Thereof employees in Switzerland	15,995	16,064	16,628

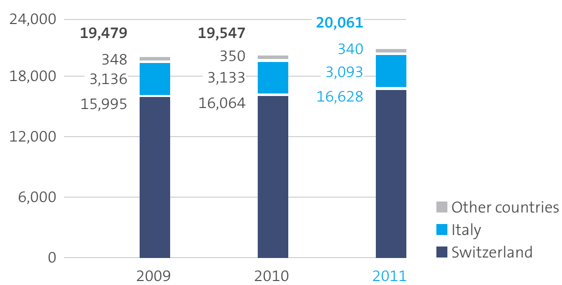
Headcount increased year-on-year by 514 full-time equivalents or 2.6%. The larger workforce at Swisscom Switzerland is due to an increase in customer service personnel, the insourcing of external staff and higher levels of investment in network expansion in Switzerland. The number of full-time equivalents at Swisscom IT Services rose as a result of the 130 employees transferred following the acquisition of the EFP Group and the Cirrus Group at the end of November 2011. Conversely, 16 employees transferred to SunGard in 2011 following Swisscom's sale of the "Finace" banking product to SunGard. The higher headcount at Swisscom Participations was mainly due to the need for more personnel at cablex, the company responsible for the construction, operation and maintenance of infrastructure, and the acquisition by Swisscom Broadcast Ltd of Solutionpark AG along with 24 employees in March 2011. In the Other operating segment, Swisscom sold its stake in Swisscom Auto ID Services and the workforce was transferred to the new majority shareholder, Vilant Systems Oy.

Headcount in full-time equivalent



Employees in Switzerland on fixed-term contracts accounted for 0.3% of the workforce (prior year: 0.9%), while part-time employees made up 13.4% (prior year: 13.6%), corresponding to 74 fewer FTEs than in 2010. In 2011 termination of employment by employees in Switzerland amounted to 6.0% of the workforce (prior year: 6.0%).

Development of number of employees in full-time equivalent



Personnel expense

In CHF million	2011	2010	Change
Salary and wage costs	2,053	2,035	0.9%
Social security expenses	227	224	1.3%
Pension cost	141	150	–6.0%
Other personnel expenses	92	109	–15.6%
Total personnel expense	**2,513**	**2,518**	**–0.2%**
Thereof personnel expense in Switzerland	2,217	2,182	1.6%
Thereof personnel expense in Italy	264	301	–12.3%
Thereof personnel expense in other countries	32	35	–8.6%

Personnel expense in the year under review amounted to CHF 2,513 million, with employees in Switzerland accounting for CHF 2,217 million or 88.2%.

Employment law framework

Introduction

With some 17,600 employees in Switzerland, Swisscom is 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 collective employment agreement (CEA) sets out the key terms and conditions of employment between Swisscom and its employees, and also contains contractual provisions governing relations between Swisscom and the social partners. At the end of October 2011 Swisscom and the social partners entered into negotiations concerning the further development of the collective employment agreement and social plan. The new collective employment agreement and new social plan are due to enter into force on 1 January 2013. At the end of December 2011, 13,952 FTE employees or 83.9% of the workforce were covered by the collective employment agreement. General terms and conditions of employment which exceed the minimum standard defined by the Code of Obligations are governed by the special provisions for Swisscom management staff in Switzerland.

Employee representation and union relations

Swisscom is committed to fostering constructive dialogue with the social partners (syndicom and transfair unions) as well as the employee association (employee representatives) to ensure fair, consensual solutions as best exemplified by the CEA and social plan. In the event of important operational changes, Swisscom involves the social partners at an early stage. The CEA grants employee representatives rights of co-determination in a number of areas. These rights are exercised by the employee association, whose members are elected by Swisscom employees in general and free elections. Two employee representatives from the unions also sit on the Board of Directors of Swisscom Ltd.

Collective Employment Agreement

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

Working-hour models

Swisscom promotes work-life balance by providing the right conditions under which employees can balance their working and private lives. This includes the following options for full- and part-time employees: flexible working hours, the standard model made use of by the majority of employees; and other flexible working-hour models such as annual working hours, the long-term working time account and alternating teleworking. Employees may also work from home with the consent of their line manager. This option is used by many employees and is becoming increasingly simpler thanks to tools such as Unified Communications & Collaboration (UCC).

Fringe benefits

All Swisscom employees enjoy fringe benefits in the form of a phone allowance and the Swiss Federal Railways (SBB) half-fare travel card. These fringe benefits are offered irrespective of function or whether the employee works full time or part time. Apprentices benefit from a lower phone allowance. Swisscom also supports external childcare facilities through financial contributions and by providing access to free counselling services through the *familienservice*® family service. To assist working parents during the school holidays, Swisscom also runs vacation childcare weeks at selected locations in Switzerland. It also pays the employer's pension fund contribution for unpaid leave of up to three months.

Supplementary regulations governing management staff

Members of management have the opportunity to take a sabbatical of up to three months, depending on their length of service. Swisscom pays their salary for 30 working days, and during the sabbatical the existing employment contract remains in place and managers are assured of a return to their existing position.
Management staff are also exempted from the obligation to pay a contribution to the collective insurances for illness and accident as well as a management staff risk insurance in the event of death.

Social plan

Swisscom's social plan sets out the benefits provided to employees covered by the CEA who are affected by redundancy. Responsibility for implementing the social plan lies with Worklink AG, a wholly owned subsidiary of Swisscom. Worklink AG opens up new prospects for Swisscom employees affected by job cuts, by providing them with advice and support in their search for new employment outside the company or arranging temporary external or internal placements. The success rate is high, with around 55% of those affected finding another job within a short space of time. Swisscom also operates special employment schemes (phased partial retirement, temporary deployment in similar areas of expertise) in line with its commitment to provide fair solutions for older employees affected by changes in skill set requirements or redundancy. The pension plan offers employees opting for early retirement (from age 58) financial support in the form of a bridging pension until they reach statutory retirement age. In addition, the age management programme offers older employees new prospects and opportunities to continue working for Swisscom on the Swisscom Hotline, in Swisscom Shops or in network construction.

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 on the basis of function, individual performance, business performance and market value, while the variable component is dependent on the achievement of the Swisscom Group's overarching targets or those of the individual business segments or units. The targets primarily relate to key financial indicators and improvement in customer perception. Swisscom's share bonus rewards selected employees who have been nominated for outstanding individual achievements. The salary system and terms and conditions of employment for management staff comply with the recommendations of economiesuisse on the "Swiss Code of Best Practice in Corporate Governance". Details on remuneration for members of the Group Executive Board are provided in the Remuneration Report.

See Report **page 150**

Minimum wage

There is no legally defined minimum wage in Switzerland. Instead, this is negotiated by the social partners in the context of collective employment agreements. Swisscom complies with the CEA-defined minimum wage of CHF 45,500 (for a 40-hour week or 2,080 hours per year). Swisscom is present throughout Switzerland and the various locations differ little in terms of defining salaries. A study of starting salaries for the youngest employees (up to age 21) at the widely-applied starting function level found that the average hourly pay for this category is CHF 26.60 for men and women: 21% above the minimum wage rate.

Pay round

In 2011 Swisscom (excluding Swisscom IT Services) raised salaries by 2.6%, while the general increase for CEA employees amounted to 0.9%. Individual adjustments depending on performance and current salary level accounted for a further 1.7%. Management salaries underwent a similar adjustment but on an exclusively individual basis. In November 2011 Swisscom and the social partners reached a new agreement on the future trend in salaries up to 2013. Swisscom (excluding Swisscom IT Services) will raise the salaries of CEA employees for 2012 and 2013 by 1.2% per year (0.8% of this as a general increase and 0.4% of which is reserved for individual salary adjustments).

As part of the negotiations a separate agreement was reached for Swisscom IT Services, under the terms of which Swisscom IT Services will pay employees retroactively a 2.6% salary increase (0.9% as a general increase) in 2011. However, no salary rise will be granted by Swisscom IT Services for 2012, and for 2013 CEA employees will be granted a general increase of 0.8%. Following the negotiations on the Group-wide salary agreement for 2011, Swisscom IT Services campaigned for a separate solution that takes into account the IT market's special environment and competitive situation.

Pension plans

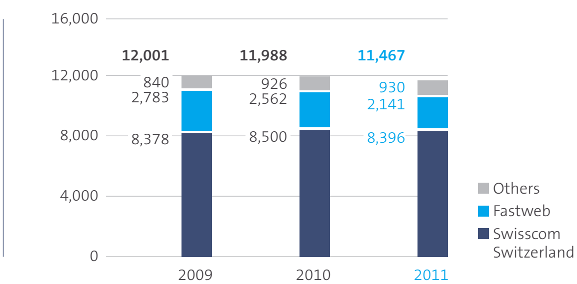
Obligatory and supplementary retirement provision for Swisscom employees in Switzerland is managed by the company's own pension foundation, comPlan. For employees abroad, the local statutory pension plan regulations apply.
At the end of 2011 around 17,600 Swisscom employees and some 4,700 pensioners were insured under comPlan. In 2011 comPlan posted a negative net return on assets of around 1.4% (prior year: +4.4%). At 31 December 2011 the market value of plan assets amounted to CHF 7.2 billion (prior year: CHF 7.2 billion) and the coverage ratio was around 97% (prior year: 101.4%) in accordance with Swiss accounting standards for pension funds. For capital markets 2011 was a year marked by many uncertainties such as the European debt crisis and growing fears of a global economic slowdown. For many Swiss pension funds, including comPlan, this had a negative impact on the return on plan assets. Due to the reduced coverage ratio, the comPlan Board of Trustees decided to temporarily increase the risk profile in order to broaden the strategic and tactical scope. It set up a joint working group tasked with examining the actuarial and financial implications for the pension plan, employer and insured members.

Group financial review

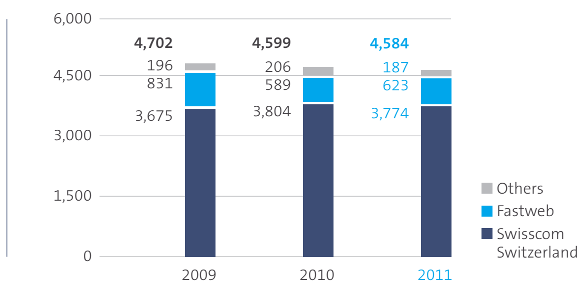
Key financial figures

In CHF million, except where indicated	2011	2010	Change
Net revenue	11,467	11,988	–4.3%
Operating income before depreciation and amortisation (EBITDA)	4,584	4,599	–0.3%
EBITDA as % of net revenue	40.0	38.4	
Operating income (EBIT) before impairment losses on goodwill	2,681	2,627	2.1%
Operating income (EBIT)	1,126	2,627	–57.1%
Net income	694	1,788	–61.2%
Share of net income attributable to equity holders of Swisscom Ltd	683	1,813	–62.3%
Earnings per share (in CHF)	13.19	35.00	–62.3%
Operating free cash flow	2,068	2,512	–17.7%
Capital expenditure in property, plant and equipment and other intangible assets	2,095	1,903	10.1%
Net debt at end of period	8,309	8,848	–6.1%
Full-time equivalent employees at end of year	20,061	19,547	2.6%

Development of revenue from external customers in CHF million



Development of EBITDA in CHF million



- Net revenue fell by 2.3% at constant exchange rates.
- Adjusted operating income before depreciation and amortisation (EBITDA) declined by 2.7%.
- Net income declined to CHF 694 million as a result of the impairment loss on the carrying amount of Fastweb.
- An increase in the dividend to CHF 22 per share will be proposed to the forthcoming Annual General Meeting of Shareholders.

Summary

Swisscom's net revenue fell by CHF 521 million or 4.3% to CHF 11,467 million. Operating income before depreciation and amortisation (EBITDA) declined by CHF 15 million or 0.3% to CHF 4,584 million. Price erosion in Swiss core business of around CHF 500 million could not be made good by the growth in the customer base and volume of around CHF 400 million. Revenue and income performance was also heavily impacted by the appreciation of the Swiss franc. The average CHF/EUR exchange rate fell by 10.1% year-on-year. In addition, EBITDA was impacted by one-off items at Fastweb. Following the settlement of a legal dispute with another telecoms provider, Fastweb will receive a one-off payment of EUR 56 million (CHF 69 million) in 2012, which was recognised as other income in the third quarter of 2011. Furthermore, a provision of EUR 70 million (CHF 102 million) for VAT proceedings against Fastweb was recorded in the first quarter of 2010. At constant exchange rates and adjusted for the one-off items at Fastweb, net revenue was down by 2.3% in local currency terms and EBITDA fell by 2.7% year-on-year. Fastweb's net revenue decreased in local currency terms by 7.1% to EUR 1,746 million. Excluding Fastweb, net revenue declined by 1.1% or CHF 100 million to CHF 9,326 million. Fastweb's share of Swisscom's total revenue and EBITDA was 19% and 14%, respectively.

The drop in net income by CHF 1,094 million or 61.2% to CHF 694 million is primarily attributable to the exceptional impairment loss on the carrying amount of Fastweb. This impairment loss reduced net income by some CHF 1.2 billion. The worsening economic situation in Italy and rising interest rates lead to a weaker outlook for growth and higher capital costs. As a result, the business plan of the Italian subsidiary Fastweb was amended and the value of the investment corrected by around EUR 1.3 billion. After deducting the impact of tax savings, the charge to Swisscom's net income for the year 2011 was some CHF 1.2 billion. The impairment loss did not negatively impact cash flow or the dividend distribution to shareholders. An increase in dividend by CHF 1 to CHF 22 per share will be proposed to the forthcoming Annual General Meeting of Shareholders. This equates a total dividend of CHF 1,140 million and a dividend yield of 6.2% in relation to the year-end share price of 2011.

Capital expenditure rose by CHF 192 million or 10.1% higher to CHF 2,095 million, principally as a result of increased investments in the Swiss telecommunications infrastructure.

Net debt fell by CHF 539 million from the end of 2010 to CHF 8,309 million. The ratio of net debt to EBITDA declined from 1.9 to 1.8.

Headcount grew year-on-year by 514 FTEs or 2.6% to 20,061 FTEs, due to an increase in customer service personnel and the insourcing of external staff at Swisscom Switzerland, the acquisition of subsidiaries and higher investment in network expansion in Switzerland. Operating free cash flow fell by CHF 444 million or 17.7% to CHF 2,068 million, mainly due to an increase in net working capital and higher capital expenditure.

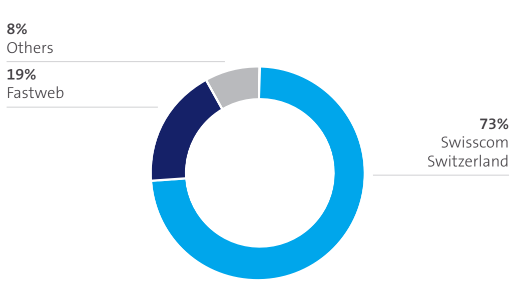
Assuming an average CHF/EUR exchange rate in 2012 of 1.23, Swisscom expects to close the year with net revenue of CHF 11.4 billion and EBITDA of CHF 4.4 billion. Consumers in Switzerland are extremely quality conscious. With high capital expenditure, Swisscom aims to consolidate both its leading position in network and service quality and its market position. Capital expenditure of up to CHF 2.2 billion is projected for 2012, of which CHF 1.7 billion will be invested in Swiss business, which corresponds to an increase of CHF 100 million. This amount does not include expenses arising in connection with the mobile frequencies. A similarly high investment level is projected for the following years. If all targets are met for 2012, Swisscom plans to once again propose payment of a dividend of CHF 22 per share to the Annual Meeting of Shareholders in 2013 despite the additional expenses arising in connection with mobile frequencies.

Results of operations

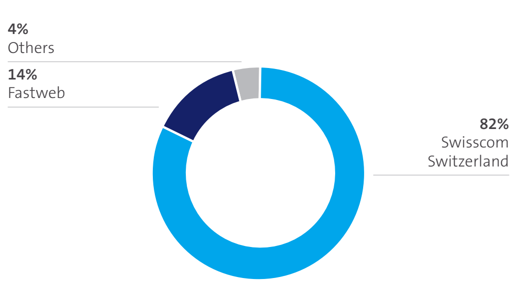
Income statement

In CHF million, except where indicated	2011	2010	Change
Swisscom Switzerland	8,396	8,500	−1.2%
Fastweb	2,141	2,562	−16.4%
Other operating segments	929	925	0.4%
Group Headquarters	1	1	–
Revenue from external customers	**11,467**	**11,988**	**−4.3%**
Swisscom Switzerland	3,774	3,804	−0.8%
Fastweb	623	589	5.8%
Other operating segments	338	340	−0.6%
Group Headquarters and elimination	(151)	(134)	12.7%
Operating income before depreciation and amortisation (EBITDA)	**4,584**	**4,599**	**−0.3%**
Net revenue	**11,467**	**11,988**	**−4.3%**
Goods and services purchased	(2,402)	(2,665)	−9.9%
Personnel expense	(2,513)	(2,518)	−0.2%
Other operating expense	(2,388)	(2,510)	−4.9%
Capitalised self-constructed assets and other income	420	304	38.2%
Operating expenses	**(6,883)**	**(7,389)**	**−6.8%**
Operating income before depreciation and amortisation (EBITDA)	**4,584**	**4,599**	**−0.3%**
Depreciation and amortisation	(1,903)	(1,972)	−3.5%
Operating income (EBIT) before impairment losses on goodwill	**2,681**	**2,627**	**2.1%**
Impairment losses on goodwill	(1,555)	–	–
Operating income (EBIT)	**1,126**	**2,627**	**−57.1%**
Financial income and financial expense, net	(311)	(365)	−14.8%
Share of results of associates	30	28	7.1%
Income before income taxes	**845**	**2,290**	**−63.1%**
Income tax expense	(151)	(502)	−69.9%
Net income	**694**	**1,788**	**−61.2%**
Share of net income attributable to equity holders of Swisscom Ltd	683	1,813	−62.3%
Share of net income attributable to non-controlling interests	11	(25)	–
Average number of shares outstanding (in millions of shares)	51.801	51.798	–
Earnings per share (in CHF)	13.19	35.00	−62.3%

Share of operating segments in net revenue in %



Share of operating segments in EBITDA in %



Net revenue

Swisscom's net revenue fell by CHF 521 million or 4.3% to CHF 11,467 million. At constant exchange rates this represents a fall of 2.3%. At Swisscom Switzerland, revenue from external customers declined by 1.2% to CHF 8,396 million. Customer and volume growth of around CHF 400 million was not enough to make up for the price erosion in Swiss core business of around CHF 500 million. Revenue from external customers at Fastweb dropped by 16.4% in Swiss francs to CHF 2,141 million, while in local currency net revenue was down 7.1%. Revenue from residential and SME customers was down due to strong competition. Revenue from wholesale was also down, and product sales were restricted. Revenue from external customers in other operating segments increased by 0.4% to CHF 929 million, mainly due to the acquisition of subsidiaries by Swisscom IT Services.

Goods and services purchased

Goods and services purchased were CHF 263 million or 9.9% lower year-on-year at CHF 2,402 million. At constant exchange rates this amounts to a fall of 6.5%, and is primarily attributable to lower volumes of goods and services purchased by Swisscom Switzerland and Fastweb. At Swisscom Switzerland the decline was chiefly due to reduced traffic fees, primarily as a result of lower roaming and termination rates. Operating expense at Fastweb also fell in local currency terms, due mainly to lower termination costs and reduced costs of trading goods.

Personnel expense

Personnel expense decreased by CHF 5 million or 0.2% to CHF 2,513 million. At constant exchange rates personnel expense increased by 1.1%, chiefly due to the higher headcount at Swisscom Switzerland. At 20,061 full-time equivalent employees, headcount at 31 December 2011 was 514 FTEs or 2.6% higher than in the prior year due to an increase in customer service personnel and the insourcing of external staff at Swisscom Switzerland, acquisition of subsidiaries and higher capital expenditure on network expansion in Switzerland.

Other operating expense

At CHF 2,388 million, other operating expense was CHF 122 million or 4.9% lower year-on-year. At constant exchange rates and adjusted for the EUR 70 million (CHF 102 million) provision recorded in the first quarter of 2010 in connection with VAT proceedings against Fastweb, other operating expense rose year-on-year by 2.3%. The increase is attributable to higher costs related to outsourcing and project business and subscriber acquisition and retention activities.

Capitalised self-constructed assets and other income

At CHF 420 million, capitalised self-constructed assets and other income were CHF 116 million or 38.2% higher year-on-year. This includes non-recurring income of EUR 56 million (CHF 69 million) in connection with the settlement of a legal dispute with another telecoms provider which was recognised as other income. At constant exchange rates and adjusted for this one-off item, the increase amounted to 21.1% and is related to higher capital expenditure.

Operating income before depreciation and amortisation (EBITDA)

Operating income before depreciation and amortisation (EBITDA) fell by CHF 15 million or 0.3% to CHF 4,584 million. The result was impacted by currency movements and one-off items at Fastweb. Following the settlement of a legal dispute with another telecoms provider, Fastweb will receive a one-off payment of EUR 56 million (CHF 69 million), which was recognised in 2011 under other income. A provision of EUR 70 million (CHF 102 million) was also recognised in 2010 for VAT proceedings against Fastweb. At constant exchange rates and adjusted for the aforementioned one-off items at Fastweb, EBITDA was 2.7% lower than the prior year. The adjusted fall in EBITDA is mainly attributable to lower operating income posted by Swisscom Switzerland and Fastweb.

Depreciation and amortisation

Depreciation and amortisation declined by CHF 69 million or 3.5% to CHF 1,903 million, and mainly concerns Swisscom Switzerland. The decrease relates primarily to Swisscom Switzerland where a part of the active network components of the network infrastructure reached the end of their useful lives during 2011 thus giving rise to lower depreciation. In addition, the useful life for fibre-optic cables was increased from 20 years to 30 years, starting in the 2011 financial year. The positive impact of this change on depreciation and amortisation for 2011 amounted to CHF 14 million. Depreciation and amortisation includes scheduled amortisation related to business combinations in the amount of CHF 137 million (prior year: CHF 149 million), which were capitalised as intangible assets (customer relationships and brand) for purchase price allocation purposes.

Impairment loss on goodwill

In accordance with International Financial-Statement Reporting Standards, goodwill is to be subject to an annual review for impairment, which is based on the business plan, the long-term growth rate and the interest rate for the discounting of projected cash flows. The worsening economic situation in Italy and rising interest rates lead to a weaker outlook for growth and higher capital costs. As a result, the business plan of the Italian subsidiary, Fastweb was adjusted and the value of the investment corrected by EUR 1,276 million (CHF 1,555 million). After deducting the impact of tax savings, the charge to Swisscom's net income for the year 2011 was CHF 1,189 billion. The carrying amount of the net assets (including goodwill) of Fastweb totalled EUR 2.9 billion (CHF 3.5 billion) as of 31 December 2011.

Net financial result

Net financial result improved by CHF 54 million year-on-year to CHF 311 million, chiefly due to an improvement in the foreign exchange result of CHF 61 million. In addition, in 2010 hedging relationships were terminated due to the early repayment of bank loans, resulting in an expense of CHF 34 million. Net interest expense in 2011 amounted to 274 million (prior year: CHF 261 million), and includes losses from interest rate hedges of CHF 38 million (prior year: gain of CHF 13 million).

Investments in associates

Associates mainly covers the share of results attributable to investments in Belgacom International Carrier Services, Cinetrade and LTV Yellow Pages. The share of results of associates rose year-on-year by CHF 2 million to CHF 30 million. Dividends received, amounting to CHF 34 million (prior year: CHF 55 million), largely concern dividends paid by LTV Yellow Pages, Cinetrade and Belgacom International Carrier Services.

Income tax expense

Income tax expense amounted to CHF 151 million (prior year: CHF 502 million), corresponding to an effective income tax rate of 17.9% (prior year: 21.9%). The decrease in the effective tax rate is attributable to the exceptional impairment loss on the carrying amount of Fastweb. In addition, no positive tax effect was considered on the provision for the VAT proceedings against Fastweb which was raised in the first quarter of 2010. Ignoring the impact of any non-recurring items, a long-term income tax rate of some 21% is expected in future. Year-on-year, income tax payments fell by CHF 183 million to CHF 182 million, which is to be attributed to the refund which took place in the third quarter of 2011 of income taxes overpaid in prior years.

Net income and earnings per share

Year-on-year, net income fell by CHF 1,094 million or 61.2% to CHF 694 million. The reduction is attributable to the exceptional impairment loss on the carrying amount of Fastweb which, after tax effect, reduced net income by CHF 1,189 million. Ignoring the aforementioned impairment loss, net income would have increased by CHF 95 million or 5.3% attributable principally to one-off items at Fastweb. As a result of the settlement of a legal dispute with another telecoms provider, Fastweb will receive a one-off payment of EUR 56 (CHF 69 million) which was recorded in the third quarter of 2011 as other income. In the first quarter of 2011 a provision of EUR 70 million (CHF 102 million) was also recognised for VAT proceedings against Fastweb. In addition, the lower adjusted operating income could not be offset by an improvement in net financial results.

Earnings per share are computed on the basis of the net income attributable to the equity holders of Swisscom and the average number of shares outstanding. Net income attributable to the equity holders of Swisscom fell year-on-year by 62.3% to CHF 683 million. Earnings per share fell correspondingly from CHF 35.00 to CHF 13.19.

Impact of exchange rate fluctuations

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

Currency	2011	2010	Change
1 EUR	1.232	1.370	–10.1%
1 USD	0.881	1.038	–15.1%

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

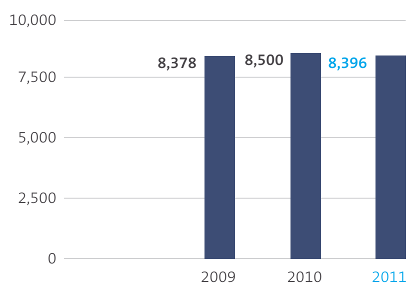
Development in %	Change in CHF	Change in local currency
Net revenue	–4.3%	–2.3%
Operating income before depreciation and amortisation (EBITDA)	–0.3%	1.2%
Operating free cash flow	–17.7%	–17.7%

Cumulative foreign exchange differences not impacting net income and which are recognised under equity totalled CHF 1,969 at the end of 2011. Year-on-year, they rose by CHF 149 million. The cumulative tax effect arising in connection with foreign currency translation amounted to CHF 381 million (prior year: CHF 270 million). Foreign currency differences in the consolidated balance sheet are reported on a net of tax basis.

Operating segment results

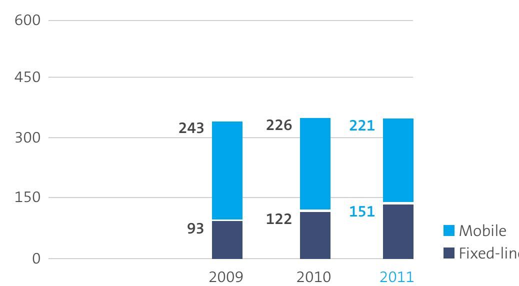
Segment reporting is broken down into the segments Residential Customers, Small and Medium-Sized Enterprises, Corporate Business, Wholesale and Network & IT, which are grouped together as Swisscom Switzerland, and Fastweb and Other operating segments. Group Headquarters is disclosed separately.

Development of revenue from external customers Swisscom Switzerland in CHF million



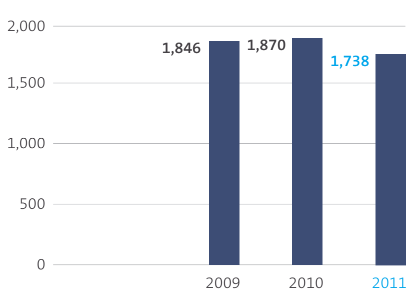
	2009	2010	2011
Revenue mobile	3'397	3'476	3,409
Revenue fixed-line	4'000	3'856	3,753
Revenue others	981	1'168	1,234
Total	**8,378**	**8,500**	**8,396**

Changes in customer contracts retail Swisscom Switzerland in thousand



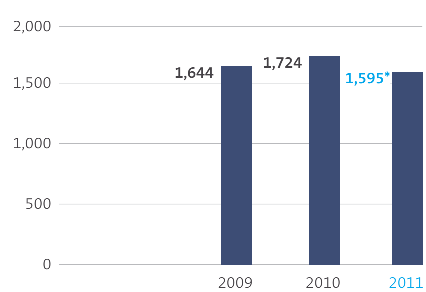
	2009	2010	2011
Telephone (PSDN/ ISDN)	–165	–173	–113
Broadband	144	106	77
Swisscom TV	114	189	187
Contracts in fixed-line	**93**	**122**	**151**
Contracts in mobile	**243**	**226**	**221**

Development of revenue from external customers Fastweb in EUR million



	2009	2010	2011
Residential Customers	697	858	758
Small and Medium-Sized Enterprises	406	236	223
Corporate Business	743	776	757
Third-revenue	**1,846**	**1,870**	**1,738**

Development of broadband access lines Fastweb in thousand



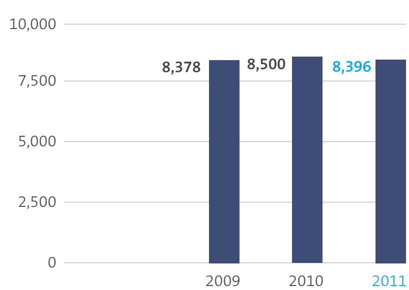
* Adjusted by 197,000 as a result of the settlement of litigations.

Segment revenue and results

Swisscom Switzerland

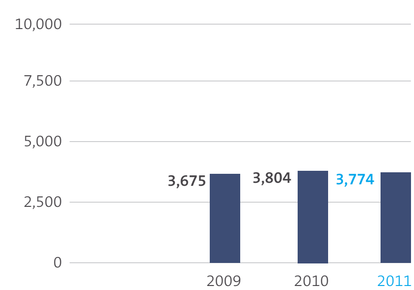
In CHF million, except where indicated	2011	2010	Change
Revenue from external customers	8,396	8,500	–1.2%
Intersegment revenue	65	66	–1.5%
Net revenue of Swisscom Switzerland	**8,461**	**8,566**	**–1.2%**
Direct costs	(1,817)	(1,877)	–3.2%
Indirect costs (including capitalised costs and other income)	(2,870)	(2,885)	–0.5%
Total segment expense	**(4,687)**	**(4,762)**	**–1.6%**
Segment result before depreciation and amortisation	**3,774**	**3,804**	**–0.8%**
Margin as % of net revenue	*44.6*	*44.4*	
Depreciation, amortisation and impairment losses	(988)	(1,031)	–4.2%
Segment result	**2,786**	**2,773**	**0.5%**
Capital expenditure in property, plant and equipment and other intangible assets	1,400	1,204	16.3%
Full-time equivalent employees at end of year	12,096	11,716	3.2%
Telephone access lines PSTN/ISDN in thousand	3,120	3,233	–3.5%
Unbundled fixed access lines in thousand	306	255	20.0%
Total telephone access lines in thousand	**3,426**	**3,488**	**–1.8%**
Broadband access lines retail in thousand	1,661	1,584	4.9%
Broadband access lines wholesale in thousand	181	226	–19.9%
Total broadband access lines in thousand	**1,842**	**1,810**	**1.8%**
Swisscom TV access lines in thousand	608	421	44.4%
Mobile access lines in thousand	6,049	5,828	3.8%
Average revenue in CHF per mobile user (ARPU) per month	47	49	–4.1%
Average minutes per mobile user (AMPU) per month	122	119	2.5%

Development of third-revenue
Swisscom Switzerland in CHF million



	2009	2010	2011
Residential Customers	4’725	4’897	4,906
Small and Medium-Sized Enterprises	1’090	1’123	1,127
Corporate Business	1’686	1’732	1,754
Wholesale	877	748	609
Third-revenue	**8,378**	**8,500**	**8,396**

Development of EBITDA
Swisscom Switzerland in CHF million



	2009	2010	2011
Residential Customers	2’917	3’008	2,958
Small and Medium-Sized Enterprises	835	869	874
Corporate Business	957	991	972
Wholesale	471	439	380
Networks & IT	–1’505	–1’503	–1,410
EBITDA	**3,675**	**3,804**	**3,774**

- Swisscom TV subscriber base increased by 44.4% to 608,000 customers.
- Mobile lines base continued to grow by 3.8%.
- Customer base for bundled products increased by 51.0% to 613,000 customers.
- Revenue from bundled products rose by 94% to CHF 676 million.
- Revenue from mobile data services increased by 11.5% or CHF 50 million.

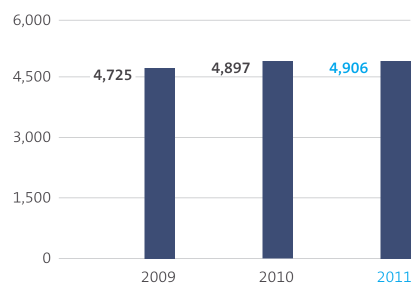
Revenue from external customers fell year-on-year by CHF 104 million or 1.2% to CHF 8,396 million. Customer and volume growth of around CHF 400 million was unable to offset price erosion in Swiss core business of around CHF 500 million. Bundled offerings such as Vivo Casa, which combines fixed-line access with telephony, Internet and TV, are still very much in demand. At the beginning of August 2011 Swisscom launched Vivo Tutto, the first nationwide bundled offering to also include mobile. By the end of 2011 a total of 613,000 customers were using bundled offerings. The number of Swisscom TV subscribers increased year-on-year by 187,000 or 44.4% to 608,000. The number of PSTN/ISDN access lines decreased by 113,000 or 3.5% to 3.1 million due to loss of market share to cable network operators and an increase of 51,000 in unbundled access lines to 306,000. As a consequence of unbundling, the number of wholesale broadband access lines fell by 45,000 to 181,000, while retail broadband access lines grew by 77,000 or 4.9% to 1.66 million in the space of a year. The number of mobile lines increased year-on-year by 221,000 or 3.8% to 6.0 million. In 2011 Swisscom sold 1.5 million mobile handsets (+5.7%), of which around 60% were smartphones. While strong growth in smartphone sales led to an increase in subsidies for handsets, it also doubled the volume of mobile data traffic year-on-year. Revenue from mobile data services was up CHF 50 million or 11.5% at CHF 485 million. Average revenue per mobile user per month (ARPU) declined by 4.1% to CHF 47 due to price reductions and new tariff models.
At CHF 3,774 million, the segment result before depreciation and amortisation was CHF 30 million or 0.8% lower. The reduction is largely sales-related. Lower costs for roaming and termination more than made up for higher subscriber acquisition and retention costs as well as increased spending on advertising and sales. At CHF 1,400 million, capital expenditure was CHF 196 million or 16.3% higher year-on-year, mainly due to continued expansion of the fibre-optic network and other network infrastructure. The increase in headcount of 380 or 3.2% to 12,096 FTEs is due to the higher number of customer service personnel as well as insourcing of external staff.

Residential Customers

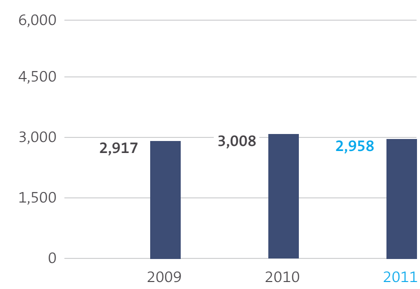
In CHF million, except where indicated	2011	2010	Change
Revenue from external customers	4,906	4,897	0.2%
Intersegment revenue	241	293	–17.7%
Net revenue	**5,147**	**5,190**	**–0.8%**
Segment expenses	(2,189)	(2,182)	0.3%
Segment result before depreciation and amortisation [1]	**2,958**	**3,008**	**–1.7%**
Margin as % of net revenue	*57.5*	*58.0*	
Capital expenditure in property, plant and equipment and other intangible assets	146	128	14.1%
Full-time equivalent employees at end of year	4,683	4,607	1.6%
Telephone access lines PSTN/ISDN in thousand	2,361	2,475	–4.6%
Broadband access lines in thousand	1,452	1,396	4.0%
Swisscom TV access lines in thousand	589	409	44.0%
Mobile access lines in thousand	4,590	4,519	1.6%

[1] Excluding own network costs.

Development of revenue from external customers in CHF million



Development of EBITDA in CHF million



- Mobile lines base increased by 1.6% to 4.59 million.
- Customer base for bundled products grew by 49.7% to 572,000 customers.
- Revenue from bundled products rose by 96% to CHF 627 million.

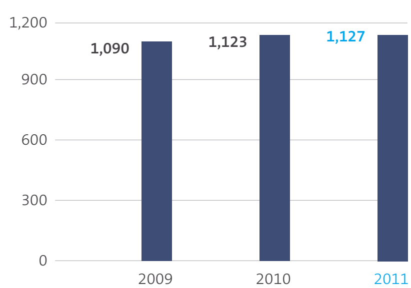
Revenue from external customers remained stable in 2010, ending the year 0.2% or CHF 9 million higher at CHF 4,906 million. Price erosion was offset by sustained customer growth, the positive trend in new bundled offerings, higher sales of smartphones and the resulting increase in mobile data service usage. The slight drop of CHF 14 million or 0.7% in mobile revenue on account of continuing price erosion and new (flat-rate) tariff models was partially offset due to increased use of mobile data services and growth in the number of lines. The number of mobile lines grew year-on-year by 71,000 or 1.6% to 4.59 million. Growth in broadband, Swisscom TV and bundled offerings in the fixed-network area partially offset the lower revenue from traditional fixed-network voice and phone line business. The number of broadband access lines rose by 56,000 or 4.0% year-on-year to 1.45 million, while the number of Swisscom TV subscribers grew by 180,000 or 44.0% to almost 600,000 in the space of a year. Bundled offerings remained very much in demand. At the end of 2011 the Residential Customers segment had 572,000 customers subscribing to bundled products. At CHF 2,189 million, segment expense was CHF 7 million or 0.3% higher year-on-year. Lower termination and roaming costs largely offset higher expenditure on subscriber acquisition and retention. Consequently the segment result before depreciation and amortisation was CHF 50 million or 1.7% lower at CHF 2,958 million. The profit margin fell by 0.5 percentage points to 57.5%. Headcount rose by 1.6% to 4,683 FTEs due to the increase in customer service personnel.

Small and Medium-Sized Enterprises

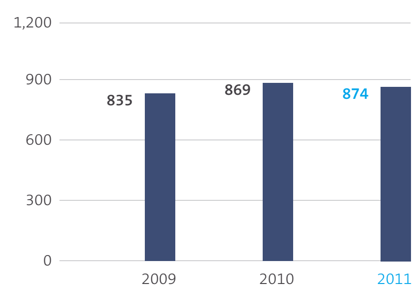
In CHF million, except where indicated	2011	2010	Change
Revenue from external customers	1,127	1,123	0.4%
Intersegment revenue	48	52	–7.7%
Net revenue	**1,175**	**1,175**	**–**
Segment expenses	(301)	(306)	–1.6%
Segment result before depreciation and amortisation [1]	**874**	**869**	**0.6%**
Margin as % of net revenue	*74.4*	*74.0*	
Capital expenditure in property, plant and equipment and other intangible assets	15	9	66.7%
Full-time equivalent employees at end of year	824	733	12.4%
Telephone access lines PSTN/ISDN in thousand	517	512	1.0%
Broadband access lines in thousand	177	158	12.0%
Mobile access lines in thousand	516	492	4.9%

[1] Excluding own network costs.

Development of revenue from external customers in CHF million



Development of EBITDA in CHF million



- Revenue from external customers increased slightly by 0.4%.
- Profit margin rose by 0.4 percentage points to 74.4%.
- Broadband access lines and mobile lines increased by 12.0% and 4.9% respectively.

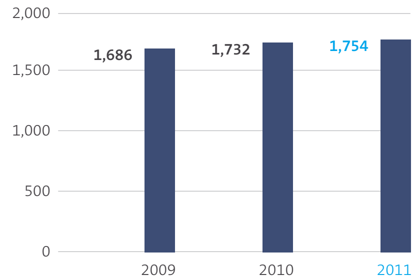
Revenue from external customers grew year-on-year by CHF 4 million or 0.4% to CHF 1,127 million, chiefly driven by mobile connectivity growth and higher revenue from mobile data services. Despite declining traffic volumes and reduced tariffs, fixed-network revenue remained virtually at the prior-year level thanks to growth in bundled products. The number of mobile lines grew by 24,000 or 4.9% to 516,000, while the number of broadband access lines rose by 19,000 or 12.0% to 177,000. The number of Swisscom TV subscribers increased by 7,000 to 19,000. At CHF 301 million, segment expense was slightly lower year-on-year. The segment result before depreciation and amortisation increased slightly by CHF 5 million or 0.6% to CHF 874 million, while the profit margin grew by 0.4% to 74.4%. Headcount increased year-on-year by 12.4% to 824 FTEs.

Corporate Business

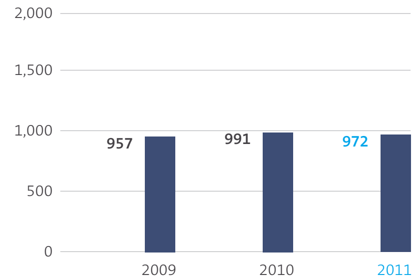
In CHF million, except where indicated	2011	2010	Change
Revenue from external customers	1,754	1,732	1.3%
Intersegment revenue	111	126	–11.9%
Net revenue	**1,865**	**1,858**	**0.4%**
Segment expenses	(893)	(867)	3.0%
Segment result before depreciation and amortisation [1]	**972**	**991**	**–1.9%**
Margin as % of net revenue	*52.1*	*53.3*	
Capital expenditure in property, plant and equipment and other intangible assets	111	80	38.7%
Full-time equivalent employees at end of year	2,404	2,312	4.0%
Telephone access lines PSTN/ISDN in thousand	242	246	–1.6%
Broadband access lines in thousand	32	30	6.7%
Mobile access lines in thousand	943	817	15.4%

[1] Excluding own network costs.

Development of revenue from external customers in CHF million



Development of EBITDA in CHF million



- Revenue from external customers grew by 0.4%.
- Segment result before depreciation and amortisation fell by 1.9%.
- Broadband access lines and mobile lines increased by 6.7% and 15.4% respectively.

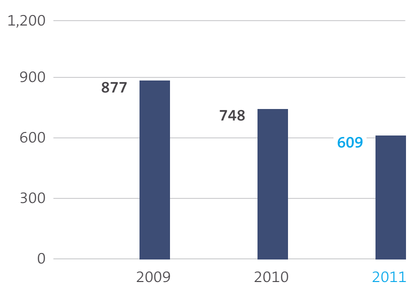
Revenue from external customers grew year-on-year by CHF 22 million or 1.3% to CHF 1,754 million. The increase in growth business (due to the acquisition of Axept AG) coupled with rising demand for mobile data services made up for the decline in prices and volumes in the fixed-network sector and lower traffic and subscription prices in the mobile sector. Segment expense rose by CHF 26 million to CHF 893 million, due largely to an increase in personnel. As a consequence the segment result before depreciation and amortisation was CHF 19 million or 1.9% lower at CHF 972 million, while the profit margin narrowed from 53.3% to 52.1%. The increase in headcount of 92 FTEs or 4.0% to 2,404 FTEs is principally due to the insourcing of external staff.

Wholesale

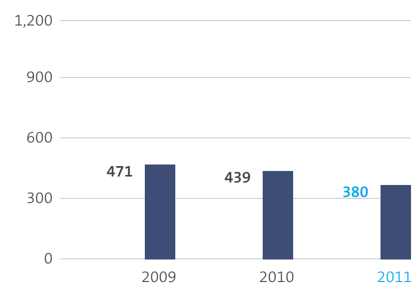
In CHF million, except where indicated	2011	2010	Change
Revenue from external customers	609	748	–18.6%
Intersegment revenue	388	505	–23.2%
Net revenue	**997**	**1,253**	**–20.4%**
Segment expenses	(617)	(814)	–24.2%
Segment result before depreciation and amortisation [1]	**380**	**439**	**–13.4%**
Margin as % of net revenue	*38.1*	*35.0*	
Full-time equivalent employees at end of year	110	100	10.0%
Broadband access lines in thousand	181	226	–19.9%
Unbundled fixed access lines in thousand	306	255	20.0%

[1] Excluding own network costs.

Development of revenue from external customers in CHF million



Development of EBITDA in CHF million



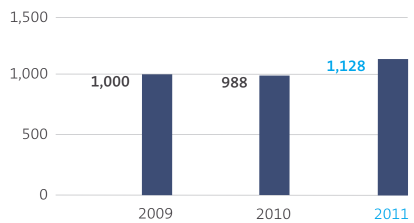
- Lower termination and roaming rates reduced revenue from mobile telephony.
- At the end of 2011 the number of unbundled subscriber lines in Switzerland totalled 306,000.

Revenue from external customers fell year-on-year by CHF 139 million or 18.6% to CHF 609 million. Revenue from mobile telephony declined mainly as a result of lower termination and roaming rates. Revenue also fell due to a decline in data services and further unbundling of the local loop. The number of wholesale broadband access lines declined year-on-year by 45,000 or 19.9% to 181,000, while the number of unbundled subscriber lines increased by 51,000 or 20.0% to 306,000 over the same period. Intersegment revenue was down CHF 117 million or 23.2% to CHF 388 million, mainly as a result of lower termination and roaming rates. Segment expense fell by CHF 197 million or 24.2% to CHF 617 million, largely as a result of lower termination and roaming rates. The segment result before depreciation and amortisation was CHF 59 million or 13.4% lower at CHF 380 million, mainly due to a decline in revenue from external customers. The fall in intersegment revenue had only a minimal impact on the segment's overall result. Headcount increased by 10.0% within the reporting period to 110 FTEs.

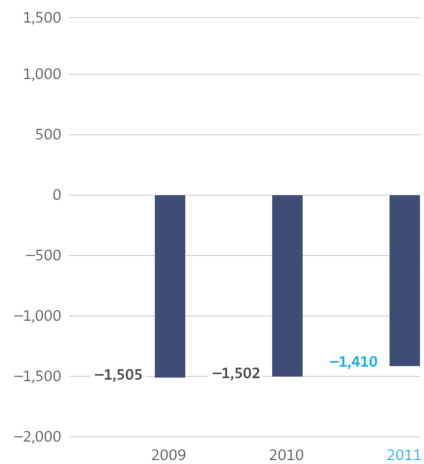
Network & IT

In CHF million, except where indicated	2011	2010	Change
Operating expenses	(1,581)	(1,667)	–5.2%
Capitalised self-constructed assets and other income	171	165	3.6%
Segment result before depreciation and amortisation	**(1,410)**	**(1,502)**	**–6.1%**
Depreciation, amortisation and impairment losses	(832)	(870)	–4.4%
Segment result	**(2,242)**	**(2,372)**	**–5.5%**
Capital expenditure in property, plant and equipment and other intangible assets	1,128	988	14.2%
Full-time equivalent employees at end of year	4,075	3,964	2.8%

Development of capital expenditure in CHF million



Development of EBITDA in CHF million



- Efficiency improvements reduced operating expense by 5.2%.
- Capital expenditure was 14.2% higher due to ongoing fibre-optic network expansion.

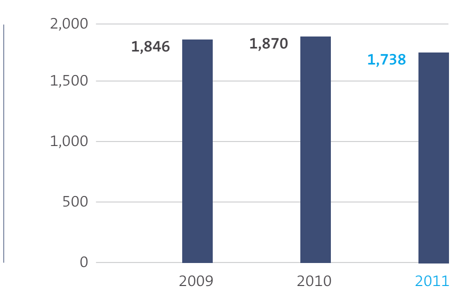
The segment result before depreciation and amortisation improved by CHF 92 million or 6.1% to CHF –1,410 million, on account of the reduction in operating expense resulting mainly from cost savings due to efficiency improvements and the lower expense related to workforce reduction measures.

The segment result improved by CHF 130 million or 5.5% to CHF –2,242 million, due to a combination of the improved segment result before depreciation and amortisation and the CHF 38 million or 4.4% decrease in depreciation and amortisation as a result of some active network elements in the network infrastructure reaching the end of their scheduled useful lives in 2011 and the change in the useful life for fibre-optic cables from 20 to 30 years. The year-on-year increase in capital expenditure of CHF 140 million or 14.2% to CHF 1,128 million is largely attributable to continuing expansion of the fibre-optic network. Headcount grew by 111 FTEs or 2.8% to 4,075 FTEs due, among other things, to the insourcing of external personnel.

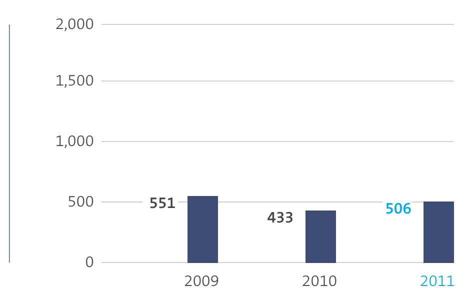
Fastweb

In EUR million, except where indicated	2011	2010	Change
Revenue from external customers	1,738	1,870	–7.1%
Intersegment revenue	8	10	–
Net revenue	**1,746**	**1,880**	**–7.1%**
Segment expenses	(1,240)	(1,447)	–14.3%
Segment result before depreciation and amortisation	**506**	**433**	**16.9%**
Margin as % of net revenue	*29.0*	*23.0*	
Capital expenditure in property, plant and equipment and other intangible assets	448	427	4.9%
Full-time equivalent employees at end of year	3,081	3,123	–1.3%
Broadband access lines in thousand	1,595	1,724	–7.5%

Development of revenue from external customers in EUR million



Development of EBITDA in EUR million



- Net revenue declined by 7.1%.
- Adjusted EBITDA margin narrowed by 1.0 percentage point to 25.8%.
- Strength of the franc negatively impacted revenue and EBITDA in Swiss francs.

Fastweb's net revenue fell year-on-year by 7.1% or CHF 134 million to CHF 1,746 million as a result of competition and price pressure. Sales of products to residential customers also fell sharply, while stricter credit checks were introduced for new customers in order to reduce the expense of bad debt losses over the coming year. Price pressure remained strong due to intense competition, resulting in a year-on-year decline in average revenue per broadband user of around 10%. Revenue from residential customers fell year-on-year by EUR 100 million or 11.7% to EUR 758 million. Litigations with another telecoms provider were settled in September 2011, as a result of which Fastweb reduced its customer base by 197,000 and transferred the customer relationships to the other telecoms provider. In return, Fastweb will receive a one-off payment in 2012 of EUR 56 million, which was recognised in the third quarter of 2011 under other income. With the legal settlement now in place, Fastweb does not expect any negative impact on future revenue. Adjusted for the aforementioned customer transfer, Fastweb increased the number of broadband access lines year-on-year by 68,000 or 3.9% to 1.6 million. At the end of the first quarter of 2011 Fastweb launched a new bundled product for satellite TV and Internet in partnership with Sky Italia. Since being rolled out, close to 71,000 customers have signed up for this product. Revenue from corporate business excluding wholesale customers rose by 1.7% or EUR 9 million to EUR 537 million, despite lower revenue from hardware products.

The segment result before depreciation and amortisation totalled EUR 506 million, equivalent to a year-on-year increase of EUR 73 million or 16.9%. VAT proceedings instigated against Fastweb in the first quarter of 2010 resulted in a provision of EUR 70 million being recognised under other operating expense. Adjusted for one-off items, the segment result before depreciation and amortisation fell by EUR 53 million or 10.5% to EUR 450 million. The adjusted profit margin of 25.8% was 1.0 percentage points lower year-on-year.

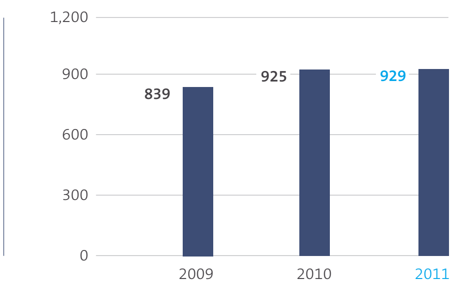
Headcount at the end of 2011 was 3,081 FTEs, equivalent to a year-on-year reduction of 42 FTEs or 1.3%. Capital expenditure rose by EUR 21 million or 4.9% to EUR 448 million, resulting in a ratio of capital expenditure to net revenue of 25.7% (prior year: 22.7%). Around 40% of investment spending was related directly to customer growth.

In the consolidated Swisscom results the weaker Euro negatively impacted revenue and the segment result before depreciation and amortisation. The average CHF/EUR exchange rate fell by 10.1% year-on-year. In Swiss franc terms, net revenue declined by 16.5%, versus 7.1% in local currency. The segment result before depreciation and amortisation was 5.8% higher in Swiss francs and 16.9% higher in local currency.

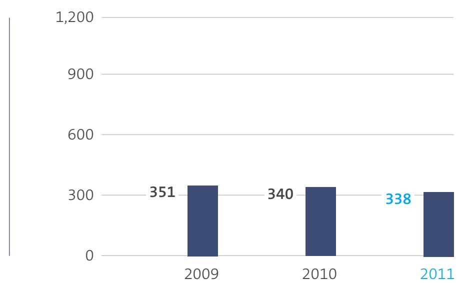
Other operating segments

In CHF million, except where indicated	2011	2010	Change
Revenue from external customers	929	925	0.4%
Intersegment revenue	809	811	–0.2%
Net revenue	**1,738**	**1,736**	**0.1%**
Segment expenses	(1,400)	(1,396)	0.3%
Segment result before depreciation and amortisation	**338**	**340**	**–0.6%**
Margin as % of net revenue	*19.4*	*19.6*	
Capital expenditure in property, plant and equipment and other intangible assets	169	130	30.0%
Full-time equivalent employees at end of year	4,515	4,368	3.4%

Development of revenue from external customers in CHF million



Development of EBITDA in CHF million



- Revenue from external customers grew by 0.4%.
- Segment result before depreciation and amortisation declined by 0.6%.

Revenue from external customers increased year-on-year by CHF 4 million or 0.4% to CHF 929 million. Revenue generated from external customers by Swisscom IT Services grew by CHF 4 million or 0.8% to CHF 531 million. This increase is almost fully attributable to the acquisition of subsidiaries and was largely offset by lower revenue from project business. Intersegment revenue fell year-on-year by CHF 2 million or 0.2% to CHF 809 million, chiefly due to the lower volume of services procured from Swisscom IT Services by other segments. However, this was offset by higher revenue from construction services performed by cablex, the company responsible for the construction, operation and maintenance of infrastructure at Swisscom Participations.
At CHF 1,400 million, segment expense was CHF 4 million or 0.3% higher year-on-year. The increase is mainly due to the acquisition of subsidiaries at Swisscom IT Services and an increase in construction services at cablex, and was virtually offset by lower expense resulting from reduced revenue from project business as well as further cost savings at Swisscom IT Services. The segment result before depreciation and amortisation dipped by CHF 2 million or 0.6% to CHF 338 million.
At 4,515 FTEs, headcount at the end of 2011 was 147 FTEs or 3.4% higher than a year earlier, mainly due to the acquisition of subsidiaries and the need for additional resources at cablex. At CHF 169 million, capital expenditure was CHF 39 million or 30.0% higher, as a result of increased investment spending at Swisscom IT Services and Swisscom Real Estate.

Group Headquarters

The segment result before depreciation and amortisation fell by CHF 6 million or 4.9% to CHF –129 million, largely on account of the increased need for provisions related to restructuring measures.

Quarterly review 2010 and 2011

In CHF million, except where indicated	1. quarter	2. quarter	3. quarter	4. quarter	2010	1. quarter	2. quarter	3. quarter	4. quarter	2011
Income statement										
Net revenue	**2,953**	**2,993**	**3,030**	**3,012**	**11,988**	**2,862**	**2,860**	**2,816**	**2,929**	**11,467**
Goods and services purchased	(642)	(626)	(671)	(726)	(2,665)	(599)	(578)	(552)	(673)	(2,402)
Personnel expense	(651)	(644)	(583)	(640)	(2,518)	(635)	(638)	(588)	(652)	(2,513)
Other operating expenses	(676)	(572)	(594)	(668)	(2,510)	(577)	(578)	(574)	(659)	(2,388)
Capitalised costs and other income	74	79	76	75	304	75	78	148	119	420
Operating income (EBITDA)	**1,058**	**1,230**	**1,258**	**1,053**	**4,599**	**1,126**	**1,144**	**1,250**	**1,064**	**4,584**
Depreciation and amortisation	(501)	(489)	(488)	(494)	(1,972)	(478)	(466)	(469)	(490)	(1,903)
Impairment losses on goodwill	–	–	–	–	–	–	–	–	(1,555)	(1,555)
Operating income (EBIT)	**557**	**741**	**770**	**559**	**2,627**	**648**	**678**	**781**	**(981)**	**1,126**
Net financial result	(64)	(100)	(113)	(88)	(365)	(42)	(94)	(79)	(96)	(311)
Equity in net income of associates	4	7	7	10	28	4	5	9	12	30
Income before income taxes	**497**	**648**	**664**	**481**	**2,290**	**610**	**589**	**711**	**(1,065)**	**845**
Income tax expense	(120)	(151)	(129)	(102)	(502)	(136)	(101)	(145)	231	(151)
Net income	**377**	**497**	**535**	**379**	**1,788**	**474**	**488**	**566**	**(834)**	**694**
Share attributable to equity holders of Swisscom Ltd	394	494	536	389	1,813	469	485	564	(835)	683
Share attributable to non-controlling interests	(17)	3	(1)	(10)	(25)	5	3	2	1	11
Earnings per share (in CHF)	7.61	9.54	10.35	7.50	35.00	9.05	9.36	10.89	(16.11)	13.19
Net revenue										
Swisscom Switzerland	2,091	2,132	2,177	2,166	8,566	2,084	2,104	2,117	2,156	8,461
Fastweb	672	659	624	621	2,576	562	546	492	551	2,151
Other operating segments	408	420	451	457	1,736	422	430	433	453	1,738
Group Headquarters	1	2	1	2	6	2	1	2	2	7
Intersegment elimination	(219)	(220)	(223)	(234)	(896)	(208)	(221)	(228)	(233)	(890)
Total net revenue	**2,953**	**2,993**	**3,030**	**3,012**	**11,988**	**2,862**	**2,860**	**2,816**	**2,929**	**11,467**
Segment result before depreciation and amortisation										
Swisscom Switzerland	929	972	1,012	891	3,804	947	947	985	895	3,774
Fastweb	82	203	188	116	589	139	152	212	120	623
Other operating segments	81	86	98	75	340	70	79	89	100	338
Group Headquarters	(32)	(28)	(36)	(27)	(123)	(25)	(30)	(30)	(44)	(129)
Intersegment elimination	(2)	(3)	(4)	(2)	(11)	(5)	(4)	(6)	(7)	(22)
Total segment result (EBITDA)	**1,058**	**1,230**	**1,258**	**1,053**	**4,599**	**1,126**	**1,144**	**1,250**	**1,064**	**4,584**
Capital expenditure in property, plant and equipment and other intangible assets										
Swisscom Switzerland	222	259	303	420	1,204	270	333	378	419	1,400
Fastweb	144	149	128	164	585	126	123	141	162	552
Other operating segments	19	24	36	51	130	32	36	45	56	169
Group Headquarters	–	–	–	–	–	–	–	–	1	1
Intersegment elimination	(2)	(1)	(5)	(8)	(16)	(6)	(5)	(8)	(8)	(27)
Total capital expenditure	**383**	**431**	**462**	**627**	**1,903**	**422**	**487**	**556**	**630**	**2,095**
Full-time equivalent employees at end of year										
Swisscom Switzerland	11,811	11,710	11,665	11,716	11,716	11,814	11,942	12,131	12,096	12,096
Fastweb	3,119	3,133	3,125	3,123	3,123	3,103	3,101	3,106	3,081	3,081
Other operating segments	4,160	4,296	4,381	4,368	4,368	4,394	4,431	4,428	4,515	4,515
Group Headquarters	337	341	340	340	340	353	355	367	369	369
Total personnel expense	**19,427**	**19,480**	**19,511**	**19,547**	**19,547**	**19,664**	**19,829**	**20,032**	**20,061**	**20,061**
Operating free cash flow	742	674	607	489	2,512	463	548	522	535	2,068
Net debt	8,537	9,227	8,807	8,848	8,848	8,559	9,356	8,789	8,309	8,309

Quarterly review 2010 and 2011

In CHF million, except where indicated	1. quarter	2. quarter	3. quarter	4. quarter	2010	1. quarter	2. quarter	3. quarter	4. quarter	2011
Swisscom Switzerland										
Revenue and results										
Residential Customers	481	512	542	506	2,041	492	513	532	490	2,027
Small and Medium-Sized Enterprises	110	120	125	120	475	116	123	127	122	488
Corporate Business	143	153	152	152	600	150	160	159	151	620
Wholesale	98	93	92	77	360	75	66	70	63	274
Revenue wireless	**832**	**878**	**911**	**855**	**3,476**	**833**	**862**	**888**	**826**	**3,409**
Residential Customers	538	532	531	537	2,138	526	524	528	535	2,113
Small and Medium-Sized Enterprises	151	152	152	150	605	150	150	149	150	599
Corporate Business	185	182	180	185	732	178	179	176	180	713
Wholesale	105	95	95	86	381	86	84	79	79	328
Revenue fixed-line	**979**	**961**	**958**	**958**	**3,856**	**940**	**937**	**932**	**944**	**3,753**
Residential Customers	21	23	27	28	99	30	32	37	44	143
Small and Medium-Sized Enterprises	1	1	2	1	5	2	1	3	2	8
Corporate Business	2	1	3	2	8	3	2	3	3	11
Revenue convergent products	**24**	**25**	**32**	**31**	**112**	**35**	**35**	**43**	**49**	**162**
Small and Medium-Sized Enterprises	–	1	1	–	2	1	–	1	1	3
Corporate Business	32	33	31	50	146	39	47	41	54	181
Revenue solutions business	**32**	**34**	**32**	**50**	**148**	**40**	**47**	**42**	**55**	**184**
Residential Customers	146	139	157	177	619	153	144	135	191	623
Small and Medium-Sized Enterprises	9	9	6	12	36	7	8	7	7	29
Corporate Business	52	65	65	64	246	57	54	52	66	229
Wholesale	1	4	–	2	7	2	1	2	2	7
Revenue other	**208**	**217**	**228**	**255**	**908**	**219**	**207**	**196**	**266**	**888**
Residential Customers	1,186	1,206	1,257	1,248	4,897	1,201	1,213	1,232	1,260	4,906
Small and Medium-Sized Enterprises	271	283	286	283	1,123	276	282	287	282	1,127
Corporate Business	414	434	431	453	1,732	427	442	431	454	1,754
Wholesale	204	192	187	165	748	163	151	151	144	609
Revenue from external customers	**2,075**	**2,115**	**2,161**	**2,149**	**8,500**	**2,067**	**2,088**	**2,101**	**2,140**	**8,396**
Segment result before depreciation and amortisation										
Residential Customers	747	778	789	694	3,008	753	747	761	697	2,958
Small and Medium-Sized Enterprises	210	220	224	215	869	214	220	223	217	874
Corporate Business	237	252	252	250	991	230	246	250	246	972
Wholesale	119	109	102	109	439	102	92	96	90	380
Network & IT	(384)	(386)	(356)	(376)	(1,502)	(352)	(358)	(345)	(355)	(1,410)
Intersegment elimination	–	(1)	1	(1)	(1)	–	–	–	–	–
Total segment result (EBITDA)	**929**	**972**	**1,012**	**891**	**3,804**	**947**	**947**	**985**	**895**	**3,774**
Margin as % of net revenue	44.4	45.6	46.5	41.1	44.4	45.4	45.0	46.5	41.5	44.6

Quarterly review 2010 and 2011

In thousand, except where indicated	1. quarter	2. quarter	3. quarter	4. quarter	2010	1. quarter	2. quarter	3. quarter	4. quarter	2011
Swisscom Switzerland operational data										
Residential Customers	2,581	2,542	2,507	2,475	2,475	2,444	2,412	2,383	2,361	2,361
Small and Medium-Sized Enterprises	514	513	513	512	512	512	513	516	517	517
Corporate Business	251	249	247	246	246	245	244	244	242	242
Access lines PSTN/ISDN	**3,346**	**3,304**	**3,267**	**3,233**	**3,233**	**3,201**	**3,169**	**3,143**	**3,120**	**3,120**
Unbundled fixed access lines	192	219	238	255	255	270	285	297	306	306
Total telephone access lines	**3,538**	**3,523**	**3,505**	**3,488**	**3,488**	**3,471**	**3,454**	**3,440**	**3,426**	**3,426**
Residential Customers	1,333	1,349	1,369	1,396	1,396	1,413	1,421	1,432	1,452	1,452
Small and Medium-Sized Enterprises	148	152	155	158	158	162	166	171	177	177
Corporate Business	28	29	29	30	30	30	31	32	32	32
Broadband access lines retail	**1,509**	**1,530**	**1,553**	**1,584**	**1,584**	**1,605**	**1,618**	**1,635**	**1,661**	**1,661**
Wholesale	293	260	240	226	226	214	202	192	181	181
Broadband access lines	**1,802**	**1,790**	**1,793**	**1,810**	**1,810**	**1,819**	**1,820**	**1,827**	**1,842**	**1,842**
Residential Customers	268	308	348	409	409	455	497	539	589	589
Small and Medium-Sized Enterprises	7	9	10	12	12	14	15	17	19	19
Swisscom TV access lines	**275**	**317**	**358**	**421**	**421**	**469**	**512**	**556**	**608**	**608**
Residential Customers postpaid	2,201	2,207	2,221	2,231	2,231	2,218	2,220	2,198	2,191	2,191
Residential Customers prepaid	2,180	2,180	2,198	2,213	2,213	2,222	2,230	2,244	2,249	2,249
Small and Medium-Sized Enterprises	466	475	482	489	489	494	500	506	512	512
Corporate Business	744	764	789	817	817	844	876	908	943	943
Mobile single subscription	**5,591**	**5,626**	**5,690**	**5,750**	**5,750**	**5,778**	**5,826**	**5,856**	**5,895**	**5,895**
Residential Customers	57	63	68	75	75	80	84	121	150	150
Small and Medium-Sized Enterprises	2	2	3	3	3	3	3	3	4	4
Mobile convergent products	**59**	**65**	**71**	**78**	**78**	**83**	**87**	**124**	**154**	154
Mobile access lines	**5,650**	**5,691**	**5,761**	**5,828**	**5,828**	**5,861**	**5,913**	**5,980**	**6,049**	**6,049**
Residential Customers	40	42	45	41	42	39	41	42	39	40
Small and Medium-Sized Enterprises	89	95	97	90	93	85	90	91	87	88
Corporate Business	67	70	68	64	67	61	63	60	55	60
ARPU mobile subscriber per month in CHF	**47**	**50**	**52**	**48**	**49**	**46**	**48**	**49**	**46**	**47**
Residential Customers	99	101	101	105	102	105	107	106	107	106
Small and Medium-Sized Enterprises	203	213	212	214	211	205	211	211	211	210
Corporate Business	168	168	162	164	166	156	156	151	148	153
AMPU mobile subscriber per month in minutes	**116**	**119**	**118**	**122**	**119**	**120**	**123**	**121**	**122**	**122**
Retail traffic in million minutes	2,434	2,269	2,162	2,297	9,162	2,242	2,052	1,980	2,122	8,396
Wholesale traffic in million minutes	2,642	2,394	2,222	2,381	9,639	2,363	2,170	2,056	2,142	8,731

In EUR million, except where indicated										
Fastweb										
Residential Customers	223	218	217	200	858	191	194	186	187	758
Small and Medium-Sized Enterprises	60	63	55	58	236	56	56	54	57	223
Corporate Business	177	189	195	215	776	186	188	177	206	757
Revenue from external customers	**460**	**470**	**467**	**473**	**1,870**	**433**	**438**	**417**	**450**	**1,738**
Segment result (EBITDA)	57	143	141	92	433	107	123	177	99	506
Broadband access lines in thousand	1,678	1,694	1,712	1,724	1,724	1,733	1,741	1,560	1,595	1,595

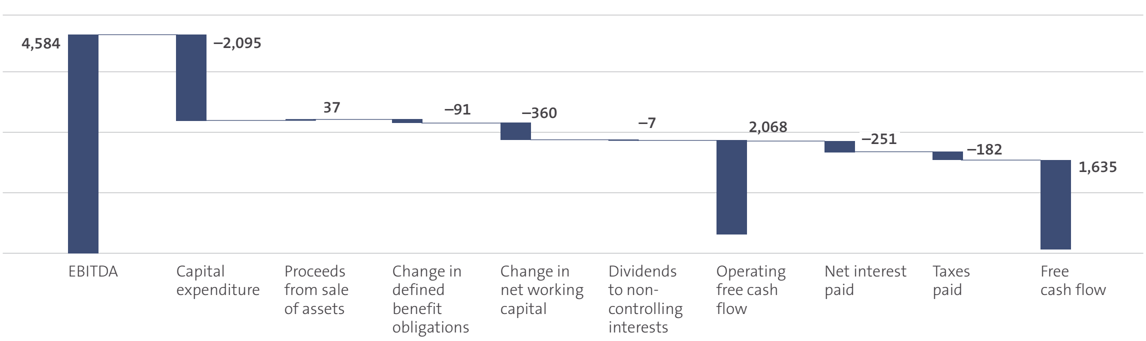
Group financial position

Financial position

Cash flows

In CHF million	2011	2010	Change
Operating income before depreciation and amortisation (EBITDA)	4,584	4,599	(15)
Capital expenditure in property, plant and equipment and other intangible assets	(2,095)	(1,903)	(192)
Proceeds from sale of property, plant and equipment and other intangible assets	37	34	3
Change in defined benefit obligations	(91)	(229)	138
Change in net working capital and other cash flows from operating activities	(360)	19	(379)
Dividends paid to non-controlling interests	(7)	(8)	1
Operating free cash flow	**2,068**	**2,512**	**(444)**
Net interest paid	(251)	(284)	33
Income taxes paid	(182)	(365)	183
Free cash flow	**1,635**	**1,863**	**(228)**
Net cash flow from financial investments	113	(6)	119
Issuance and repayment of financial liabilities, net	(723)	(544)	(179)
Dividends paid to equity holders of Swisscom Ltd	(1,088)	(1,036)	(52)
Purchase of non-controlling interests of Fastweb	(92)	(246)	154
Other cash flows from financing activities	(11)	(40)	29
Net decrease in cash and cash equivalents	**(166)**	**(9)**	**(157)**

Free cash flow in CHF million



Operating free cash flow dropped by CHF 444 million or 17.7% to CHF 2,068 million, mainly due to an increase in net working capital and higher capital expenditure. The increase in capital expenditure of CHF 192 million or 10.1% to CHF 2,095 million is chiefly due to higher investments in Switzerland's telecoms infrastructure. Net working capital rose primarily as a result of higher trade receivables at Swisscom Switzerland and lower trade payables. The change in net working capital in 2011 also includes a receivable of CHF 69 million in connection with the legal settlement at Fastweb as well as payments totalling CHF 49 million in respect of provisions for regulatory proceedings. In 2011, operating income before depreciation and amortisation (EBITDA) and the change in net working capital reflected the recognition of a provision for VAT proceedings against Fastweb amounting to CHF 102 million. Defined benefit obligations for 2011 were CHF 138 million lower due to the significant fall in contributions. Income tax payments were down by CHF 183 million to CHF 182 million, mainly due to a tax refund in the third quarter of 2011 for excess tax payments in previous years. The issuance and repayment of financial liabilities resulted in a net cash outflow of CHF 723 million in 2011. Dividend payments paid by Swisscom to equity holders in 2011 amounted to CHF 1,088 million (prior year: CHF 1,036 million). The buyout process for the non-controlling interests in Fastweb was completed in the first quarter of 2011 and the remaining purchase price of EUR 71 million (CHF 92 million) was paid over. The total purchase price for the outstanding non-controlling interests in Fastweb amounted to EUR 256 million (CHF 342 million).

Net asset position

Balance sheet

In CHF million	31.12.2011	31.12.2010	Change
Assets			
Cash and cash equivalents and current financial assets	387	605	–36.0%
Trade and other receivables	2,978	2,742	8.6%
Property, plant and equipment	8,222	7,899	4.1%
Goodwill	4,664	6,261	–25.5%
Other intangible assets	1,879	2,023	–7.1%
Associates and non-current financial assets	429	646	–33.6%
Income tax assets	356	372	–4.3%
Other current and non-current assets	535	527	1.5%
Total assets	**19,450**	**21,075**	**–7.7%**
Liabilities and equity			
Financial liabilities	8,831	9,772	–9.6%
Trade and other payables	2,190	2,215	–1.1%
Defined benefit obligations	1,977	1,283	54.1%
Accrued liabilities	903	862	4.8%
Income tax liabilities	281	588	–52.2%
Other current and non-current liabilities	972	1,005	–3.3%
Total liabilities	**15,154**	**15,725**	**–3.6%**
Share of equity attributable to equity holders of Swisscom Ltd	4,272	5,330	–19.8%
Share of equity attributable to non-controlling interests	24	20	20.0%
Total equity	**4,296**	**5,350**	**–19.7%**
Total liabilities and equity	**19,450**	**21,075**	**–7.7%**
Equity ratio at end of year	22.1%	25.4%	

Total assets fell by CHF 1.6 billion or 7.7% to CHF 19.4 billion. The main reason for this fall is the impairment loss of EUR 1.3 billion (CHF 1.6 billion) recognised in respect of Fastweb goodwill. At 31 December 2011, the carrying amount of Fastweb's net assets (including goodwill) stood at EUR 2.9 billion (CHF 3.5 billion).

In CHF million	31.12.2009	31.12.2010	31.12.2011	Change
Property, plant and equipment	8,176	7,899	8,222	323
Goodwill	6,664	6,261	4,664	(1,597)
Other intangible assets	2,358	2,023	1,879	(144)
Other operating assets, net	(787)	(817)	(552)	265
Other net operating assets	**16,411**	**15,366**	**14,213**	**(1,153)**
Net debt	(9,141)	(8,848)	(8,309)	539
Defined benefit obligations	(827)	(1,283)	(1,977)	(694)
Income tax expense	(521)	(216)	75	291
Investments in associates	228	231	233	2
Other	62	100	61	(39)
Equity	**6,212**	**5,350**	**4,296**	**(1,054)**

Goodwill

Adjusted for the Fastweb impairment, the net carrying amount of goodwill is CHF 4,664 million, the bulk of which is accounted for by Swisscom Switzerland (CHF 3,930 million). This goodwill mainly dates from 2007 and concerns the repurchase of a 25% stake in Swisscom Mobile Ltd. The shareholding was sold to Vodafone in 2001. Following the repurchase, the mobile, fixed-network and solutions businesses were organisationally combined and merged to create the new company, Swisscom (Switzerland) Ltd. The valuation risk of this goodwill item is extremely low. Adjusted for impairment, the net carrying amount of Fastweb goodwill is EUR 492 million (CHF 598 million). Goodwill in respect of other operating segments amounts to CHF 136 million.

Post-employment benefits

The defined benefit obligations presented in the consolidated financial statements are measured in accordance with International Financial Reporting Standards (IFRS). At the end of 2011, the defined benefit obligations according to IFRS amounted to CHF 1,977 million. As a result of the lower discount rate and a negative return on plan assets, an actuarial loss of CHF 781 million was recognised directly in equity. There is a difference of around CHF 1.7 billion between measurement of the defined benefit obligations under Swiss GAAP ARR and measurement under IFRS. In contrast to measurement according to Swiss GAAP ARR, IFRS measurement also takes into account actuarial assumptions for future developments such as salary and contribution increases, pension increases and early retirements. The defined benefit obligations are also measured using a significantly lower discount rate.

Equity

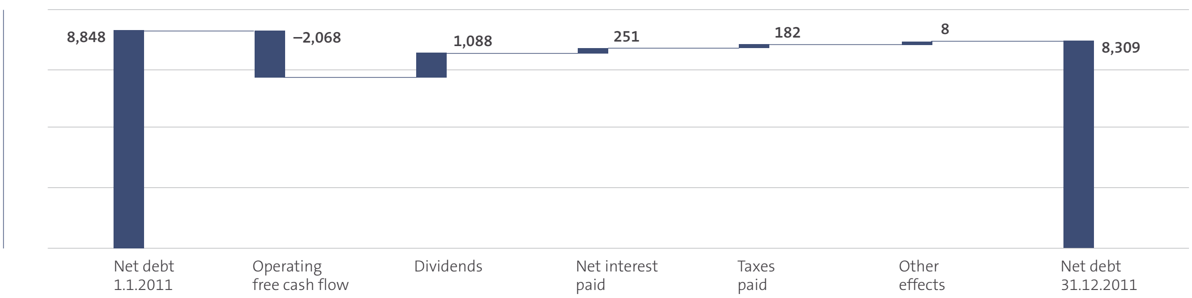
Equity fell by CHF 1,054 million or 19.7% to CHF 4,296 million, largely due to the dividend payout of CHF 1,088 million and the amount of CHF 655 million recognised directly in equity for net losses, which exceeded net income of CHF 694 million. Net losses recognised directly in equity include non-cash actuarial losses from pension plans totalling CHF 781 million as well as unrealised losses of CHF 149 million resulting from currency translation of foreign Group companies. The CHF/EUR exchange rate fell from 1.250 at the end of 2010 to 1.216. At 31 December 2011, cumulative currency translation losses recognised in equity amounted to CHF 1,588 million (after tax).
Distributable reserves are calculated on the basis of equity reported in the separate financial statements of Swisscom Ltd in accordance with statutory accounting provisions, rather than on the basis of equity as disclosed in the consolidated balance sheet prepared in accordance with International Financial Reporting Standards (IFRS). At 31 December 2011, the equity of Swisscom Ltd amounted to CHF 4,535 million. The difference between this amount and the equity as disclosed in the consolidated balance sheet is essentially due to earnings retained by subsidiaries as well as different accounting and valuation methods. Under Swiss company law, share capital and that part of the general reserves representing 20% of the share capital may not be distributed. At 31 December 2011, Swisscom Ltd had distributable reserves of CHF 4,472 million.

Net debt

Net debt consists of financial liabilities less cash and cash equivalents, current financial assets and non-current, fixed-interest-bearing financials assets. Swisscom has set itself the goal of achieving a maximum net debt/EBITDA ratio of around 2.0. This value may be exceeded temporarily. Any figure below this represents financial room for manoeuvre.

In CHF million, except where indicated	31.12.2009	31.12.2010	31.12.2011	Change
Net debt	9,141	8,848	8,309	–6.1%
Ratio total liabilities/total assets	72.0%	74.6%	77.9%	
Ratio net debt/equity	1.5	1.7	1.9	0.2
Ratio net debt/EBITDA	1.9	1.9	1.8	(0.1)

Development of net debt in CHF million



The net debt/EBITDA ratio fell year-on-year from 1.9 to 1.8. In recent years Swisscom has taken advantage of favourable capital market conditions with a view to optimising the interest and maturity structure of the Group's financial obligations. The share of the Group's variable-rate financial liabilities amounts to around 30%.

Maturity profile of financial liabilities

Swisscom aims for a broadly diversified debt portfolio. This involves paying particular attention to balancing maturities and a diversification of financing instruments and markets. The following table shows the maturity profile of interest-bearing financial liabilities at nominal value as at 31 December 2011:

In CHF million	Due within 1 year	Due within 1 to 2 years	Due within 3 to 5 years	Due within 6 to 10 years	Due after 10 years	Total
Money market borrowings	130	–	–	–	–	130
Bank loans	150	37	857	–	85	1,129
Debenture bonds	250	550	1,750	2,100	500	5,150
Private placements	150	132	552	600	–	1,434
Finance lease liabilities	10	3	9	15	623	660
Other financial liabilities	10	–	2	–	–	12
Total	**700**	**722**	**3,170**	**2,715**	**1,208**	**8,515**

Capital expenditure

Introduction

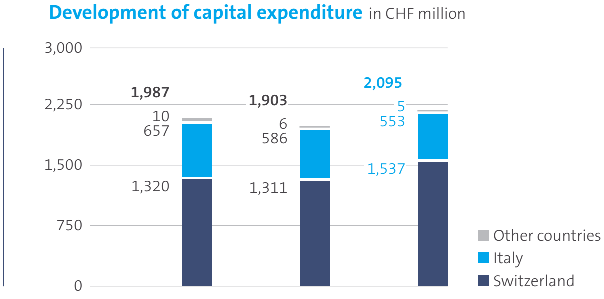
Swisscom is committed to maintaining the high quality of its network infrastructure through ongoing targeted investments, with particular emphasis on fibre-optic network expansion and migration to an all-IP-based infrastructure.
The volume of data transmitted over the fixed and mobile networks has risen sharply, and this trend is set to continue in the years ahead. Modern communication and media services, video portals and streaming services as well as new business applications such as video conferencing will continue to generate ever-higher traffic volumes and drive up demand for ever-bigger bandwidths. In the fixed network, Swisscom is addressing this trend by expanding the fibre-optic network based on a multi-fibre cooperation approach. As well as promoting infrastructure competition with other platforms (cable networks), such an approach fosters competition between fibre-optic network providers and, in so doing, enables maximum innovation in network architecture and services. Fibre-optic expansion is accompanied by extending the local distribution nodes and deploying DSL technology to enable coverage and bandwidth to be increased over the short and medium term. To keep pace with the growing volume of data transmitted over the mobile network, Swisscom is further expanding capacities based on current mobile standards such as HSPA/HSPA+. Swisscom has also equipped the first locations with the new LTE (Long Term Evolution) mobile technology which enables higher data speeds and supports higher data volumes, and the first antenna locations went into regular operation in seven tourist regions at the end of 2011, as part of a pilot project. Further locations will also be equipped dependent, among other things, on acquisition of the necessary mobile frequencies to be auctioned in 2012, when all mobile licences are to be newly auctioned with terms running until 2028. Swisscom holds GSM and UMTS licences which are due to expire at the end of 2013 and 2016 respectively.
Fastweb operates Italy's second largest network and is a leader in multimedia and broadband communication service development. The network consists of the company's own fibre-optic network with high-speed connections and copper-based broadband access infrastructures.

Capital expenditure in the 2011 financial year

In CHF million, except where indicated	2009	2010	2011	Change
Recurring capital expenditure [1]	487	507	566	11.6%
Next generation networks [2]	387	448	596	33.0%
Projects	345	249	238	–4.4%
Swisscom Switzerland	**1,219**	**1,204**	**1,400**	**16.3%**
Fastweb	657	585	552	–5.6%
Other operating segments	121	130	169	30.0%
Group Headquarters and elimination	(10)	(16)	(26)	62.5%
Total capital expenditure in tangible and other intangible assets	**1,987**	**1,903**	**2,095**	**10.1%**
Total capital expenditure as % of net revenue	16.6	15.9	18.3	

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

Development of capital expenditure in CHF million



Swisscom's capital expenditure in 2011 increased by 10.1% to CHF 2,095 million, corresponding to 18.3% (prior year: 15.9%) of net revenue, of which Swisscom Switzerland accounted for 67%, Fastweb 26% and other operating segments 8%. At constant exchange rates, this amounted to an increase of 13.4% and is mainly attributable to higher investment spending by Swisscom Switzerland and other operating segments.

Swisscom Switzerland

Capital expenditure at Swisscom Switzerland rose year-on-year by CHF 196 million or 16.3% to CHF 1,400 million, corresponding to 16.5% of revenue. The increase is mainly due to continued expansion of the fibre-optic network and other network infrastructure. 2010 saw the signing of the first cooperation agreements for fibre-optic expansion in Switzerland. However, a report issued by the Federal Competition Commission in September 2011 criticised specific clauses in these agreements. Swisscom has therefore begun reviewing existing agreements in conjunction with the partners, with a view to possible amendments. The first few agreements have already been amended. The auction for mobile licences in 2012, coupled with further expansion of the fibre-optic network, is expected to increase capital expenditure for the following year.

Fastweb

Fastweb's capital expenditure fell year-on-year by CHF 33 million or 5.6% to CHF 552 million. In local currency terms, capital expenditure rose by EUR 21 million or 4.9% due to higher spending on the IT and network infrastructures. Customer-related capital expenditure in 2011 accounted for around 40% (prior year: 41%) of total capital expenditure.

Other operating segments

At CHF 169 million, capital expenditure for Other operating segments was CHF 39 million or 30.0% higher year-on-year. This was largely due to higher capital expenditure incurred by Swisscom Real Estate Ltd and Swisscom IT Services. Capital expenditure at Swisscom IT Services in 2011 amounted to CHF 69 million and was invested primarily in upgrading the IT infrastructure with new or expanded servers, storage systems, workstation equipment and software installations.

Supplement and outlook

Events after the balance sheet date

The Board of Directors of Swisscom approved the release of this Annual Report on 14 February 2012. There were no significant events between the balance sheet date and this date.

Outlook

Financial outlook

In CHF billion	2011 actual	2012 outlook [1]
Net revenue	11.5	11.4
Operating income before depreciation and amortisation (EBITDA)	4.6	4.4
Capital expenditure in property, plant and equipment and other intangible assets	2.1	2.2 [2]

[1] Exchange rate assumption CHF/EUR of 1.23.
[2] Excluding expenditures for mobile frequencies.

Assuming an average CHF/EUR exchange rate in 2012 of 1.23, Swisscom expects to close the year with slightly lower net revenue of CHF 11.4 billion and EBITDA of CHF 4.4 billion. Continuing price erosion is not expected to be fully offset by customer growth and revenue from new business. In addition to the revenue-based decline in margins, a non-cash increase of around CHF 70 million in pension costs is expected to contribute to the reduction in EBITDA.

Fastweb is expecting stable revenue of EUR 1.6 billion; this does not include low-margin hubbing business. These interconnection revenues with other providers are expected to be reduced further in coming years. Compared to 2011, EBITDA at Fastweb is set to rise slightly and planned capital expenditure to be slightly lower. This will result in higher free cash flow for 2012.

Consumers in Switzerland are very quality conscious. With high capital expenditure, Swisscom aims to consolidate its leading position in network and service quality as well as its market position. Capital expenditure of up to CHF 2.2 billion is projected for 2012, of which CHF 1.7 billion will be invested in Swiss business, which corresponds to an increase of CHF 100 million. This amount does not include expenses arising in connection with the mobile frequencies. A similarly high investment level is projected for the following years. Swisscom continues to pursue its medium-term goal of connecting 30% of Swiss households and businesses directly with fibre-optic cables. In other areas Swisscom aims to further expand network performance and improve service quality using an optimal technology mix.

If all targets are met for 2012, Swisscom plans to once again propose payment of a dividend of CHF 22 per share to the Annual Meeting of Shareholders in 2013 despite the additional expenses arising in connection with mobile frequencies.

Risks

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

Risk management system

Swisscom's enterprise risk management (ERM) system covers the entire Group and takes both internal and external events into account. Swisscom's risk management complies with the established risk management standards, i.e. COSO II (Committee of Sponsoring Organizations of the Treadway Commission) and ISO 31000. The ERM therefore meets the varying needs of corporate governance for the Swisscom Group as well as the requirements of Swiss law.

Objectives

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

Organisation

The Board of Directors delegates responsibility for implementing the ERM system to the CEO of Swisscom Ltd, who in turn entrusts this task to the CFO. The central Risk Management organisational unit reports directly to the CFO. The unit systematically manages and coordinates all organisational units charged with risk management tasks so as to ensure comprehensive, Group-wide ERM and coordinated risk reporting within Swisscom. As part of their remit, employees entrusted with risk management tasks have unrestricted right to information and the authority to access and inspect all relevant documents and records.
Swisscom uses special instruments for individual risk areas. For financial risk management, for example, interest rate and exchange rate risks are assessed using quantitative tools (sensitivity analyses). Reputation and brand risks are monitored and managed by members of Group Communications.

Process

The main risks to which Swisscom Ltd and its Group companies are exposed are identified in a comprehensive risk analysis. Each risk is assigned a risk owner. To enable the early identification, assessment and management of risks – including their inclusion in strategic planning – the central Risk Management organisational unit works closely with the Strategy department and other departments concerned. Risk management covers risks in the areas of strategy, operations, compliance and financial reporting. The risks are assessed according to their probability of occurrence and their qualitative and quantitative effects in the event of occurrence, and managed on the basis of a risk strategy. The risks are evaluated in terms of their impact on the key performance indicators reported by Swisscom. The risk profile, indicating risks which have the potential to jeopardise the company's business success, is reviewed and updated quarterly. The Board of Directors' Audit Committee and the Swisscom Group Executive Board are informed about significant risks, their potential effects and the status of measures on a quarterly basis, and the Board of Directors on an annual basis. A centrally deployed risk management tool is used for the purposes of Group-wide risk management and analysis.

Information on the internal control system, compliance management and internal auditing is provided in Section 3.9 of the Corporate Governance Report, “Controlling instruments of the Board of Directors vis-à-vis the Group Executive Board”.

General statement on the risk situation

Risks are driven by changes in technology, the regulatory framework, competition and customer behaviour. The importance of established telecommunications services is continuing to decline, and the associated loss of revenue from the traditional core business must be compensated by growth in customers and volume as well as new services. Moreover, uncertainty concerning economic development is spilling over into the market environment (including among customers and suppliers). This can significantly exacerbate the individual risks for Swisscom. Over the long term the trend in the ICT (Information and Communication Technology) market necessitates fundamental changes in the approach to risks related to human capital, technology and the business model. The forthcoming decisions of a regulatory nature entail a latent risk which can have a major impact on Swisscom’s financial development, as illustrated by the following selection of key risk factors.

Risk factors

Telecommunications market

Changes in the telecommunications market, including the issuing of new licences for mobile frequencies, structural adjustments and growing competition from service providers with no telecommunications structure of their own, are exerting pressure on transformation. As yet it is unclear which technologies and services will emerge the winners. Recent trends are increasingly necessitating the integration of a growing number of technologies and devices in order to win new customers and provide multimedia services. The integration and operation of new infrastructures entails significant risks in terms of interfaces to the existing infrastructure. The occurrence of such risks could delay implementation of the strategy or have a detrimental effect on customer satisfaction. Swisscom is implementing a transformation programme focused on corporate culture, human capital, structural and process organisation. Risk management measures in the network and IT areas can reduce technology risks.

Political and regulatory risks

For Swisscom, telecommunications and antitrust legislation entail risks which can have a sustained impact on the company’s future financial position and results of operations and hence could influence Swisscom’s range of products and services as well as its investment activities. The main risks are related to price regulation, for instance for outbound roaming or leased lines, which could drive down Swisscom’s revenue. Moreover, potential or already imposed antitrust sanctions such as those relating to fibre-optic cooperation agreements could restrict Swisscom’s room for manoeuvre.

New initiatives for a revision to the Telecommunications Act (TCA) and the related ordinance (FDV) further increase the regulatory risk. This includes the regulation of roaming charges, mobile telephony and fibre-optic technology, network neutrality and broadband expansion under the basic service mandate. A change in the access regulations concerning the method used to calculate costs could also entail negative implications for Swisscom.

Risks also arise if the Competition Commission (ComCo) accuses Swisscom of abusing its market-dominant position and threatens or imposes fines amounting to millions of francs. In the past, ComCo’s allegations have mostly been unfounded, but such proceedings affect Swisscom’s reputation even when the outcome is positive.

Fibre-optic expansion

In response to intense competition in the broadband area, Swisscom is installing FTTH (Fibre To The Home) to equip its network for higher bandwidths, since high bandwidth is a prerequisite for all future IP-based services. The expansion project entails major investments which need to be amortised over several decades. To reduce costs, Swisscom collaborates with partners wherever possible. This involves substantial contractual and antitrust risks which were confirmed by a final report issued by the ComCo Secretariat in September 2011. These risks resulted in the suspension of cooperation activities and a renegotiation of the contracts. The majority of the contracts have since been successfully renegotiated. Depending on competitive and regulatory pressure, there is a significant risk that Swisscom will be forced to pursue fibre-optic expansion more rapidly than planned and without partners. This risk could drive down profitability.

Human capital and transformation

Constant changes in boundary conditions and markets necessitate a change in corporate culture. The key challenges in this context are employee motivation, managing growth and efficiency aspects in parallel, the ability of employees to adapt their skill sets, and Swisscom's attractiveness on the employment market.

Market consolidation in Italy and the recoverability of Fastweb's assets

Consolidation in the Italian market could affect the market position of Swisscom's Italian subsidiary Fastweb. In addition, Italy's economic development and competitive dynamics carry risks whose impact on Fastweb's growth plans could jeopardise Fastweb's projected revenue growth in broadband and mobile business. The impairment test performed in 2011 resulted in an unscheduled impairment of EUR 1.3 billion due to the difficult economic situation in Italy and reduced prospects of growth. The recoverable value of EUR 2.9 billion presented in the consolidated financial statements in respect of Fastweb's net assets (including the residual carrying amount of goodwill) is contingent above all on achieving the financial targets on which the business plan is predicated (revenue growth, improvement in EBITDA margin and reduction in capital expenditure). If future growth is lower than projected, there is a risk that this will result in a further impairment loss. Major uncertainty also surrounds the future interest rate trend. An increase in interest rates can also result in an impairment.

Business interruption

Swisscom's business is heavily dependent on technical infrastructure such as communications networks and IT platforms. Any major disruption to business operations poses a financial as well as a reputation risk. Force majeure, human error, hardware or software failure or criminal actions by third parties such as computer viruses and hacking could cause damage or interrupt operations. To mitigate this risk Swisscom operates a business continuity management programme (BCM) so as to restore interrupted services as quickly as possible. Built-in redundancy, emergency plans, deputising arrangements, alternative locations, etc. support Swisscom's ability to deliver services to its customers reliably at all times.

IT

Circuit-switched TDM technology has reached the end of its useful life and needs to be replaced. Packet-switched IP (Internet Protocol) technology offers technical, functional and financial advantages and is being rolled out within the framework of various projects at Swisscom Switzerland. Because of Swisscom's existing highly complex IT architecture, these projects entail high risks during the implementation and operating phase, which have the potential, among other things, to impact competitiveness (for example, due to the delayed launch of new services on fibre-optic lines) and lead to additional costs.

Environment and health

Electromagnetic radiation, for example from mobile antennas or mobile handsets, has repeatedly been claimed to be potentially harmful to the environment and to health. Under the terms of the Ordinance on Non-Ionising Radiation (ONIR), Switzerland has adopted a precautionary principle and introduced limits for base stations which are ten times higher than the EU's limits. The issue is the subject of heated debate both in the media and among the public at large, and the public's wary attitude to mobile antenna sites is already impeding Swisscom's network expansion. There is a future risk that regulations governing electromagnetic emissions may be tightened or additional regulations put in place. For Swisscom this would entail extra costs for additional antennas or other measures to comply with such regulations. Even without stricter legislation, public debate on the effects of electromagnetic radiation on the environment and health could further hamper the construction of mobile antennas or other wireless networks in the future, and drive up costs. Moreover, concerns about the possible effects of radiation from mobile devices pose an additional risk related to the intensity of use.
Climate change poses risks for Swisscom in the form of more intensive precipitation as well as higher average or extreme temperatures. This could impact the operability of Swisscom's telecommunications infrastructure, particularly in view of the potential risk to base stations and exchanges.

Economic instability

The debt crisis in Europe coupled with high market and exchange rate volatility are generating instability in the market as a whole. There is major uncertainty concerning future economic development. Swisscom is using appropriate instruments to monitor the situation. Rising unemployment, the strong Swiss franc and a fall in economic output pose significant risks.
Swisscom's comPlan pension fund experienced a phase of underfunding during the economic slowdown. The Board of Trustees is examining various measures aimed at ensuring the fund's long-term financial stability.

Corporate Responsibility

We have a responsibility. Swisscom's four strategic priorities and other commitments.

Corporate Responsibility strategy

Sustainable living and working
| Page 89–93

Sustainable use of resources
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Telecommunications for all
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Responsible employer
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Corporate Responsibility Strategy

Swisscom continued to develop its corporate responsibility strategy (CR strategy), grouping the associated measures into four priority areas and strengthening internal governance. Long-term responsibility became more firmly embedded internally in 2011 and made more tangible for customers.

Context and principles

Sustainable management and long-term responsibility are firmly enshrined in Swisscom's corporate culture. One of the guiding principles in the mission statement is that "Swisscom takes responsibility for the environment and the community – now and in the future". This guiding principle is nothing new, as Swisscom has had an environmental management system in place since 1998. Swisscom's corporate strategy is rooted in a long-term business view and promotes due consideration of economic, ecological and social factors.

Factors of long-term responsibility →

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

Positioning Swisscom as a leading company →

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

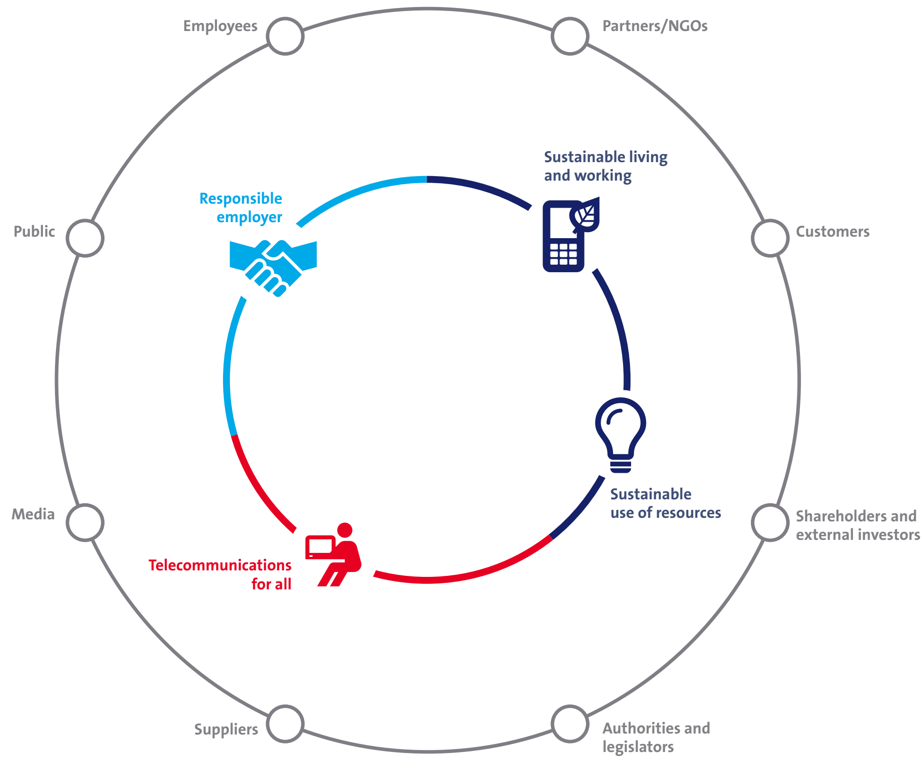
Strategic priorities →

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

Focus of implementation in 2011/2012

- Integration of corporate responsibility strategy with corporate business strategy and link to the Group's core business
- Introduction of a clear governance structure

Dialogue with stakeholder groups and strategic priorities



Swisscom fosters dialogue with its most important stakeholder groups via electronic media, the phone, surveys, information events, business meetings, road shows, conferences, as well as in customers' homes and in the Swisscom Shops. In 2011 Swisscom addressed stakeholder concerns directly in concrete projects. Stakeholder management at Swisscom is decentralised to ensure proximity and ongoing contact with the various stakeholder groups. The following eight groups have the biggest influence on Swisscom's business strategy:

- **Customers:** Swisscom systematically consults residential customers in order to identify their needs. Customer relationship managers, for example, gather information on customer needs directly at the customer touch points. The Corporate Business segment conducts quarterly surveys that include questions on sustainability. Swisscom also maintains regular contact with consumer organisations in all language regions of Switzerland, runs electronic forums and writes blogs, including an environmental blog launched in 2006, and a corporate responsibility (CR) blog launched last year. The overall picture gained is that customers expect attractive pricing, market transparency, responsible marketing, comprehensive network coverage, network stability, low-radiation technologies and sustainable products and services.

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

- **Employees:** Once a year Swisscom conducts an employee survey and also organises round-table discussions with employee representatives. All employees are asked to report any irregularities that they come across in the course of their work. The Board of Directors' Audit Committee is the internal office responsible for handling whistleblowing cases. Employee concerns fall into the following areas: social partnership, training and development, diversity, health and safety in the workplace.

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

- **Suppliers:** As part of Swisscom's supplier relationship management, the company's procurement organisations discuss the results of evaluations, target agreements and measure fulfilment. Once a year the procurement organisations invite their main suppliers to the Key Supplier Day. The focus of the event is on risk reduction and responsibility in the supply chain.
- **Shareholders and external investors:** Besides the Annual General Meeting, Swisscom fosters dialogue with shareholders at analysts' presentations, road shows and in regular teleconferences. Over the years it has also built up contacts with numerous external investors and rating agencies in the area of sustainability, as stakeholders, shareholders and external investors expect growth, profitability and innovation from Swisscom.
- **Partners and NGOs:** Swisscom attaches importance to sharing insights and information with partners through projects: for example, with the WWF Climate Group, the Swiss Child Protection Foundation and organisations that address the special needs of disadvantaged groups. Active partnerships and social and ecological commitment are especially relevant for partners and NGOs in their role as stakeholders.

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

- **Public authorities:** Swisscom maintains regular, close contact with various public authorities. A key issue in its dealings with this stakeholder group concerns expansion of the mobile network. Mobile data applications are becoming increasingly popular with customers. But while mobile communications are clearly appreciated and widely used, acceptance of the infrastructure that is required is sometimes lacking. Network expansion gives rise to tension because of the different interests at stake. Swisscom has been engaged in dialogue with residents and local authorities for many years. This dialogue model has raised the quality of the efforts to reconcile the interests of the parties involved and is based on an initiative launched by Swisscom and its competitors in the Swiss mobile communications market. The understanding reached as part of the dialogue model guarantees that heads of local authorities receive regular information on network planning in their area, and in the case of building projects are allowed to suggest viable alternative locations. Swisscom also liaises regularly with the public authorities in other areas: 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, the public authorities expect Swisscom to act decisively in the way it recognises its responsibility towards the public at large and towards young people in particular.
- **Legislators:** Swisscom is required to deal with political and regulatory issues, representing the company's interests vis-à-vis political parties, public authorities and associations. In their role as stakeholders, legislators expect compliance from Swisscom.
- **Media:** Swisscom's relationship with the media is formed by professional journalistic principles.

Materiality/materiality matrix

The main issues relevant to Swisscom and its stakeholders are mapped out in the materiality matrix. The matrix shows different issues and where they fall within the four strategic priorities of Corporate Responsibility. More detailed information on these issues can be found later in this section. The matrix also contains other issues that impact Swisscom's business strategy. These issues are explained in greater detail in the Management Commentary.

The materiality matrix provides a simplified graphic presentation of issues of greater or major relevance for Swisscom and its stakeholders. Swisscom carefully monitors all of the issues and handles them according to priority. Those with the highest priority and of major relevance to stakeholders and Swisscom are positioned in the top right-hand box. Other issues such as noise, water protection, protection of wild life and fauna, violence and population growth are important from an ecological and social point of view but are not the focus of Swisscom's activities.

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

These issues are arranged alphabetically within the quadrants.

Swisscom materiality matrix 2011

Materiality for stakeholders	Materiality for Swisscom: relevant	Materiality for Swisscom: very relevant
very relevant	Basic service provision Health and safety in the workplace Sponsorship/partnerships Youth media protection	Corporate Governance / Compliance Customer satisfaction Data protection Employee representation and union relations Energy consumption and CO_2-emissions (infrastructure efficiency) Financial position, results of operations and cash flows Innovation and development Legal and regulatory environment Low-radiation communications technologies Network infrastructure
relevant	Biodiversity Corporate volunteering Diversity and age management Responsible marketing Unrestricted access Waste and recycling	Eco-friendly offerings (products and services) Promoting media competency Responsibility in the supply chain Training and development

Discussed in:
- Corporate Responsibility
- Management Commentary
- Corporate Governance

Swisscom's responsibility towards the public

Commitments and participation

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

- Sustainability in the ICT sector
- ICT in education
- Improvement in customer service (e.g. consumer protection)
- Nationwide mobile and broadband infrastructure in Switzerland

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

During the year under review, Swisscom submitted statements as part of consultations at federal level on the proposed revision to the anti-trust law, the change in the Ordinance on Telecommunications Services and the partial revision of the Federal Mail and Telecommunications Monitoring Act. The statements can be viewed on the website of the authorities in question.
Swisscom supports a solution-oriented approach, in the interest of the common good and in the interest of the company. The company's positions are based on clear facts and reflect Swisscom's standpoint. Swisscom maintains transparent and trusting relationships with politicians, public authorities and the community. By participating in public hearings and events and issuing written statements, Swisscom plays its part in the political landscape. Swisscom rejects unlawful or ethically questionable practices aimed at exerting influence on opinion leaders. Moreover, Swisscom is a non-denominational, politically neutral organisation which does not financially support any parties.

Common-interest associations

Swisscom is involved in various industry associations: economiesuisse, Swiss holdings of the Worlddidac Association, ICT Switzerland and asut. It has a seat on the Boards of economiesuisse and asut.

Risks and opportunities

The biggest challenges in the area of sustainability are conscientious resource utilisation (notably energy) and ensuring “telecommunications for all”. Both challenges are the result of analyses of the company’s situation and expectations of the relevant stakeholder groups, specifically customers and the federal government in its role as principal shareholder.
The analysis of risks and opportunities posed by climate change referred to under “Risk Factors” in the “Risks” section of the “Management Commentary” is based largely on the official reports on climate change published by the Federal Office for the Environment (FOEN) in October 2007 and October 2011. These reports provide the basis for Swisscom’s response as part of its participation in the internationally renowned Carbon Disclosure Project (CDP). The response can be viewed online.

See **www.cdproject.net/en-US**

Strategic priorities

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

Sustainable living and working

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

Sustainable use of resources

Swisscom is among Switzerland’s ten biggest purchasers of electricity. It meets its full electricity requirements from renewable domestic energy sources and is one of the biggest purchasers of electricity from wind and solar energy in Switzerland. Since 1998 Swisscom has cut CO_2 emissions from vehicles and buildings by 53%. It also requires that suppliers comply with high ecological and corporate social responsibility standards.

Telecommunications for all

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

Responsible employer

See Report
page 113

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

Sustainable living and working

We support our customers in their efforts towards sustainable living and working.

Sustainable use of resources

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

Telecommunications for all

We are committed to ensuring that everyone in Switzerland can use digital media securely.

Responsible employer

We are one of the most popular employers in Switzerland and act in a socially responsible manner.

Other content of this Report

See Report
pages 118 and 121

In addition to the four strategic priorities, Swisscom is involved in various social and cultural areas. Numerous activities in research and development are also part of Swisscom's long-term responsibility. The innovation process at Swisscom and selected innovation projects are explained at the end of the "Corporate Responsibility" section.

Swisscom's targets

The most important indicators

Priorities/Key Performance Indicators KPI	Targets	Status/Measures
Management/Governance		
Reporting boundaries/Data collection Specification of reporting boundaries and expansion of data collection systems for sustainability reporting KPI: The extent to which management systems and indicators within the reporting boundary Switzerland are covered	**2011** Congruence of reporting boundary/data collection is 100% assured **2012** **Consolidation of data collection**	**2011 target partly achieved** 2012 measures > Enhanced integration > Additional training courses
Compliance/Governance Standardisation of the structure for documents on implementing directives in terms of corporate responsibility KPI: Implementation of the defined measures	**2011** Implementation of the defined measures **2012** **Completed. No further target**	**2011 target achieved (measures fully implemented)** Measures implemented > Accessibility and overview of Group directives checked and suggestions for improvement implemented > Standard document structure developed and implemented
Anti-corruption (GRI-SO2) KPI: Proportion of management staff trained in the application of the anti-corruption directive	**2011** 100% **2012** **100%**	**2011 target partly achieved (62%)** Implementation of 2011 measures postponed > Divisions at risk in 2011 evaluated. Anti-corruption directive revised > Further training courses based on the new 2012 directive
Compliance Management (GRI-SO8) KPI: Coverage of the Group-wide compliance management system according to GRI reporting boundaries	**2011** 100% **2012** **Completed. No further target**	**2011 target achieved (100%)** Further development of compliance management
Sustainable living and working		
Rise in net revenue in Green ICT portfolio (GRI-EN26) Eco-friendly products and services for corporate customers (B2B) KPI: Rise in net revenue in the defined Green ICT portfolio	**2011** +10% versus prior year **2012** **+10% versus prior year**	**2011 target achieved (11%)** 2012 measures > Promote eco-friendly offerings > Issue of further Green ICT certificates > Project partnerships > Communication about the Green ICT portfolios
Expand the portfolio of eco-friendly offerings (GRI-EN26) KPI: Number of offerings certified by myclimate (NGO)	**2011** Residential customers: 1 Corporate customers: 14 **2012** **Residential customers: 3** **Corporate customers: 17**	**2011 target achieved (15)** 2012 measures > Evaluate suitable products or design suitable new products and services > Determine environmental benefits compared to standard products > Issue pictogram and incorporate in product marketing measures > Current portfolio at www.swisscom.ch/myclimate
Mobile phone recycling (GRI-EN26) Step up efforts to promote mobile phone recycling KPI: Response rate (percentage of sold mobile phones returned for recycling)	**2011** 10% **2012** **12%**	**2011 target partly achieved (8.9%)** Plans to step up measures for 2012 > Raise awareness among shop staff > Communication campaign
Reduction in paper consumption (GRI-EN26) KPI 2011: Percentage of residential customers switching to online billing KPI 2012: Paper quantity per customer	**2011** 728'000 **2012** **–10% (reference year 2011)**	**2011 target achieved (723,000)** 2012 measures > New products with online billing as default payment method > Direct mailing for suitable customer segments
Training of Touch Point (shop/call centre) staff (GRI-EN26) Shop and call centre staff trained in customer concerns/messages relating to environmental/social accountability KPI: Number of trained Touch Point staff	**2011** 15% **2012** **30%**	**2011 target not achieved (10%),** entire training concept overhauled 2012 measures > Design separate training modules > Integrate topics in existing training courses
Sustainable use of resources		
Environmental management system (UMS) Applicability of individual EMS requirements extended to include Group companies in Switzerland KPI: Number of established and trained contacts at Group companies in Switzerland which still do not operate their own EMS	**2011** 17 **2012** **17**	**2011 target partly achieved (15)** 2012 measures > Enhancement and consolidation of cooperation > Additional training courses
Renewable energy (GRI-EN4) KPI: Extent to which electricity requirements are covered by renewable energy	**2011** 100% **2012** **100%**	**2011 target achieved (100%)** 2012 measures > Purchase of renewable energies (electricity) > Compensation with certificates
Energy efficiency (electricity) (GRI-EN6) Continual increase in energy efficiency KPI: Increase in energy efficiency EF **2009 basis** > TEC = total energy consumption > ESP = accumulated energy savings $EF = \frac{TEC + \sum ESP}{TEC}$ Source: adapted from FOEN guidelines	**2015** +20% versus 1 January 2010	**Implementation on track** 2012 measures Implementation of other cost-cutting and efficiency measures including > Use of Mistral cooling system (cooling with fresh air) > Decommissioning and technology improvements > Increased efficiency in data centres

Priorities/Key Performance Indicators KPI	Targets	Status/Measures
Reduction in CO_2 emissions (GRI-EN18) KPI: CO_2 emissions from fuel consumption	**2015** –12% versus 1 January 2010	**Implementation on track** 2012 measure › Implementation of further efficiency measures › Further implementation of the procurement roadmap (vehicles)
Optimised CO_2 emissions: mobility (GRI-EN29) KPI: Average CO_2 emissions per car in gram CO_2/km according to manufacturer data	**2011** 150 g CO_2/km **2015** 110 g CO_2/km	**2011 target exceeded (140g CO_2/km)** 2012 measure › Further implementation of the procurement roadmap
Responsibility in the supply chain		
Risk analysis of supply partner product groups (GRI-HR2) Evaluation of supply partners and their products according to ecological and social criteria (incl. drawing up content for procurement guidelines) KPI: Number of supply partners assigned a risk profile (as % of total number of supply partners)	**2011** 80% **2012** **No target as 100% achieved**	**2011 target exceeded (100% instead of 80% achieved)**
Risk evaluation of supply partners from high-risk product groups (GRI-HR2) KPI: Percentage of supply partners subjected to a risk evaluation (as % of total number of supply partners from high-risk product groups)	**2011** 100% **2012** **100%**	**2011 target partly achieved (71%)** 2012 measures: › Supply partners from high-risk product groups are evaluated using an evaluation form and prioritised if necessary › Appropriate risk reduction measures are defined, implemented and institutionalised
Risk evaluation of supply partners from medium-risk product groups (GRI-HR2) KPI: Percentage of supply partners subjected to a risk evaluation (as % of total number of supply partners from medium-risk product groups)	**2012** **25%**	2012 measures › Supply partners from medium-risk product groups are evaluated using an evaluation form and prioritised if necessary › Appropriate risk reduction measures are defined, implemented and institutionalised
Review of supply partners from medium-risk product groups (GRI-HR2) KPI: a) Number of supply partners with a high-risk profile who have been audited b) Number of supply partners with a medium-risk profile who have registered with E-TASC and have completed the online questionnaire	**2012** **25%** **a) 6 audits** **b) supply partners (E-TASC)**	2012 measures › Perform audits of supply partners with a high-risk profile › Have supply partners with the highest order volumes complete the E-TASC online questionnaire
Implementation of corporate responsibility agreements (GRI-HR2) KPI: Percentage of order volume generated with supply partners who have signed the Swisscom CR agreements	**2011** 70% **2012** **90%**	**2011 target exceeded (83%)** 2012 measure › Expand CR specifications to include other supply partners
Telecommunications for all		
Promoting media skills: Media courses for parents and teachers (GRI-PR6) KPI: Number of external participants in the media courses on offer	**2011** 4,000 **2012** **5,000**	**2011 target not achieved (3,405)** 2012 measure › Step up communication with the target group
Promoting media skills: Courses for pupils (secondary school) (GRI-PR6) KPI: Number of training courses	**2011** 60 **2012** **600**	**2011 target exceeded (110)** 2012 measure › Roll out offering throughout Switzerland
Promoting media skills: User courses for senior citizens (GRI-PR6) KPI: Number of participants	**2011** 16,000 **2012** **16,000**	**2011 target achieved (15,860)** 2012 measure › Step up communication with the target group
Access for all (accessibility) (GRI-SO1) Improve barrier-free nature of Swisscom's online presence KPI: Achieve AA rating in accordance with Web Content Accessibility Guidelines	**2011** AA rating for online presence www.swisscom.ch **2012** **AA rating for online presence www.swisscom.ch**	**2011 target not reached** Implementation of 2011 measures postponed › Implementation planned during the course of 2012
Responsible employer		
Diversity (GRI-LA1) Increase proportion of women in management to 20% KPI: Percentage of women in management	**Medium term (3-5 years)** 20%	**2010 starting point: 12%** Percentage in 2011: 11.7% 2012 measures › Special mentoring programmes › Transparent and targeted recruitment › Women's network
Occupational health management (GRI-LA7) Reduction in the staff absence rate KPI: Absences in days/target days (weighted by FTE) x 100; target days are based on the standard working hours	**2015** 2.09%	**2010 starting point: 3.00%** Percentage in 2011: 2.8% 2012 measures › Further professionalise case management › More professional application of the pro-presence method › Instil personal prevention culture – line managers and employees
Corporate volunteering (GRI-LA) KPI: Number of volunteer days	**2011** 250 days **2012** **600 days**	**2011 target exceeded (300 days)** 2012 measure › Enhance use of corporate volunteering, e.g. as a personal development tool

Governance and implementation

Embedded in the strategy

The Board of Directors of Swisscom is committed to pursuing a strategy oriented on sustainability. The Board addresses economic, ecological and social issues in plenary sessions and in the various Board committees. Executive management of the Group is delegated to the CEO of Swisscom Ltd. The CEO can transfer powers and responsibilities to subordinate units and is supported in operational management by the members of the Group Executive Board. The corporate responsibility strategy was approved by the Board of Directors in December 2011.
The CR team is assigned to the Group Communications division and reports to the CEO. It is also responsible for functional management of the CR network within the Group as well as the project teams within the framework of the division-specific CR goals. The Board of Directors possesses information and controlling instruments as described in the Corporate Governance Report.

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

Responsibility of the Board of Directors

The Board of Directors is responsible for approving the long-term corporate responsibility strategy. The Board last discussed the strategy in December 2011 and took note of the present governance report and targets for 2012 and approved the strategic priorities and overarching goals up to 2015 as proposed by the CEO. The Board of Directors is informed as part of the quarterly reporting on the implementation status of the CR strategy and achievement of the targets.

Responsibility of the Group Executive Board

The Group Executive Board convenes at least twice a year to discuss the CR strategy and its implementation. In November it draws up a review of the past year and approves the goals for the coming year.
The Group Executive Board has the following controlling instruments, which were introduced in 2010:
- Weekly divisional reports prepared by Group Communications, with information on measures and trends
- Quarterly reports, with information on the key performance indicators based on the strategic priorities
- Quarterly reports drawn up by Risk Management

In March 2011 Group Executive Board members were nominated as internal sponsors for the strategic priorities of the CR strategy. They are responsible for progress and performance in their respective priority areas. The areas of responsibility are aligned to the core tasks of the respective Group Executive Board members and defined as follows:
- **Sustainable living and working:** Head of Residential Customers, Head of SME, Head of Corporate Business and the CEO of Swisscom IT Services Ltd
- **Sustainable use of resources:** Head of Network & IT and the CFO of Swisscom (Switzerland) Ltd
- **Telecommunications for all:** Head of Residential Customers
- **Responsible employer:** Head of HR
- **Overall CR management and corporate giving:** Head of Group Communications

These definitions ensure that the priority areas are binding and firmly embedded in the company.

Role of the Corporate Responsibility team

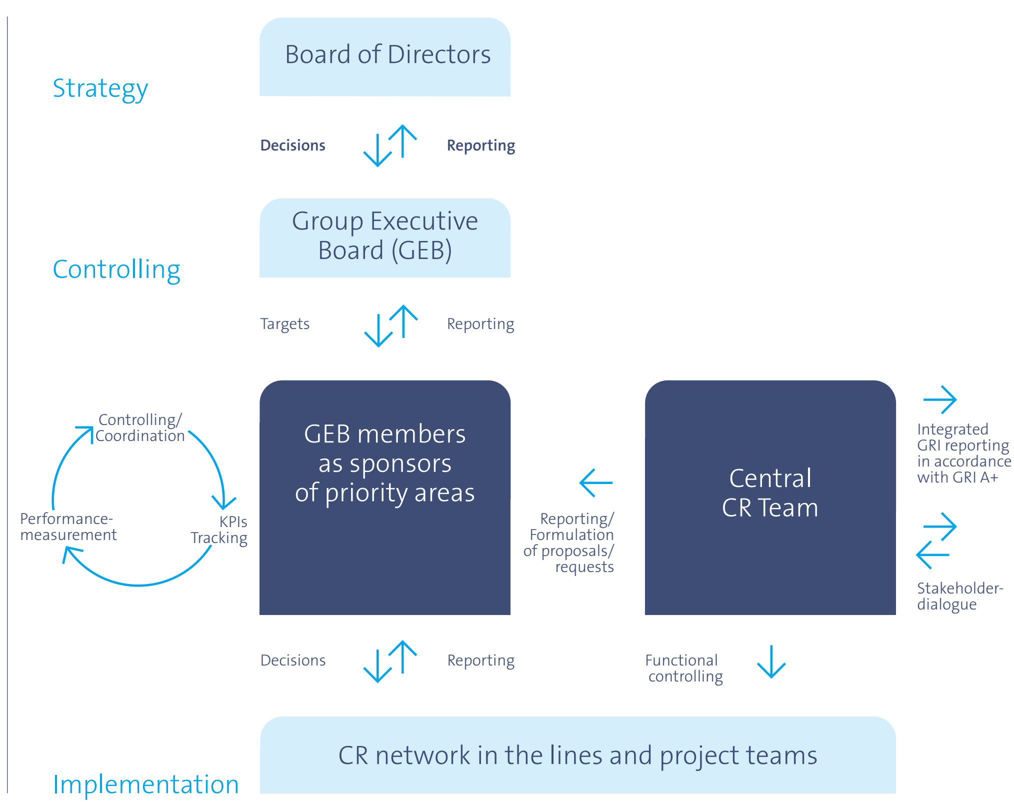
The CR team is responsible for coordinating implementation of the CR strategy, including leveraging synergies across all divisions. The team's specific tasks are:

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

Line units and the Corporate Responsibility network

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

Overview of corporate responsibility governance



Compliance

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

- **Culture:** An effective CMS is founded on a culture of compliance. The code of conduct sets down the minimum expectations of the Board of Directors and CEO of Swisscom Ltd; these expectations are communicated throughout the Group through leadership and collaboration.
- **Goals:** The compliance goals are set by the Board of Directors. Organisational measures and compliance activities are aligned to these goals.
- **Risks:** Swisscom identifies risks arising from its business activities and changes in legislation, assesses the risks and manages them using suitable measures.
- **Organisation:** The Board of Directors has defined minimum tasks of the compliance function. The Group Executive Board and the Management Boards of the subsidiaries define further tasks and responsibilities and provide the resources required for an effective CMS.
- **Communication:** Employees are informed of their tasks and responsibilities. Regular reports are sent to the Board of Directors and the Group Executive Board of Swisscom Ltd, as well as the Management Boards and Boards of Directors of the subsidiaries and other internal units.
- **Monitoring and improvements:** The adequacy and effectiveness of the CMS are monitored on an ongoing basis and any weaknesses eliminated.

During the 2011 financial year, Swisscom evaluated the divisions at risk and had an assessment made of their corruption risk. The rules of conduct were formulated more precisely for the protection of Swisscom and its employees. Additional training will be carried out during the 2012 financial year.
No significant breaches of legal and environmental regulations, health and marketing standards or product information obligations occurred in 2011.

Precautionary principle

Swisscom meets its sustainability obligations thanks to established management systems aimed at reducing environmental and social risks associated with the company's business activities. Swisscom Switzerland has a CR checklist, which it uses to comply with ecological and social criteria for projects, network infrastructures, services and products in its area of activity. Specific requirements based on ecological criteria exist for renovations and new builds. Swisscom's Swiss subsidiaries have instruments at their disposal which are tailored to their needs as required. Preventive measures are taken as part of the company's risk and safety management system.
An important element of the precautionary principle is also staff training and awareness-raising.

Responsible marketing

Swisscom's marketing is informed by its mission statement on the one hand and the principles of the Swiss Office of Fair Trading (Schweizerische Lauterkeitskommission) on the other. The principles of the Swiss Office of Fair Trading govern all relevant aspects of fairness and integrity in communication. The Corporate Identity team, which is integrated in Group Communications, is responsible for compliance with these principles. It monitors the relevant communications and marketing projects throughout the Group and is therefore in a position to detect possible breaches of the principles early on and initiate preventive measures. The Corporate Identity team also regularly informs the various marketing units within Swisscom on further developments concerning these principles.

See
www.faire-werbung.ch

Customer satisfaction

Customer satisfaction is a key metric at Swisscom that has a strong bearing on the company's long-term success. Measuring customer satisfaction and analysing the results are critical to the company meeting its business objectives.

Swisscom Switzerland

Swisscom Switzerland conducts segment-specific studies in order to measure customer satisfaction.

- The Residential Customers segment uses monthly representative surveys to measure satisfaction and willingness of customers 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. In product studies buyers and users are regularly asked about product satisfaction, service and quality.
- The Small and Medium-Sized Enterprises segment conducts random interviews on an ongoing basis to gauge customers' satisfaction with Swisscom as well as dealers' satisfaction with Swisscom products and support.
- The Corporate Business segment regularly polls customers with whom they have implemented projects. It also conducts quarterly surveys to measure customer satisfaction along the customer experience chain.
- The Wholesale segment likewise conducts surveys to measure customer satisfaction along the customer experience chain, but on an annual basis.

The results of the studies serve to bring about improvements in services and products and also have an influence on determining the performance-related component of employee remuneration.

Swisscom IT Services

Swisscom IT Services uses feedback instruments at key customer contact points to identify ways of improving customer satisfaction. After each interaction IT users can submit feedback to the service desk or enter their comments in the order system. In the case of projects, customers can evaluate the project on completion. Swisscom IT Services conducts monthly surveys concerning IT and business activities. A comprehensive customer satisfaction survey is carried out once a year.

Sustainable living and working

Swisscom supports customers in their pursuit of a sustainable way of living and working, offering climate-friendly and low-radiation products and services to residential customers and Green ICT services to business customers.

Principles and objectives

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

See
www.swisscom.ch/basicprinciples

A study by the Global e-Sustainability Initiative found that the ICT sector has the potential to cut global CO_2 emissions by some 15%, using energy-efficient data centres, for example, virtual mobility measures, such as videoconferencing (eliminating the need for business trips), or optimising fleet routing.
Swisscom is aware of its responsibility in the ICT sector, and undertakes a host of initiatives to structure its offerings in a more resource-friendly and energy-efficient manner, as well as offering products and services to help customers reduce their energy consumption and CO_2 emissions.

Ecological, socially acceptable product innovation

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

Climate-friendly products and services for residential customers

Green Customer Experience programme

Swisscom Switzerland's Residential Customer segment expanded its Green Customer Experience programme during the year under review. The aim of the programme is to optimise products and services from an ecological point of view (for example in terms of radiation and energy efficiency) and ensure transparency in communication with residential customers.
Life-cycle assessments of Swisscom's networks and devices carried out in recent years have consistently identified the following main environmental impact factors: energy consumed by customer devices, energy consumed in production and energy consumed by network elements.
Measurable successes of the Green Customer Experience programme in the reporting year:

- **Ecomode plus:** Cordless phones with Ecomode plus emit minimal levels of radiation. Ecomode plus models now account for practically all sales of cordless phones at Swisscom.
- **Eco points:** Mobile handsets of individual makers differ not only in terms of design and performance but also in terms of environmental compatibility. Information on energy consumption or the raw materials used in manufacture of the products until now has not been readily available to customers. Swisscom is creating greater transparency and is the first provider in Switzerland to introduce eco points. All devices in Swisscom's portfolio are rated according to three equally weighted criteria: low energy consumption, low energy consumption in manufacture and responsible choice of raw materials. The more points, the greater the environmental compatibility. This means that in future customers will be able to factor environmental compatibility into their purchase decision.

See
www.swisscom.ch/ecopoints

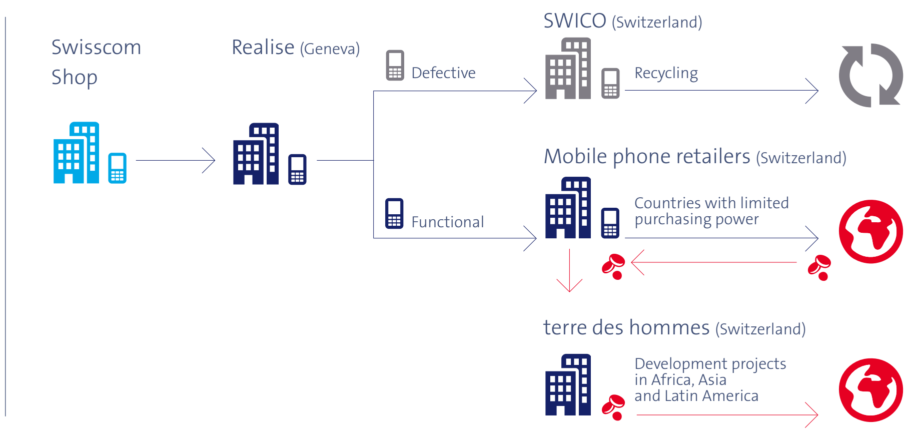
- **Recycling:** Swisscom provides a two-year guarantee on all telecoms devices such as phones, fax machines, modems, mobile phones and mobile PC cards and also offers a repairs service. In addition, any electronic devices from the Swisscom range can be returned to Swisscom for recycling. This service is performed in conjunction with SWICO Recycling, the recycling commission of the Swiss Association for Information, Communication and Organisational Technology. The service is financed by a recycling fee. Recycling statistics are available from SWICO.

See www.swico.ch

- **Swisscom Mobile Aid (formerly Solidarcomm):** In 2011 around 70,000 mobile handsets were returned for recycling and many of these were sold via a third-party company to countries where there is a demand for low-priced second-hand devices. All sale proceeds go to Swisscom's social partners "terre des hommes suisse" and "réalise". Handsets that are no longer saleable are recycled in an appropriate manner. The aim in 2012 is to increase the return rate of mobile handsets for recycling to 12%, a rise of 25% compared with 2011.

See www.swisscom.ch/SwisscomMobileAid/en

Swisscom Mobile Aid – the process



- **Solar vignette:** Swisscom launched the solar vignette for customers who purchase a mobile handset without a solar panel. By purchasing the vignette for CHF 8, customers are guaranteed that enough solar energy to offset the power consumption of their mobile device will be fed into the electricity grid.
- **Online billing:** Online billing is increasingly seen as an attractive and environmentally friendly alternative to a paper bill. The number of customers who opted to receive their bill online rose from 440,000 to 723,000. This represents an increase of 64% as of the end of 2011 compared with the previous year. Swisscom has therefore exceeded its goal of encouraging 10% of residential customers to switch to online billing. To further increase the attraction of online billing, Swisscom has launched a "first step" campaign where the customer receives a voucher or a donation is made to an NGO.

See www.swisscom.ch/firststep

Packaging

Since 2009 Swisscom has largely done away with the additional packaging that comes with mobile phones and massively reduced enclosures such as user guides. In the case of postpaid mobile handsets, which make up 85% of all devices sold by Swisscom, packaging has been eliminated completely, saving the company 14 tonnes of cardboard a year. The packaging for the Centro range of routers has also been changed so that it now contains a higher share of recyclable fibres.

Green ICT for business customers

Green ICT programme

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

- **"Business travel reduction"** (videoconferencing, teleworking solutions, optimised logistics solutions)
- **"Energy reduction"** (outsourcing and virtualisation of servers in efficient data centres)

See **www.swisscom.ch/myclimate**

The respective products and services are labelled as recommended by the company myclimate. The climate recommendation label indicates energy and CO_2 savings compared with previous consumption behaviour.

During the 2011 reporting year Swisscom implemented a raft of measures aimed at boosting the use of Green ICT services and providing greater transparency on the savings to be achieved by using the services. A dedicated sales tool, special Green ICT events and a Green ICT calculator inform customers of ways to reduce their energy consumption. Around 40 customers were presented with special Green ICT certificates in 2011 confirming that thanks to the use of Green ICT services, savings of 10,000 tonnes of CO_2 and 4.5 million kWh of electricity were achieved by cutting back on business travel.

See **www.swisscom.ch/green-ict**

Swisscom also published a joint study with myclimate showing the potential savings to be achieved from using the most important Green ICT services; the potential savings are equivalent to the expected shortfall in Switzerland's CO_2 emission reduction targets to meet the Kyoto goals. One thing is certain: the ICT sector can make an important contribution to climate protection.

Internal use of Green ICT

Swisscom also deploys Green ICT solutions internally:

- Fifteen Swisscom sites are now equipped with the Telepresence virtual videoconferencing solution.
- Furthermore, practically all employees can set up videoconferencing and desktop sharing with other colleagues at the click of a mouse, enabling them to work part of the time from home. Participation in the 2nd National Home Office Day, which Swisscom has supported as a partner since its launch in 2010, also helped to further anchor the Home Office concept in the organisation.
- In the reporting year Swisscom expanded its savings platform, CO_2-Monitor, adding new functions for its employees such as the interactive selection of personal climate protection targets. Over 2,200 employees now use the platform, which demonstrates the potential for energy and CO_2 savings in the workplace.

See **www.co2-monitor.ch**

Low-radiation communications technologies

Advice and information on wireless technologies and the environment

Specially trained Swisscom employees advise stakeholder groups involved in the construction and operation of mobile networks as well as stakeholder groups seeking general information on wireless technologies, the environment or health. During the reporting year Swisscom held over 600 discussions with key stakeholder groups on the subjects of mobile communications and the environment. Most of the discussions concerned local mobile network expansion projects.

Research and development in the area of electromagnetic fields

Swisscom works with and financially supports the Swiss Research Foundation on Mobile Communication (FSM) based at the Federal Institute of Technology in Zurich, and employs four qualified employees to monitor and interpret the latest research findings on electromagnetic fields, their effect on organisms and the measurement of emissions.
Mindful of the major responsibility that operating its wireless networks entails, Swisscom follows scientific research by internal and external experts into the effects of non-ionising radiation on organisms. It also analyses the research findings and supports relevant scientific activities.
Based on current knowledge, scientists consider the current limits for electromagnetic fields as safe (see WHO Fact Sheets Nos. 193 and 304).

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

Certification of quality assurance system for compliance with ONIR limits

Swisscom is required to operate a quality assurance system (QAS) for the base stations of its mobile network to ensure that the antennae in operation comply with the statutory limits at all times. In 2005 Swisscom decided to have this quality assurance system certified to the ISO 15504 standard. The system was recertified in 2010, and the prescribed system audit performed in November 2011 for the current reporting year produced a capability level of 4 (out of a maximum of 5). A level of 4 means that the processes relevant for the QAS are “targeted and measurable”.
The legal obligation to limit emissions from mobile communication installations comes from the Ordinance relating to Protection against Non-Ionising Radiation (ONIR), the aim of which is to protect people against harmful or undesirable non-ionising radiation. The Ordinance applies to the operation of fixed installations that emit electrical and magnetic fields with frequencies between O Hz and 300 GHz.

Duty to provide information on products offered at points of sale

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

See **www.swisscom.ch/lowradiation**

Partnerships

Swisscom works with the myclimate foundation to draw up a carbon footprint for its products and services. A spin-off of the Federal Institute of Technology Zurich, myclimate now occupies a leading international position in the area of CO_2 offsetting. It also possesses a wealth of expertise in drawing up carbon footprints and rating products.
Swisscom is currently working with myclimate in the following areas:

- **Climate recommendation:** myclimate calculates the climate benefit of climate-friendly products and services offered by Swisscom such as online billing and videoconferencing.
- **Eco points:** myclimate developed the environmental point labelling system for Swisscom's mobile phone portfolio and also rates the individual models.

Sustainable use of resources

Swisscom endeavours to meet the highest standards when it comes to the use of resources. Operation of energy-efficient infrastructures (buildings, IT, networks, vehicles) and utilisation of renewable energies have high priority. Swisscom implemented a comprehensive risk management system in 2011. Swisscom also joined various international initiatives aimed at promoting accountability in the supply chain.

Principles and objectives

Swisscom has signed a target agreement with the Energy Agency for Industry (EnAW), the aims of which are to reduce CO_2 emissions and enhance energy efficiency. Swisscom subsidiaries of significant environmental relevance, namely Swisscom (Switzerland) Ltd, Swisscom Broadcast Ltd, Swisscom IT Services Ltd and cablex Ltd, are certified to ISO 14001 as well as ISO 9001.
Swisscom has set itself ambitious targets for the end of 2015: energy-saving measures in the area of network infrastructure are expected to achieve a further 20% improvement in energy efficiency compared with 1 January 2010. During the same period Swisscom aims to cut direct CO_2 emissions by a further 12%, chiefly through measures in the fields of mobility and buildings. Overall, Swisscom is aiming for a 60% reduction in direct CO_2 emissions by the end of 2015 compared to the reference year 1990.

Energy-efficient infrastructure

Energy consumption as the principle environmental impact factor

Swisscom's environmental analysis shows that the company's biggest impact on the environment stems from its energy consumption. Swisscom is striving to boost energy efficiency and rely more on renewable energies in order to minimise its environmental impact.

Consumption of electricity from renewable sources and green electricity

Energy consumption in 2011 amounted to 410 gigawatt hours (GWh), versus 404 GWh in 2010. The slight increase is the result of expansion of activities and network infrastructure. Over the medium term the demand for electricity is expected to remain around the current level. For the electricity mix used for the network infrastructure and for consumption in buildings managed by Swisscom, compensation has been paid since 2010 for the share of nuclear power, electricity of unknown origin and electricity from fossil fuels. Thus again in 2011 Swisscom relied fully on electricity from renewable sources.
With 1.31 GWh *naturemade star* energy from solar power (0.4 GWh) and wind power (0.9 GWh), Swisscom is one of the biggest purchasers of wind and solar power in Switzerland. The company's claim "100% renewable energy" is confirmed externally by the WWF.
September 2011 saw the commissioning of a solar facility installed by Swisscom Broadcast on the Celerina transmitter station, which went into operation on 30 September 2011. The facility generates 68 kWh of power and is the sixth of its kind owned by Swisscom. Swisscom remains committed to setting up a new solar installation every year.

Heating and fossil fuel consumption

Once a month Swisscom measures the consumption of heating oil, natural gas and district heating in its 60 biggest buildings which together make up over half of the total rental space. It extrapolates these figures to calculate overall consumption using a new method introduced in 2011. Actual consumption figures will not be known until the bill for heating and operating costs is issued in the second quarter of 2012.
During the reporting year, Swisscom consumed 177.3 terajoules (49.3 GWh) of fuel to heat buildings, which represents a year-on-year reduction of 14.7%. The "heating mix" comprises 74% heating oil, 11% natural gas and 15% district heating.
In 2011 Swisscom carried out further structural renovations and continued to pursue four initiatives launched in 2010 to save energy and reduce CO_2 emissions from buildings. Energy monitoring was extended in the last quarter of 2011 to a further 20 buildings. Starting in 2012, Swisscom intends to have a set of data that it can use as a benchmark to enable even more detailed energy monitoring, and is currently evaluating various monitoring systems. The other initiatives concern operational optimisation, renovation and temperature settings in the exchanges.
Swisscom also commissioned an independent engineering firm to conduct a detailed energy analysis of five main buildings. The first energy-saving recommendations have already been implemented. Further energy analyses for seven buildings are in the pipeline.
During the reporting year, Swisscom also further improved the standardised procedure introduced in 2010 for renovating heating installations. The procedure revolves around the eco form, which indicates CO_2 reduction levels achieved by building projects. In 2011 Swisscom identified 49 eco-relevant building projects, of which six measures, such as façade renovations, were implemented.

Mobility policy and fuel consumption

The ability to provide first-class customer service depends on the seamless mobility of staff. A total of 67.6 million kilometres were driven in 2011 in the service of customers, equivalent to an energy consumption of 170.7 terajoules (47.4 GWh). As a result, fuel consumption fell by 2.5% year-on-year. Thanks to an innovative replacement strategy, average CO_2 emissions per vehicle are expected to drop to 110 grams of CO_2 per km by 2015. In accordance with the New European Driving Cycle (NEDC), CO_2 emissions from cars in the Swisscom fleet averaged 140 grams of CO_2 per km as of the end of 2011. 84% of the cars fall into the A and B energy efficiency categories. Swisscom also operates a fleet of 161 (+133%) hybrid vehicles, 37 (+48%) vehicles powered by natural gas and four new electrically driven vehicles. All electrical vehicles are recharged in Swisscom buildings and garages using electricity from renewable energy sources.
Over 40 e-bikes at nine different sites were added to the fleet in October 2011. These e-bikes fill the gap between public transport and private cars.
In 2011, 107,710 (+6%) rail tickets were used for business trips and 13,644 (+7%) half-fare cards and 2,776 (+4%) GA travel cards were issued to employees. Since 2007 Swisscom has charged a separate CO_2 levy of 1.5 cents per air mile on international flights. The levy is used to finance internal environmental projects in the field of mobility (for example, e-bikes, electric vehicles, etc.).

Electricity consumption savings and efficiency measures

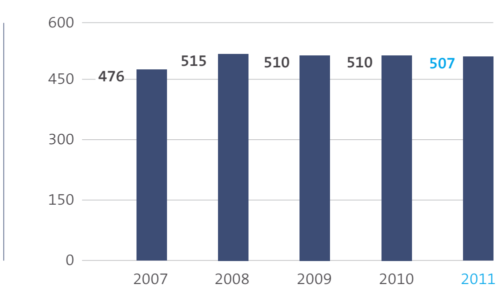
Swisscom has compiled forecasts for electricity consumption up to 2015 and calculated potential energy savings. It has drawn up a catalogue of measures aimed at achieving a 20% improvement in energy efficiency by 2015, by optimising network platforms and infrastructure cooling installations and power supplies and making fundamental improvements to the technology. Target performance is reviewed on an annual basis. Figures for the last two years (+8.5% as of the end of 2011) show that Swisscom is on track to meeting its goals of improved energy efficiency.
Implementation of the "Mistral" energy saving project continued in 2011. Mistral is a cooling technology that relies solely on outside air, all year round. It replaces conventional energy-intensive cooling systems equipped with compressors and contributes to a massive improvement in energy efficiency. Mistral also eliminates the need for harmful refrigerants. By the end of 2011 Mistral was

deployed in 544 exchanges, an increase of 26% compared to 2010. In 2011 Swisscom Switzerland also retrofitted mobile base stations and Swisscom Broadcast transmitter stations with Mistral.
Fresh air is furthermore an attractive alternative for cooling data centres and could significantly reduce the electricity required for this purpose in the centres. A plan drawn up internally envisages using fresh air for all-year cooling of data centres with heat loads of up to several kW/m² of floor area. A pilot test was started in the summer of 2011 and will run for a year. The aim of the test is to demonstrate the feasibility of deploying fresh air-cooling systems in data centres.
Swisscom encourages the use of dynamic uninterruptible power supply systems in large exchanges. Such systems offer an efficiency factor of over 90%, at an utilisation capacity starting at as little as 25%, and do not require any batteries. If direct current (DC) power supply systems used in telecoms installations in exchanges are replaced, their efficiency factor must exceed 95%. The efficiency factor of old systems is still 92%.
The systems installed in Swisscom IT Services' new data centre in Zollikofen feature a particularly high level of energy efficiency and energy-efficient cooling. The centre's average annual power usage effectiveness value (PUE value) is less than 1.35. This value represents the ratio of total power consumed by the data centre to the power consumed by the IT systems. Power consumption in Zollikofen, with a measured PUE value <1.35, is more than 40% lower than that consumed by conventionally built data centres.

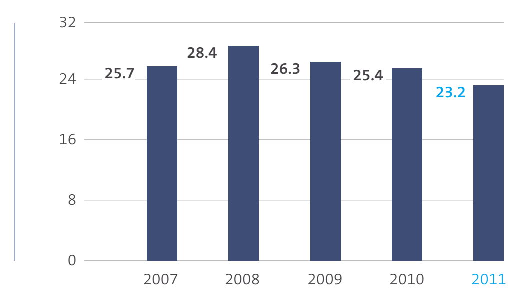
Climate

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

Energy use Swisscom in GWh



CO_2-emissions Swisscom in tons thousand



Swisscom follows the internationally recognised definition set out in the Greenhouse Gas Protocol (GHG). It categorises its CO_2 emissions in Scope 1 (direct emissions resulting from burning fossil fuels for heating and mobility), Scope 2 (indirect emissions resulting from electricity consumption) and Scope 3 (all other indirect CO_2 emissions resulting from goods transportation, business trips, etc.).
Direct consumption of fossil fuels accounts for 19.3% of Swisscom's total direct energy consumption. Swisscom's CO_2 emissions according to Scope 1 have fallen by 8.6% to 23,242 tonnes, without adjustment for the number of heating days, with vehicle fuel accounting for 53% and heating fuel and district heating accounting for 47%. Swisscom is therefore in line with the CO_2 targets agreed with the Energy Agency for Industry (EnAW) in 2004, which only covers emissions from fossil fuels.
The electricity mix used in Switzerland is not generated from fossil fuels and so its production is free from CO_2 emissions. In its report to the EnAW, Swisscom continues to apply the conversion factor of 0 gram of CO_2 per kWh. In this Annual Report, however, Swisscom has calculated its CO_2 emissions according to Scope 2 using the conversion factor for green electricity of 13.7 grams of CO_2 per kWh. CO_2 emissions according to Scope 2 thus amount to 5,627 tonnes. These emissions are not part of the current target agreement with EnAW.
Swisscom launched an initiative in the second half of 2011 aimed at determining Scope 3 emissions. An econometric approach is being used to determine the CO_2 emissions of suppliers. It covers the entire supply chain, from raw material extraction all the way to delivery to the factory gate. Starting in 2012 Swisscom will draw up a list of logistics partners who compile statistics on CO_2 emissions from business trips and encourage the use of telepresence, unified communication and collaboration (UCC) and videoconferencing.

See www.swisscom.ch/GRI-2011/en

Other gases

Besides CO_2 emissions, burning fossil fuels for heating and transport also produces NO_x and SO_x. These emissions are calculated using the relevant conversion factors. NO_x and SO_x emissions depend on the amounts of vehicle and heating fuels consumed and are reduced by optimising heating boilers and drive motors.

Other environmental aspects in the company

The analysis conducted in the year under review revealed that Swisscom's impact on the ecosystem is minimal and will remain so.

Paper and other materials

Swisscom distinguishes between the deployment of short-life and long-life materials and is committed to reducing the environmental impact of short-life materials, in particular paper. Swisscom uses 100% recycled paper in its offices with the "Blue Angel" environmental quality seal and only paper with the FSC seal (Forest Stewardship Council) for other purposes such as advertising and printer matter. In addition, Swisscom offers two-monthly billing for customers with small bills as well as paperless electronic billing. In 2011 it used 4,284 (–12.4%) tonnes of PEFC 34g/m^2 paper for telephone directories.

Cables and optical fibres

Network expansion necessitates the use of long-life materials such as cables and optical fibres. In 2011 Swisscom laid 1.1 million (+56.3%) kilometres of optical fibres, 159,859 (+41.3%) kilometres of copper pairs and 977 (+25.3%) kilometres of eco-friendly polyethylene piping and installed 3,948 wooden telephone poles.

Water

Water consumption levels are projected by multiplying the average measured in 1995 by the number of FTEs. In the sanitation area levels have increased slightly in proportion to the number of employees (see table of environmental performance indicators). Apart from sanitation, the only business process where water is used is in cooling. Water as an environmental indicator thus carries little weight for Swisscom. To cool the return air in its data centres Swisscom uses dry cooling. If in exceptional cases hybrid or adiabatic systems are used to cool return air (i.e. driven by evaporation), according to an internal directive issued in September 2011, preference must be given to the use of rainwater or (if permitted) river/lake water as the cooling agent. In the case of new data centres the proportion of rain water in the cooling agent must be higher than 80%. Operation of the coolers using water may not exceed 15% of the total annual operating time. Water used for cooling is therefore substantially less than Swisscom's total water consumption.

Waste and recycling

Swisscom minimises the volume of waste it produces by carefully selecting materials and extending the useful life of products where possible. A contract has been concluded with the Swiss Waste Exchange for the disposal and recycling of waste. Special waste is disposed of by authorised independent specialist companies in line with legal requirements. The 1,015 (+7.3%) tonnes of waste are separated into 17 categories and earmarked for recycling (70%), disposal in waste incineration plants (29%) and special waste disposal (1%); (see table of environmental performance indicators). Leftover cables and building materials are sorted on site and disposed of directly.
Recycled materials are used as follows: the individual sites use 100% recycled paper. Head office uses rain water and district heating from the nearby purification plant.

Soil and biodiversity

Base and transmitter stations required to ensure full telecoms, radio and TV coverage throughout Switzerland are partially located outside populated areas. The sealed areas per station amount to only a few square metres. When Swisscom dismantles decommissioned base stations it rehabilitates the ground in accordance with guidelines issued by Swisscom Broadcast Ltd. In 2011 Swisscom dismantled 21 stations and rehabilitated the ground. The stations were used for broadcasting analogue TV signals and so are no longer required.
Swisscom supports the WWF SMARAGD project aimed at protecting soil and biodiversity. Support takes the form of financial assistance as well as voluntary assistance from employees on Nature Days. The Nature Days are part of Swisscom's Corporate Volunteering Programme. Swisscom also supports Switzerland's National Park by providing technical services such as an SMS service and the interactive hiking guide Webpark. Swisscom is also one of the main sponsors of the new National Park Centre in Zernez.

See Report **pages 104 and 113**

Environmental performance indicators in Switzerland

	Unit	2009	2010	2011
Land/buildings				
Net floor space (NFS)	million of m^2	0.88	0.95	0.91
Paper for photocopying and printing				
Format A4 100% recycled (other formats converted)	million of sheets	49.6	41.0	37.0
Water/sewage				
Water consumption [1]	m^3	453,698	452,486	468,577
Energy, electricity				
Electrical energy consumption [2, 3]	terajoule	1,448	1,454	1,479
	GWh	402	404	411
Energy, heating				
Heating oil	terajoule	161.2	149.4	130.9
Natural gas	terajoule	24.9	31.5	18.9
District heating	terajoule	25.8	27.3	27.2
Heating, total	terajoule	211.9	208.2	177.6
Energy, fuel				
Petrol	terajoule	93.3	77.8	53.7
Diesel fuel	terajoule	83.1	93.0	114.8
Natural gas	terajoule	0.4	1.5	2.2
Total fuel	terajoule	176.8	172.3	170.7
Vehicles	number	3,240	3,102	3,332
Kilometers driven	million of km	71.0	66.1	67.7
Average carbon dioxide CO_2 emission	g per km	n/a	150.0	140.0
Energy, total				
Energy consumption	terajoule	1,837	1,835	1,827
	GWh	510	510	507
Air emissions				
Carbon dioxide CO_2	tons	26,296	25,422	23,242
Nitrous gases NO_x	tons	23.0	22.5	23.2
Sulphur dioxide SO_2	tons	5.4	5.0	4.4
Waste				
Garbage	tons	175	249	291
Recycling	tons	669	687	713
Special waste	tons	11	10	11
Waste tonnage, total [4]	tons	855	946	1,015

[1] The water consumptions for 2009, 2010 and 2011 are based on a forecast.
[2] Energy conversion: 1 terajoule (TJ) = 0.278 gigawatt hours (GWh).
[3] The energy consumptions for 2009, 2010, and 2011 are based on a forecast. Since 2011 on a monthly measure of the consumption of 60 buildings (with a total floor space of over 50%).
[4] Based on data provided by the Swiss Waste Exchange and the Group companies; domestic waste not included.

Swisscom's responsibility in the supply chain

Swisscom's purchasing policy sets out the principles and procedures to be followed by the procurement organisations. The policy is defined by an overarching committee, the Swisscom Purchasing Board. The procurement organisations of Swisscom (Switzerland) Ltd, Swisscom IT Services Ltd and Swisscom Broadcast Ltd act in accordance with the Swisscom purchasing policy. Together their total order volume accounts for more than 75% of the total procurement volume.
By signing the corporate responsibility contract annex (CRCA), suppliers accept the requirements set out in the purchasing policy. Swisscom uses a structured risk management system to review suppliers' compliance with the requirements. In 2012 the purchasing policy is to be extended to all procurement organisations in the Swisscom Group.
To further reduce CR risks in the supply chain, Swisscom has set itself the following goals for 2012: around 800 existing suppliers from medium-risk product groups are to undergo a risk assessment. Twenty-five percent of these suppliers are to be assessed and appropriate measures initiated by the end of 2012. Suppliers from high-risk retail product groups were already assessed in 2011 (see audits and self-declarations). The aim in 2012 is to have 90% of the total order volume coming from suppliers that have accepted the requirements of the CRCA.
In 2012 the 80 suppliers with the highest order volumes, whose products are manufactured in countries classified by Swisscom as critical, are to have registered with E-TASC and completed the online questionnaire. Swisscom plans to conduct at least six audits on behalf of the JAC (Joint Audit Cooperation – see Memberships).

See **www.swisscom.ch/GRI-2011/en**

Supplier risk management

Risk management system

The concept for the risk management system in procurement has been in place since the beginning of 2011 and is being implemented in stages. The respective product groups have already been assessed and assigned one of three risk levels: "low", "medium" or "high". Registration of all existing suppliers in medium and high-risk product groups has also been completed. That means that Swisscom exceeded its 2011 goal of assigning a risk profile to 80% of all suppliers.
In future, product groups will be risk assessed and suppliers registered on an annual basis.
Swisscom also defined the following risk reduction instruments in the first half of 2011: signing of the CRCA, signing of a self-declaration by suppliers, completion of the E-TASC questionnaire, performance of material audits and meeting at management level to discuss the escalation procedure. Swisscom reviews these instruments every two years.
Buyers and members of the Corporate Responsibility specialist unit have subjected all 92 existing suppliers from high-risk product groups to a risk assessment and defined appropriate risk reduction measures. Some of these measures have already been implemented, some are still pending. In 2012 Swisscom plans to assess existing suppliers from medium-risk product groups and determine appropriate risk reduction measures.
New suppliers in high or medium-risk product groups will undergo a CR risk assessment during the tendering process or when the contract is awarded. Swisscom set up a new process for this and tested it throughout 2011. The process is to be implemented definitively in 2012 and will include buyer training.
A crisis management system is also in the start-up phase and will be integrated into existing Group structures in 2012.

Corporate responsibility contract annex

The CRCA is integrated into all contract templates. This is intended to ensure that when new contracts are signed the CRCA is automatically signed at the same time. One of the goals for 2011 stipulated that 70% of the total order volume must come from suppliers who have accepted the CRCA. With 83%, this goal was exceeded.

Audit and self-declarations

According to the goals formulated for 2011, all suppliers with a high-risk rating must be audited within six months and suppliers with a medium-risk rating must complete a self-declaration within three months and/or be audited within a year. Swisscom achieved the first goal with a score of 71%. Five of the total of seven suppliers with a high-risk rating from a high-risk product group were audited on behalf of Swisscom. One of the two remaining audits will be conducted in February. In the last case Swisscom will rely on the audit report from an audit recently conducted on behalf of the JAC (Joint Audit Cooperation – see Memberships). Audits of suppliers carried out until now and in the future cover social and environmental issues.
Audits conducted in 2011 on behalf of Swisscom or the JAC (including the quality audits during which social and environmental issues were examined at the same time) produced the following results:

	Identified weaknesses		
Areas of themes	**marginal**	**significant**	**serious**
Child labour	2	–	–
Forced labour	2	–	–
Health and safety	22	9	–
Freedom of association and right of collective bargaining	–	–	–
Discrimination	2	–	–
Disciplinary charges	2	–	–
Working hours	8	2	1
Remuneration	5	7	–
Environment	2	–	–
Ethics of the company	5	–	–
Total	**50**	**18**	**1**

This table does not include audits which other JAC members conducted in 2011 on behalf of the JAC. Of the twelve suppliers with a medium-risk rating three had signed a self-declaration from Swisscom or the E-TASC (see Memberships) by the end of 2011. In three cases Swisscom waived the requirement for a self-declaration or E-TASC since the suppliers in question had already undergone an audit in 2010.

See **www.swisscom.ch/suppliers**

Swisscom Supplier Award

Preparations for the second Swisscom Supplier Awards got underway in April 2011. As in 2010 the awards will be presented at the end of March 2012 in the following three categories: innovation, cooperation and sustainability. Suppliers are asked to demonstrate their commitment and the added value that they provide for Swisscom customers in their application.

Memberships and partnerships

Swisscom collaborates with various associations and organisations in the area of sustainable use of resources:

- **European Telecommunications Network Operators (ETNO), Sustainability Working Group:** Swisscom was one of the first telecommunications providers in Europe to sign the ETNO Environmental Charter in 1996 and the Sustainability Charter in 2002.
- **ETNO Energy Task Team:** Since 2007 Swisscom and Telecom Italia have jointly headed this team, which is made up of European telecoms providers.
- **European Telecommunications Standards Institute (ETSI):** Swisscom has been a member of ETSI's Environmental Engineering (EE) working group for six years and has helped promote the ETSI Standard EN 300019-1-3 (class 3.1) governing the operation of IT facilities. The working group is currently drawing up uniform standards for verifying electricity consumption and assessing life cycles of network equipment and devices.
- **ÖBU (Swiss Association for Environmentally Conscious Management):** Swisscom has been a member of this association since 1999.
- **Energy Agency for Industry (EnAW):** Swisscom joined the Energy Agency in 2003 and signed a target agreement to reduce CO_2 emissions and improve energy efficiency in 2004.
- **WWF Switzerland:** Swisscom is a member of the WWF Climate Group.
- **Association for Environmentally Sound Electricity (VUE):** The VUE certifies energy plants with the quality labels *naturemade star* and *naturemade basic*. Swisscom has been a member of the VUE Board since 2006 and, according to internal data gathered by Swisscom, is one of the biggest procurers of *naturemade star* products in Switzerland.
- **Association Energo (an association which promotes energy efficiency in buildings):** Swisscom has been represented on the Energo Board since 2008.

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

To increase the impact of the corporate responsibility demands that Swisscom places on the supply chain, in 2011 the procurement organisation of Swisscom Switzerland joined the following initiatives:

- The Global e-Sustainability Initiative (GeSI), a partnership of companies from the ICT sector whose aim is to promote sustainability.
- Since August 2011 Swisscom has been using the online E-TASC questionnaire of the GeSI within the framework of the risk management system.
- The Joint Audit Cooperation (JAC) comprises seven telecoms companies that work together to plan and perform CR audits.

See **www.cdproject.net/en-US**

Telecommunications for all

Swisscom provides barrier-free access to its products and services. It promotes the protection of minors in the media and implements measures to increase the media skills of all age groups. As such, Swisscom plays a key role in helping to create a sustainable information society in Switzerland.

Principles and objectives

Swisscom focuses on promoting media skills, not only in its efforts in the area of youth media protection, but also through various projects which aim to bridge digital divides.
Swisscom will continue to pursue these activities in 2012. The company aims to champion a sound information society that adds value in line with the federal government's strategy to ensure that Switzerland as a business location, the Swiss education system and the entire population continue to benefit from a forward-looking and progressive ICT landscape.

Basic service provision

	Unit	2009	2010	2011
Number of traffic minutes (national fixed-line traffic)	million min.	7,100	6,741	6,200
Number of public payphones [1]	number	8,115	7,663	6,700
Emergency calls	in thousand	2,700	3,092	3,050
Calls to the service for visually impaired/hard of hearing	in thousand	496	556	553

[1] Of which 4,058 (2011), 4,437 (2010) and 4,803 (2009) within the scope of basic service provision.

Swisscom is responsible for providing basic telecoms services in Switzerland, and has been mandated to do so until 2017. The aim of the mandate is the provision of analogue and digital network access throughout Switzerland. This includes voice telephony including fax and broadband Internet access with a minimum transmission speed of 600/100 kbps and a transcription service for people with disabilities.
Maintaining and operating the 6,700 public telephones (Publiphones) in service, and operating the emergency call service for the police, fire and ambulance services also comes under the basic service provision, for which Swisscom has long been responsible.

Protecting minors in the media and promoting media skills

Protecting minors in the media and guidelines on media content

The Internet and mobile phones harbour a number of dangers for children and young people. Both their parents and Swisscom are well aware of this fact. Swisscom is determined not to leave educators to shoulder this responsibility alone and supports parents and teachers by providing a wide range of information, resources and products.
The legal obligations governing the protection of minors in the media were fully complied with in the year under review. Under the terms of the Swiss Federal Penal Code, it is forbidden for providers to offer content of a pornographic nature to persons under the age of 16. Swisscom is rigorous in its interpretation of the regulations of the Ordinance on Telecommunications Services regarding the blocking of value-added services. For example, no adult content whatsoever has been offered on the information portal of www.bluewin.ch since 2009.
Since 2008 the Industry Initiative of the Swiss Association of Telecommunications (asut) for Improved Youth Media Protection and the Promotion of Media Skills in Society has published a list of measures in addition to the legal requirements, which Swisscom has pledged to comply with. These include the provision of Internet filters, the obligation to actively inform customers, willingness to engage in dialogue with committed organisations and the designation of a youth media protection officer. In 2011 an independent body reviewed the industry initiative and the way in which it has been implemented.

See www.asut.ch

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

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

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

Data protection

Protecting privacy and data protection in particular are key concerns for Swisscom. The Data Protection Declaration explains how Swisscom handles personal data in the context of its website and e-mail activities. This includes the use of cookies and the handling of customer data, including the possibility of passing these data on to others within the Swisscom Group. Swisscom is not responsible for information and data processing on third-party linked offerings.
Children and young people who publish private or even intimate information on community platforms are often unaware of the repercussions this may have. Privacy therefore plays a prominent role in the documentation and information provided on media protection for minors.
As part of its sponsorship of the High Principles on Child Protection in conjunction with ETNO, Swisscom has reformulated its terms of use on youth platforms so that children and young people really understand them.

Promoting media skills

In 2011 Swisscom took the following measures in order to raise awareness among parents and teachers of the potential dangers and risks posed by new media:

- **The "enter" brochure (formerly SchoolNetGuide) focusing on "Safety and security":** 400,000 copies of the brochure have been printed in German, French and Italian and are available free of charge.
- **A youth protection course was designed as part of the Help Point training scheme.** The course was held in 2011 at parents' evenings and during further training sessions for teachers. Swisscom has expanded its offering in this area and now offers courses for secondary school pupils (see below: Media courses for parents, teaching staff and now also secondary school pupils).
- **The JAMES study:** The JAMES study, conducted by Swisscom in 2010 in conjunction with the Zurich University of Applied Sciences (ZHAW), revealed that the Internet and mobile phones are increasingly being used by young people not only as information and communication tools but also as learning aids. The study also explores aspects of inappropriate media usage and uncovers some considerable differences between the language regions. The findings from the JAMES study were re-interpreted in a more in-depth report in 2011 and published under the title JAMESfocus. JAMESfocus concentrates on the role of sociological factors in media usage.

See
www.swisscom.ch/james

National Programme for the Promotion of Media Skills

In summer 2010 the Swiss federal government set up a programme aimed at improving the media skills of children and young people. The Federal Social Insurance Office (FSIO) is responsible for implementing the programme, which is set to run until 2015. As principal partner of the programme, Swisscom believes that it will be important for the public and private sectors to work together closely. Swisscom supports the programme by providing both financial resources and communication services. The Media Competence Day, which was held for the first time in the reporting year on 27 October 2011, is one of the programme's highest-profile activities. Its aim is to bring together various organisations and funding bodies and to raise awareness of the risks posed by new media among the general population. In collaboration with the gaming industry (Swiss Interactive Entertainment Association, SIEA), the FSIO and various regional partners, Swisscom has since informed the public in Zurich, Lucerne, Lausanne and St. Gall about the risks of mobile media and how they can be avoided.

Media courses for parents, teaching staff and now also secondary school pupils

As well as being involved in the Media Competence Day, Swisscom has expanded its course offering aimed at promoting media skills and now offers a modular course for secondary school pupils in 7th to 9th grade. Even before the new media courses were announced, a lot of interest was shown. Teachers can choose from a range of different modules dealing with new media, legal issues in the Internet, social networks and secure surfing, and Swisscom then visits the class together with a course instructor. Initial feedback gleaned during the 2011 pilot indicates that Swisscom is fulfilling a major need by offering such courses. The information sessions and media courses for parents and teachers will continue to be offered in 2012 as well.

Swisscom Help Point

Swisscom has been teaching customers how to use mobile devices and the Internet at its Help Points since 2005. Weekly courses are offered at the training centres in Berne, Basel, Lausanne, Lucerne, Geneva and Zurich. Four training buses also visit around 80 towns and villages across Switzerland every year. In 2011, 15,860 people attended courses on how to use modern communications media. Since their launch, Swisscom's Help Points have served over 181,000 customers. Through this campaign, Swisscom is playing an important role in continually reducing the digital generation gap.

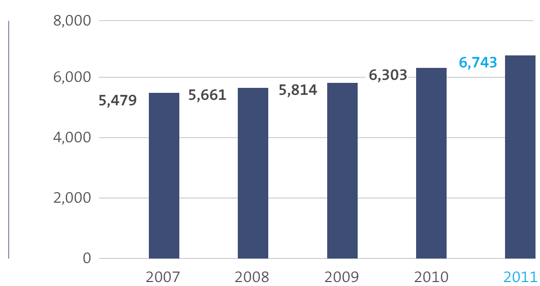
Internet for Schools initiative

Swisscom has been providing free Internet access to all primary and secondary schools in Switzerland since 2001. At the end of 2011 almost all schools were connected to the cantonal education networks. Swisscom continued the Internet for Schools initiative after the public-private partnership with the federal government officially expired in 2007, and the company works hard to continually tailor the infrastructure it offers to the day-to-day needs of schools. Swisscom extended its Internet for Schools initiative to kindergartens in 2009 in response to the needs of cantonal education departments. This means that the number of connections provided under the scheme is set to increase almost three-fold over the coming years. At the end of 2011, well over 1,300 kindergartens were already online.

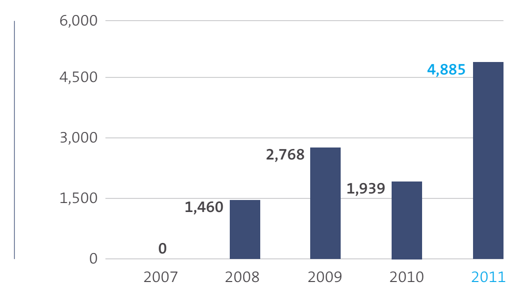
Schools that require high-performance bandwidths (large educational centres or schools which use the Internet particularly intensively) can now take advantage of connections providing free Internet access with a bandwidth of up to 50 Mbps. If the school also wishes to take advantage of Swisscom's professional security options, the company makes a contribution towards the associated expenses.

See www.swisscom.ch/sai

Internet for Schools Number of schools



Courses for protection of minors in the media Number of participants



Swisscom has added various educational institutions to its network over the past few years, enabling it to keep pace with the school system and recognise ICT integration needs early on. Swisscom cultivates this network by means of meetings and events, in particular with the following institutions:

- educa
- Swiss Conference of Cantonal Ministers of Education (EDK)
- SFIB conference
- Federal Office of Communications (OFCOM)
- Swiss Foundation for Audiovisual Teaching Media (SSAB)
- Swiss Association of Teachers (LCH)
- Inter-cantonal Conference of Public Education (CIIP)
- Worlddidac Association
- Various teacher training colleges and universities

Offerings for people with disabilities

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

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

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

  Swisscom supports people with scarce financial resources by making specially geared offers available to them. For example, it has drawn up a reduced-tariff plan for young people under the age of 26. Under this tariff plan, subscribers up to age 18 are assigned a credit limit. Older people continue to make less use of the new technologies than younger people. Special subscriptions offer price models with this in mind, featuring particularly low basic fees and services charged only on a pay-as-you-use basis.

Memberships and partnerships

In line with legal requirements, Swisscom takes various measures to offer society additional added value. For example, the company works with a number of specialist organisations in order to continually enhance its understanding of the specific needs of particular customer groups. These organisations act in an advisory capacity to Swisscom, while in turn Swisscom supports them in helping make Switzerland's information society a reality. Both parties benefit from the mutual support and exchange of ideas and information.
The types of collaboration with individual organisations, institutions and public offices are many and varied and in each case comply with the relevant needs and objectives:

Memberships

- **Swiss Foundation for Audiovisual Teaching Media (SSAB):** Swisscom has been a member since 2008 and works with an extensive network to devise strategies and solutions for modern information provision both in schools and in the extra-curricular sphere.
- **Worlddidac Association:** The world's largest education fair, Worlddidac is held every other year in Basel and attracts over 400 exhibitors from more than 80 countries who come to present their products and teaching aids to nearly 20,000 visitors. Swisscom has been a partner of Worlddidac since 2004 and through the Swisscom Arena provides a central platform for the exchange of views and ideas relating to trends in education.

Dialogue partners and strategic partnerships

- **Swiss Foundation for the Protection of Children:** Swisscom and the Swiss Foundation for the Protection of Children meet regularly to discuss aspects relevant to the promotion of media skills and the organisation of the youth media protection programme.
- **European Telecommunications Network Operators' Association (ETNO):** In spring 2011 Swisscom became a sponsor of the High Principles on Child Protection, which was launched by ETNO but is supported by the industry itself. Under this charter the sponsors commit themselves to a number of voluntary measures aimed at improving the protection of young people from the negative impact of new media.
- **pro audito:** Swisscom collaborates closely with pro audito, which enables it to continually adapt its portfolio to the special requirements of people with impaired hearing.

Project-based cooperation

- **TerzStiftung** (raising the profile and representing the interests of the elderly)
- **Pro Senectute** (telephone chains, International Day of Older Persons, dance event)
- **Compisternli** (introductory courses to new media given by children and young people)
- **Swiss Consortium for Alpine Regions** (SAB)
- **Access for all** (knowledge database)

Swisscom worked with these organisations in 2011 on a variety of projects which all offer direct added value for today's information society.
Swisscom reviews memberships and partnerships on the basis of a range of transparent criteria such as the thematic relevance or national significance of the organisation in question.

Responsible employer

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

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

Principles and objectives in Switzerland

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

Human Resources policy

Swisscom's human resources policy lays down clear principles for a good working relationship, defining management principles and governing Swisscom's approach to social issues.

- **Management:** At Swisscom, management means exercising and delegating responsibility, jointly defining and achieving objectives, promoting and supporting talent and ensuring equal opportunities, irrespective of personal preferences.
- **Social policy:** Social responsibility is broadly embraced at Swisscom. Adequate insurance forms the basis of employees' social protection. Where operationally feasible, Swisscom integrates disadvantaged individuals, offers support to employees who find themselves in crisis situations, avoids redundancies where possible and conducts headcount reduction in a socially responsible manner. Aided by a wide range of initiatives and programmes, Swisscom raises employees'

awareness of health issues and offers a broad array of additional social benefits to promote safety and provide support. These include support for childcare outside the family, social advisory services and affordable catering facilities.

- **Discrimination and social advisory services for employees:** Swisscom employees have the right to non-discriminatory treatment in the workplace that safeguards their personal dignity and integrity. In the event of discrimination – including matters relating to lifestyle, cohabitation, health, finances and other such issues – employees can call on the services of counsellors throughout Switzerland. Swisscom places great emphasis on uncovering cases of discrimination within the company. When employees report such incidents to Social Services, the situation is comprehensively clarified and appropriate action taken. The counselling service offers various courses on how to prevent psychological and social tension and discrimination, as well as stress management courses. Every year, several hundred employees and line managers attend these courses.

Staff development

Swisscom's market environment is constantly changing. The company therefore makes targeted investments in professional training and development for employees and managers to improve their employability in the long-term. Employees are supported in their development by a wide range of on-the-job and off-the-job options as well as internal programmes and courses. Further training and education programmes on offer include professional, technical and management courses. Swisscom spends an average of around CHF 1,500 per employee on external courses and further training every year. The company welcomes opportunities for further training and provides related financial support.
Swisscom continues to develop its Performance Management System in line with requirements with a view to assessing and rewarding employee achievements. The basis of this system is the performance dialogue. Guided by the principle of "agreeing objectives, recognising achievements and following a development plan", employees and line managers engage in dialogue in which they discuss future tasks, expectations and personal development. In 2011 line managers conducted a performance dialogue with 98.8% of all Swisscom employees in Switzerland. The management review process introduced in 2009 has been extended to organisational units below Group division level. This process supports succession planning for key functions and promotes the transversal placement of top talents. A mentoring programme also encourages professional and personal discussions and the sharing of information and ideas between members of the Group Executive Board and top talents, while the Leadership Forum offers an important platform for management issues.

Employee training in the area of Corporate Responsibility

At its Welcome Days, Swisscom raises awareness of ecological and social issues among new hires and informs them about the mission statement and directives. Employees who come into contact with customers also receive regular training which broadens their knowledge of corporate responsibility. Within the scope of internal behavioural training courses, several CR road shows have been held and video messages on CR-related topics were posted on the intranet to raise awareness among Shop employees of ways of reducing radiation when using wireless technologies. In 2011 Swisscom also trained 322 project managers on the environmental parameters for new projects. As part of the four compact courses on procurement, 56 Swisscom employees were sensitised to the issue of "responsibility in the supply chain" in 2011. Four "Lead-Buyer Circles" were held, at each of which around 65 buyers were briefed and trained on specific CR topics. The two CR managers in the supply chain also visited each team at six-monthly intervals to update and train the buyers on CR issues.

Corporate volunteering

Corporate volunteering is the term used to describe voluntary work carried out by employees for charitable causes. Swisscom encourages this commitment and offers employees the opportunity to get involved in various environmental and social projects. A total of 300 employees took part in such projects in 2011. Each year, employees can carry out a one-day mission, which is funded half by the company and half by the employee. Swisscom plans to extend and develop the corporate volunteering programme in the coming years and feature a wider variety of projects.

Staff recruitment

Recruiting new staff

Swisscom seeks individuals who are forward-looking and enthusiastically embrace change. At all company locations in Switzerland Swisscom endeavours to give priority to people from the surrounding regions. This is why the percentage of local employees in all areas and at all hierarchical levels is exceptionally high.
84% of Swisscom's workforce are Swiss nationals. The remaining 16% is made up of employees from 88 different countries, including 4.9% from Germany, 3.8% from Italy, 1.3% from France and 1% from Spain.

Student interns and trainees

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

Vocational training

A total of 886 young people across Switzerland started their apprenticeships at Swisscom in 2011 and the company now offers apprenticeships in six specialist areas. Swisscom Vocational Training is responsible for training 800 of these young people, while the remaining 86 are being trained by cablex. At almost 5% of the workforce, the percentage of apprentices versus other employees at Swisscom remained stable.
Swisscom's new apprenticeship programme "Specialist in Customer Dialogue", which includes a Federal Certificate of Proficiency, was launched in August 2011 in German-speaking Switzerland. Over a three-year period, the ten young people on the course will learn how to handle customers professionally, address their needs, effectively advise them by telephone and offer them the best quality service even in difficult situations.
Two hundred and ten (91%) out of a total of 231 media specialists, IT technicians, salespeople, retail specialists and telematics technicians successfully completed their apprenticeships in summer 2011. Over 45% of all newly-qualified apprentices found a position in the company after completing their apprenticeship. Swisscom also launched various measures aimed at developing young talent within the company, in particular for apprentices in the area of ICT.
The company's primary aim is to support the personal development of its apprentices and the training model which is geared towards independence and personal accountability helps achieve this goal. In this way, apprentices play an active role in devising their own training schedules. They can apply for various practical assignments within the company, learn from experienced colleagues and set up their own training plans individually according to their specialist areas.

Health and safety in the workplace

Employee health

Having healthy and motivated employees is very important to Swisscom. In line with its strategy, Swisscom therefore makes targeted investments in initiatives and programmes for Occupational Health Management (OHM). The Board of Directors, Group Executive Board and management staff have all contributed to the success of OHM, which was launched in 2010. For example, the number of days of absence was reduced by over 11,000 in 2010 compared to the previous year. In 2011 the number of days of absence was reduced by a further 1.7% (2,000 days). The absence rate therefore fell from 3.24% in 2009 to 2.92% in 2010 and 2.80% in 2011. The aim is to reduce it to 2.09% by 2015.
On the initiative of the OHM, the menus in the staff restaurants were extended in the year under review to include a more healthy and varied range of snacks.
Through its involvement in the ConCerto project in collaboration with the Federal Social Insurance Office, Swisscom has provided important impetus to ensure collaboration with the social insurance agencies is coordinated as effectively as possible. ConCerto aims to accelerate and facilitate the professional reintegration of individuals after suffering health problems. Swisscom entered into partnerships with selected integration partners in the year under review and now offers trainee positions and internships for people with health problems. If someone is hired to fill one of these integration positions, OHM and, if necessary, social insurance agencies such as the Federal Disability Insurance office (IV) are on hand to provide advice and support. In 2011, twelve placements were made in these positions.
Swisscom aims to extend the focus of occupational health management to include prevention (Health Promoting Leadership) to promote and maintain employee health. This is being carried out as part of a research and development project in collaboration with the University of Applied Sciences Northwestern Switzerland.

Occupational safety

As set out in the collective employment agreement (CEA), Swisscom undertakes to protect the personal integrity of its employees and provide an appropriate level of health protection according to ergonomic principles. In terms of ergonomics (design of workstations and working environment, health protection/health care, prevention of work-related accidents and occupational illnesses, workplace safety), the CEA grants employees the right of co-determination and unions the right of information. Various committees coordinate and organise training courses, initiatives and measures aimed at promoting safety and health protection in the workplace. In areas where workplace safety is particularly important for employees, Swisscom operates an integrated, process-based management system and is ISO 9001:2000 certified.
The criteria, processes and tools for regulating and implementing workplace safety and health protection are integrated in a quality environmental and safety management system. For example, Swisscom's subsidiary cablex follows Guideline 6508 of the Federal Coordination Commission for Occupational Safety (FCOS), which covers the ten elements of the operational safety system and ensures the measures necessary for safeguarding the health and safety of employees involved in installing infrastructure.

Move! and the Swisscom Games

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

Diversity but equal pay

Diversity@Swisscom

Men and women from 88 countries and all kinds of cultural backgrounds, of widely varying ages, different religions and different sexual orientations work at Swisscom. This diversity encourages creativity and innovation and Swisscom is therefore keen to promote it. The aim is for employees to learn from each other about how to tackle challenges in a variety of ways. As such, dialogue is central to diversity. Swisscom organises workshops, training courses, talks and other activities aimed at encouraging intercultural exchange. As an organisation, Swisscom aims to be open – to embrace diversity, otherness, and new, forward-looking thinking.

A key topic in diversity management is mixed leadership. Swisscom's aim is to increase the percentage of women in management roles from 11.7% currently to 20% in the medium term. The Group Executive Board supports this goal and has entrusted the whole organisation with the task of achieving it. In the area of management development, Swisscom focuses on recognising female talent within the company early on and developing it. In terms of external talent, Swisscom takes care to ensure that its recruitment partners support its aim of increasing the percentage of women in management roles.

See **www.swisscom.ch/GRI-2011/en**

The newly founded internal "Swisscom Network of Leading Women" is designed to give female managers already working at Swisscom increased visibility. It is also a platform which allows female managers from within Swisscom to get to know each other better and to work together to devise measures to make Swisscom an even more attractive employer for women.

Age management

Swisscom applies age management strategies and measures so as to address the demographic trend in good time and seeks innovative ways of allowing older employees to continue in active employment. Because the average age of employees, respectively of the wider population and therefore also of Swisscom's customers is getting higher all the time, the company set up the so-called "BestAge projects". These projects focus on meeting the needs of older employees and older customers. The measures and programmes implemented in call centres and shops accommodate these needs, whereby older customers are served and advised by older employees. Another initiative is in-house consulting, where older senior managers offer advice on internal mandates, provide coaching and allow others to benefit from their experience through involvement in projects.

Equal pay

Swisscom takes great care to ensure equal pay for men and women. The salary system is structured in such a way as to award equal pay for equivalent duties, responsibilities and performance. To this end, the individual functions are assigned to function levels according to their requirements and a salary band is defined for each function level. This stipulates the remuneration range for equivalent duties and responsibility. Pay is determined within this range based on the individual employee's performance and experience. As part of its salary review, Swisscom grants employees who have performed better and are lower down the salary band a pay rise beyond the usual salary adjustments. This allows any existing wage disparities to be evened out on an ongoing basis. When conducting the salary review, Swisscom also checks whether there are any pay inequalities between men and women within individual organisational units and corrects them in a targeted manner.

Swisscom also uses the federal government's equal pay tool (Logib) to conduct periodic reviews of its salary structures to ascertain whether disparities exist between men's and women's pay. Previous reviews have revealed only minor pay discrepancies, well under the tolerance threshold of 5%.

In 2011 Swisscom joined the Equal Pay Dialogue, an initiative set up by the employer and employee umbrella organisations in association with the federal government to review equal pay. The positive outcome of the Equal Pay Dialogue confirms that Swisscom salaries conform to the principle of equal pay.

Employee satisfaction

Swisscom conducts a comprehensive survey every two years to gauge employee satisfaction. The most recent survey was conducted in May 2010 and the response rate was 74.3%. Of particular note was the high level of job satisfaction and the above-average level of employee commitment. It is important to ensure that employees understand why financial resources are used in a particular way and to demonstrate the rationale behind large-scale investments in the future and the associated outlooks. This special task is currently being accorded even greater attention by management at all levels. Managers within the individual divisions are also working on specific projects aimed at strengthening management in Swisscom's dynamic environment and promoting trust and personal responsibility throughout the organisation. The impact of these measures will be revealed in the next survey, to be conducted in early summer 2012.

Memberships and partnerships

Swisscom is a member of various national and international institutions which deal with different human resources issues. These include:

- **The International Institute of Management in Technology in Fribourg (iimt),** which runs executive programmes and carries out research in the fields of ICT and utility management.
- **The Swiss Employers' Association in Zurich,** which works to ensure social stability and a constructive social partnership.
- **The Corporate Leadership Council in London,** which conducts research into best practice in corporate management.
- **Generation CEO in Germany,** which is an initiative promoting female management talent.
- **SWONET in Rombach:** The "Swiss Women's Network" Internet portal, which is a network of Swiss women's organisations.

Employees in figures

	Unit	2009	2009 in %	2010	2010 in %	2011	2011 in %
Personnel structure in Switzerland							
Employees in FTE according to GRI scope	FTE/%	15,995	100.0%	16,064	100.0%	16,628	100.0%
Thereof employees included in the following analysis	FTE/%	**15,641**	**97.8%**	**15,616**	**97.2%**	**16,398**	**98.6%**
Employees with full-time employment	FTE/%	13,571	86.8%	13,500	86.4%	14,208	86.6%
Employees with part-time employment	FTE/%	2,070	13.2%	2,116	13.6%	2,190	13.4%
Employees with unlimited employment	FTE/%	15,538	99.3%	15,478	99.1%	16,342	99.7%
Employees with limited employment	FTE/%	103	0.7%	138	0.9%	56	0.3%
Female employees	FTE/%	4,435	28.4%	4,357	27.9%	4,546	27.7%
Male employees	FTE/%	11,206	71.6%	11,259	72.1%	11,852	72.3%
Employees up to 30 years of age	FTE/%	2,589	16.6%	2,531	16.2%	2,754	16.8%
Employees between 30 and 50 years of age	FTE/%	9,885	63.2%	9,798	62.8%	9,990	61.0%
Employees over 50 years of age	FTE/%	3,167	20.2%	3,287	21.0%	3,654	22.3%
Average age	Years	41.0	n/a	41.2	n/a	41.3	n/a
Female employees in top management	FTE/%	12	9.8%	15	12.0%	15	11.8%
Male employees in top management	FTE/%	110	90.2%	110	88.0%	112	88.2%
Female employees in middle management	FTE/%	207	10.0%	212	9.7%	242	10.4%
Male employees in middle management	FTE/%	1,868	90.0%	1,968	90.3%	2,078	89.6%
Temporary employees	FTE	1,217	7.8%	1,415	9.1%	1,520	9.3%
Apprenticeship positions	number of jobs	840	5.4%	805	5.2%	800	4.9%
Personnel structure in Switzerland							
Number of performance dialogues held	FTE	13,481	86.2%	14,137	90.5%	16,201	98.8%
Fluctuation in Switzerland							
Leavings/fluctuation women	FTE/%	575	13.0%	551	12.6%	534	11.7%
Leavings/fluctuation men	FTE/%	1,177	10.5%	1,179	10.5%	1,421	12.0%
Fluctuation rate total	FTE/%	1,751	11.2%	1,730	11.1%	1,955	11.9%
Leavings up to 30 years of age	FTE/%	411	23.5%	419	24.2%	464	23.7%
Leavings up to 50 years of age	FTE/%	969	55.3%	905	52.3%	1,119	57.2%
Leavings from 30 to 50 years of age	FTE/%	371	21.2%	406	23.5%	371	19.0%
Absences due to accidents and sickness in Switzerland							
Days lost due to work-related sickness	number of days	580	0.015%	377	0.010%	5	–
Days lost due to sickness	number of days	111,731	2.79%	97,856	2.46%	98,916	2.39%
Days lost due to work-related accidents	number of days	2,821	0.07%	2,752	0.07%	2,252	0.05%
Days lost due to non-work-related accidents	number of days	15,353	0.38%	17,199	0.42%	15,037	0.36%
Days lost total	number of days	130,475	3.26%	118,184	2.92%	116,210	2.80%
Days lost per FTE	number of days/FTE	8.3	n/a	7.6	n/a	7.1	n/a

Social and cultural commitments

Swisscom historically has close ties with Switzerland and the local population, and has long been committed to its Swiss roots. The company endeavours to ensure that everyone can benefit from the latest technologies and it supports non-profit organisations by providing services and expertise.

The focus of Swisscom's long-term sponsorship activities is on winter sports and a wide range of cultural events. The sponsoring activities are spread across all regions of Switzerland and appeal to a wide range of target groups. Swisscom's sponsorship partners are obliged to report on their activities and results.

Festivals, museum, foundation

Swisscom sponsors renowned and popular open-air music festivals and the AVO Session in Basel. It also supports the medium of film in its capacity as the principal sponsor of the Locarno International Film Festival, and as communications partner of selected film distribution companies for the premieres of new films. Swisscom works with Pro Senectute to organise dancing events in public places for senior citizens who are keen dancers.
The company is also a member of the Board of Trustees of the Museum of Communication in Berne, which organises exhibitions on communications past, present and future. Visitor surveys show that the museum is highly regarded as a family-oriented and interactive museum. For example, the temporary exhibition "Wo bisch? Handy macht mobil" ("Where are you? Mobility thanks to mobiles"), which opened in October 2010, welcomed 27,851 visitors in the space of eight months. Swisscom is sponsor of the Sasso San Gottardo Foundation and is principal sponsor of the exhibition due to open in 2012 covering the following topics: mobility and habitat, safety, water, energy, weather and climate.

Winter sports

As a leading partner of Swiss Olympic and partner to the Swiss Paralympic Committee, Swisscom supports various competitive sports. It also sponsors the young talent programme "Golden Talents", which allows Swisscom specialist dealers to support up-and-coming local athletes, in association with Swiss Olympic. Thirty top athletes from across Switzerland each receive CHF 1,000 a month under the scheme. Swisscom's sporting sponsorship focuses on winter sports. As principal sponsor of Swiss Ski, it helps Swiss winter athletes reach peak performance in downhill and Nordic skiing, snowboarding, freestyle and telemark skiing. As part of its partnership with Swiss Ski, 20% of Swisscom's annual sponsorship fees go towards fostering the development of junior talents. Swisscom has also developed a downhill training programme for junior talents, the key focus of which is the selection and development of young talents and the creation of training opportunities, allowing the Swisscom Junior Alpine Ski Team to prepare for the Junior World Championships. As official telecoms partner of all Swiss FIS World Cup events, Swisscom boosts Switzerland's status as both a venue for sporting events and a haven for winter sports.

See **www.snowfriends.ch**

Economic development

Swisscom promotes entrepreneurship in Switzerland. Through its partnership with the Swiss Venture Club and the Institute for Young Entrepreneurs, it also supports new start-ups. Swisscom is also involved in the following major economic and business congresses: the Swiss Economic Forum, Swiss Innovation Forum and Swiss SME Day.

Corporate giving und people in need

See www.swiss-solidarity.ch

See www.143.ch

Swisscom's Corporate Giving strategy is an opportunity for Swisscom to document and demonstrate its close ties to Switzerland. The company continued its long-standing partnerships with Swiss Solidarity (Glückskette) and 143 "The Samaritans" in the reporting year. In 2011 Swiss Solidarity collected a total of over CHF 28 million for the victims of the famine in Africa. Swisscom supports Swiss Solidarity's collection activities through the provision of communications technology.
143 The Samaritans helps vulnerable and distressed people 24 hours a day, seven days a week. Over 600 staff, who are mainly volunteers, take well over 150,000 phone calls a year, offering a helping hand to callers who find themselves in desperate situations. For some time now, callers have been able to contact 143 The Samaritans via channels other than phone, with enquiries received via e-mail and instant messenger on the rise. Swisscom makes a significant contribution to 143 The Samaritans by providing financial support and specialist services, supporting its central secretariat and 14 regional offices.
From 12 to 17 December 2011, Swisscom sponsored the "Jeder Rappen zählt" ("Every Cent Counts") fundraising campaign as telecoms partner. Together with DRS 3, SF and Swiss Solidarity, "Every Cent Counts" raised money for mothers in need. During the week of the campaign, Swisscom provided the telecommunications infrastructure in front of the Culture and Convention Centre Lucerne (KKL Luzern), free of charge, thereby helping the project to run smoothly. Over 94 Swisscom apprentices answered calls from donors every day between 7 a.m. and 10 p.m. In addition, as part of the "Jedes Handy zählt" ("Every Mobile Counts") campaign, Swisscom collected old mobile phones which were donated to "Every Cent Counts". The mobile phones collected will be resold in countries with limited purchasing power, enabling the people there to access mobile communication. All net proceeds from the sale go to "Every Cent Counts".

Climate Pioneers initiative

The Climate Pioneers initiative offers schoolchildren from pre-school to secondary school the opportunity to realise their own climate protection projects. Swisscom launched the Climate Pioneers project together with Solar Impulse and the climate protection organisation myclimate. Swisscom is committed to encouraging children and young people to get actively involved and to make an important contribution to climate protection.
The Climate Pioneers initiative has two prominent supporters, Bertrand Piccard and André Borschberg. They plan to circumnavigate the globe in their solar aircraft Solar Impulse in 2014 to raise the profile of renewable energy.
In 2011, 1,500 climate pioneers implemented a total of 100 climate projects, the majority of which were in German-speaking Switzerland. Over the next twelve months the initiative will implement its first projects in French-speaking Switzerland.

See www.klimapioniere.ch

Solar Impulse

André Borschberg and Bertrand Piccard's Solar Impulse project is committed to raising the profile of energy efficiency, clean tech and innovation, which is why Swisscom has been supporting it as national telecoms partner since 2009.
As part of the partnership, Swisscom has developed an ultra-light, energy-saving communication solution to allow the pilot to communicate with the crew on the ground at all times as the plane circumnavigates the Earth. The Solar Impulse plane embarked on its first flight outside Switzerland in 2011. It was the first time that all communications between the pilot/plane and the ground crew had been carried out using Swisscom's communication solution.

Innovation and development

Swisscom's innovation process is based on exploration, incubation and implementation. Through the elements of this process Swisscom identifies future trends, selects the most promising ones and prepares them for market.

The goal of Swisscom Innovation is to work on topics that are relevant to the future, tap new areas of growth, identify future customer needs and avoid unnecessary costs. The segregation of Swisscom Innovation into three new divisions, Infrastructure Innovation, Service Innovation and New Business Fields and Prospects will help it to respond to a rapidly changing market environment in the best way possible and pursue themes in a more targeted way than previously.

Innovation process

Research

Swisscom bases its research efforts on the following six long-term issues:

- **The future business model of the telecoms industry:** Thanks to its know-how and expertise as a telecoms company, Swisscom is keen to offer new support services and to establish itself as an important link in the Internet service value chain. Acting as an interface between Internet providers and end customers, Swisscom offers tools for identity, data and security management.
- **The future development of broadband networks:** The increasing demand for bandwidth and customers' desire to be online anytime and anywhere are posing new challenges for telecoms infrastructure. Swisscom presents future-oriented solutions to satisfy customer needs using cloud-based services.
- **Sustainable network and IT infrastructure:** Awareness of sustainability is growing all the time. Furthermore, future energy price trends could place a heavy strain on ICT providers' budgets. Swisscom aims to increase energy efficiency and promote Green ICT services in order to reduce costs and set itself apart from the competition.
- **Future TV and entertainment trends:** The technical possibilities in the TV and entertainment segment are subject to rapid change, while new global as well as local service providers are entering the market. Swisscom tracks technological and ecosystem trends and develops new solutions to ensure its TV and entertainment offerings remain competitive.
- **Developments in collaboration and communication services:** A world of work in a state of flux, which increasingly relies on teams in different locations working together, requires innovative services. Swisscom analyses products, for example in the field of video communication and collaboration tools, in order to meet customers' changing needs.
- **Improving customer interaction:** Swisscom seeks innovative and convincing ways of improving and personalising the customer experience, whether in Shops, on the Internet or in its call centres.

Incubation and implementation

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

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

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

Green Touch project

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

See **www.greentouch.org**

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

Successes

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

- **Mobile ID:** Mobile ID enables secure authentication for business applications such as remote access via mobile phone. A new function integrated in the SIM card eliminates the need to use additional devices or type in complicated codes. With Mobile ID, businesses have a secure, user-friendly means of authentication provided as a managed service that requires no software to be installed on the mobile phone.
- **Machine-to-Machine (M2M):** Machine-to-Machine (M2M) communication is growing rapidly. It is estimated that there will soon be more machines communicating directly with each other than there are mobile phone users. This "Internet of Things" will help to simplify processes, reduce costs and make more sustainable use of scarce resources. Swisscom wants to drive communication between devices more strongly and has therefore established a new department to support clients at every stage, from the project idea to operation.

Certificates and awards

Swisscom awarded good evaluations by independent rating agencies in 2011.

External evaluations of Swisscom

See www.swisscom.ch/ratings/en

External experts and institutions, or rating agencies, regularly evaluate Swisscom's services. Every agency has its own methods and evaluation criteria. Swisscom received sound ratings from every agency, and consistently achieves good results for its commitment in the area of sustainability. In 2011 the company further improved its ratings, which are partly used to measure how effectively the CR strategy is being implemented.

2011 rating results

- **Ethisphere most ethical companies:** 1st place in the telecoms category
- **Bilanz eco rating 2011:** 1st place
- **Newsweek Green Ranking 2011:** 10th place worldwide
- **Carbon Disclosure Project:** 85 points
- **Verdantix:** Sustainable Telecoms Europe: among the top 5 in Europe
- **Dow Jones Sustainability Index:** Silver Class

Other relevant awards received in 2011

- Swiss Ethical Award for Commitment to the Promotion of Media Skills
- ecosport.ch-Award for the sustainable implementation of the Swisscom Games
- Gigaton Award in the telecommunications category for achievements in the area of Green ICT

Information on reporting according to GRI guidelines

Swisscom reports about its commitments and activities in the area of sustainability in accordance with the requirements of the Global Reporting Initiative (GRI).

Scope of the report

Sustainability reporting according to the GRI is limited to Swisscom AG and all subsidiaries domiciled in Switzerland which are fully consolidated in accordance with International Financial Reporting Standards (IFRS). Acquired subsidiaries are included from the date of acquisition, and disposals up to the date of disposal. Group companies domiciled abroad and investments in associates and joint ventures are not included in the scope. The main foreign shareholdings are Fastweb and the Swisscom Hospitality Group. The closely related foundations comPlan (pension fund) as well as sovis are also not included in the scope. An illustration of the scope of the GRI including the legal structure is provided in the section on the Group structure and organisation.
Group directives governing the various GRI sustainability topics are issued to Swisscom's subsidiaries, and specialist guidelines and specifications have been introduced on topics such as data centre cooling and the decommissioning of transmitter stations.
Employee indicators, in particular with respect to personnel structure and fluctuation, cover 99% of FTEs, and with respect to absences due to accident and illness more than 95% of FTEs.
Environmental indicators, in particular with respect to energy, water/waste water, emissions and waste, cover virtually 100% of FTEs in Switzerland. The report includes all buildings managed by Swisscom Real Estate in Switzerland as well as the vehicle fleet managed by Swisscom's Fleet Travel Management in Switzerland. One additional subsidiary (Swisscom IT Services Finance AG) which is not managed by Swisscom Real Estate has been integrated in the data compilation system for electricity consumption. The electricity consumption of this company is calculated on the basis of the electricity bill and not the electricity meters.
For the 2011 report the electricity consumption data were measured for the first three quarters and projected for the year as a whole.

See Report **page 231**

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

Guidelines and application level

The scope and content of the sustainability report are based on the currently applicable guidelines of the Global Reporting Initiative (GRI 3.0). GRI is the world's leading standard for corporate sustainability reporting. Swisscom is of the opinion that the 2011 Corporate Responsibility Report complies with application level A+ of GRI guideline 3.0.
This has been reviewed and confirmed by the Société Générale de Surveillance (SGS) AG.

CERTIFICATION

SGS CERTIFICATION of the Swisscom Ltd 2011 GRI Sustainability Report

SCOPE

SGS was commissioned by Swisscom to conduct an independent assurance of the GRI-based disclosure on sustainability in 2011. Our assurance scope included the GRI disclosure obligations and figures in accordance with the GRI Index published at www.swisscom.com/GRI-2011/en. The scope of the assurance, based on the SGS Sustainability Report Assurance methodology, included all texts and 2011 data in accompanying tables contained in the printed Annual Report 2011 and referenced information on the webpage of Swisscom as quoted in the GRI index. The assurance process did not consider any data from previous years.

CONTENT

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

CERTIFIER INDEPENDENCE AND COMPETENCIES

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

METHODOLOGY

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

OPINION

The statements in the report refer to the system threshold disclosed (Group companies based in Switzerland). On the basis of the above methodology, we did not detect any instances from which we would have to conclude that the information and data disclosed by Swisscom Ltd in accordance with the GRI Index 2011 may be incorrect. The information and data disclosed represent, to our mind, a fair and balanced picture of the sustainability efforts made by Swisscom in 2011. The estimates stated in the report are justifiable; the implementation of the GRI-relevant instructions was carried out at those parties involved, where Swisscom regarded them to be significant or feasible. Optimisation potentials were mainly detected in the target setting process and in the consistent and comprehensive controlling of the instructions' implementation. They were added to the list of objectives.

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

SIGNED FOR AND ON BEHALF OF SGS

Jakob Koster, Lead Auditor

Elvira Bieri, Lead Auditor

Zurich, 27 January 2012

www.SGS.COM

Corporate Governance and Remuneration Report

Swisscom is committed to progressive corporate governance in every respect.

Company structure

Swisscom Switzerland

Fastweb

Swisscom IT Services

Swisscom Participations

Other operating segments

Group Headquarters

Subsidiaries

Associates

Corporate Governance

Remuneration report

Corporate Governance

Corporate Governance is a fundamental component of Swisscom's corporate policy and is based on transparency and clearly-defined responsibilities. In this manner, Swisscom complies with the guidelines of the SIX Swiss Exchange, the provisions of the Swiss Code of Obligations and takes account of the recommendations of economie-suisse on the Swiss Code of Best Practice for Corporate Governance.

Principles

Transparency in financial reporting, as well as clearly assigned responsibilities governing interactions with shareholders, the Board of Directors, the Group Executive Board and Group companies, are the cornerstones of Swisscom's corporate governance policy.

As a company listed on the SIX Swiss Exchange, Swisscom complies with the provisions of the Directive on Information relating to Corporate Governance issued by the SIX Swiss Exchange, as well as Arts. 663b^{bis} and 663c Para. 3 of the Swiss Code of Obligations, and takes account of the recommendations of the Swiss Code of Best Practice for Corporate Governance issued by economiesuisse, the umbrella organisation representing Swiss business.

Swisscom's principles and rules on Corporate Governance are set out primarily in the company's Articles of Incorporation, Organisational Rules and the rules of procedure of the Board of Directors' committees. These documents are regularly reviewed and revised when necessary and can be viewed online at www.swisscom.ch/basicprinciples. Of particular importance is the Code of Conduct, approved by the Board of Directors, and containing 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 rules, demonstrate integrity and report any violations of the Code of Conduct. The Code of Conduct can be viewed online at www.swisscom.ch/basicprinciples, and revised or superseded versions can be accessed in the Download Archive.

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

1 Corporate structure and shareholders

1.1 Group structure

1.1.1 Operational Group structure

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

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

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

1.1.2 Listed companies

Swisscom Ltd, a company governed by Swiss law and headquartered in Ittigen (canton of Berne, Switzerland), is listed in the Main Standard of the SIX Swiss Exchange (Securities No: 874251; ISIN Code: CH0008742519; Ticker Symbol: SCMN). Trading in the United States is conducted over-the-counter (OTC) as a Level 1 programme (Symbol: SCMWY; ISIN No.: CH008742519; CUSIP for ADR: 871013108). At 31 December 2011, Swisscom Ltd had a stock market capitalisation of CHF 18,436 million.

The shares of Fastweb S.p.A., headquartered in Milan, Italy, were delisted from the Borsa Italiana following the full takeover by Swisscom on 22 March 2011.

1.2 Disclosure notifications of significant shareholders

Information on significant shareholders must be made available if any disclosure notifications pursuant to Article 20 of the Federal Act on Stock Exchanges and Securities Trading are made during the financial year. There is a duty to disclose shareholdings where a person or group subject to the disclosure obligation reaches, exceeds or falls below 3, 5, 10, 15, 20, 25, $33^{1/3}$, 50 or $66^{2/3}$ per cent of the voting rights of Swisscom Ltd.

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

1.3 Cross-shareholdings

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

2 Capital structure

2.1 Capital

On 31 December 2011, the share capital of Swisscom Ltd amounted to CHF 51,801,943, divided into registered shares with a nominal value of CHF 1 per share. The shares are fully paid-up.

2.2 Authorised and conditional capital

There is no authorised or conditional share capital.

2.3 Changes in capital

Changes in shareholders' equity of Swisscom Ltd in the stand-alone financial statements under commercial law in the years 2009 to 2011:

In CHF million	Share capital	Capital surplus reserves	Reserve for treasury shares	Retained earnings	Total equity
Balance at 1 January 2009	**53**	**255**	**738**	**3,699**	**4,745**
Net income	–	–	–	779	779
Dividends paid	–	–	–	(984)	(984)
Share capital reduction	(1)	–	(737)	182	(556)
Balance at 31 December 2009	**52**	**255**	**1**	**3,676**	**3,984**
Net income	–	–	–	2,201	2,201
Dividends paid	–	–	–	(1,036)	(1,036)
Balance at 31 December 2010	**52**	**255**	**1**	**4,841**	**5,149**
Net income	–	–	–	474	474
Dividends paid	–	(234)	–	(854)	(1,088)
Proceeds from treasury shares	–	–	(1)	1	–
Balance at 31 December 2011	**52**	**21**	**–**	**4,462**	**4,535**

On 21 April 2009, the Annual General Meeting approved a dividend of CHF 19 per share for the 2008 financial year. At the same time it voted to reduce the share capital by CHF 1,639,057 from CHF 53,441,000 to CHF 51,801,943, by cancelling the remainder of the shares acquired under the 2006 share buy-back programme.
The Annual General Meeting of 27 April 2010 approved an ordinary dividend of CHF 20 per share. On 31 December 2010, capital contribution reserves of Swisscom Ltd amounted to CHF 487 million, of which CHF 255 million were reported under general reserves and CHF 232 million under retained earnings. The Annual General Meeting of 20 April 2011 approved the conversion of CHF 466 million of capital contribution reserves to free reserves and the payment of these together with other free reserves of CHF 622 million as a dividend. It set the dividend for the 2010 financial year at CHF 21 per share, with CHF 9 paid from capital contribution reserves and CHF 12 from free reserves.

2.4 Shares, participation certificates

Each registered share of Swisscom Ltd has a par value of CHF 1. Each share entitles the holder to one vote. Voting rights can only be exercised if the shareholder has been entered with voting rights in the share register of Swisscom Ltd. All registered shares are eligible for a dividend, with the exception of treasury shares held by Swisscom Ltd. There are no preferential rights. For further details, please refer to the end of the paragraph 6 “Shareholders’ participation rights”.
Registered shares of Swisscom Ltd are not issued in certificate form, but instead are held as book-entry securities in the holdings of SIX SIS AG, up to a maximum limit determined by the federal government. Shareholders may at any time request confirmation of the registered shares they hold. However, they have no right to request the printing and delivery of certificates for registered shares (registered shares with no right to printed certificates).
Swisscom Ltd has not issued any participation certificates.

2.5 Profit-sharing certificates

Swisscom Ltd has not issued any profit-sharing certificates.

2.6 Limitations on transferability and nominee registrations

Swisscom shares are freely transferable, and the voting rights of the shares registered in the share register in accordance with the Articles of Incorporation are not subject to any special restrictions. Swisscom has issued special regulations governing the registration of trustees and nominees in the share register. To facilitate tradability of the company’s shares on the stock exchange, the Articles of Incorporation allow the Board of Directors, by means of regulations or agreements, to permit the fiduciary entry of registered shares with voting rights which exceed the percentage restriction of 5% by trustees, provided the latter disclose their trustee capacity. In addition, trustees or nominees must be subject to supervision by a banking or financial market supervisory authority or otherwise provide the necessary assurances of proper business conduct, and must act for the account of one or more unrelated parties. They must also be able to provide evidence of the names, addresses and holdings of the beneficial owners of the shares. In accordance with this provision in the Articles of Incorporation, which can be revised with an absolute majority of the voting shares cast, the Board of Directors has issued regulations governing the entry of trustees and nominees in the Swisscom share register. The entry of trustees and nominees as shareholders with voting rights is subject to application and the conclusion of an agreement specifying the entry restrictions and disclosure obligations of the trustee or nominee. In particular, each trustee or nominee undertakes, within the limit of 5%, to request entry as a shareholder with voting rights for the account of an individual beneficial owner for no more than 0.5% of the registered share capital of Swisscom Ltd entered in the commercial register.
No exceptions for the fiduciary entry of registered shares with voting rights above the aforementioned limit were granted in the 2011 financial year.

2.7 Debenture bonds, convertible bonds and options

In 2007 Swisscom placed debenture bonds on the Swiss capital market for the first time with a value of CHF 1,500 million. The first tranche, issued on 19 July 2007, included CHF 550 million with a coupon of 3.50% and a term of six years, and CHF 350 million with a coupon of 3.75% and a term of ten years. The second tranche, issued on 22 October 2007, comprised CHF 350 million with a coupon of 3.25% and a term of three years, and a CHF 250 million top-up of the ten-year debenture bond issued in July 2007 with a coupon of 3.75%. On 17 September 2008, Swisscom issued a further debenture bond of CHF 500 million (basic tranche with top-up option) with a coupon of 4.00% and a term of seven years. In 2009, Swisscom issued two further debenture bonds worth a total of CHF 2,750 million. The first, worth CHF 1,250 million, was issued on 8 April 2009 with a coupon of 3.50% and a term of five years. The second, worth CHF 1,500 million (basic tranche with top-up option), was issued on 14 September 2009 with a coupon of 3.25% and a term of nine years. On 31 August 2010 Swisscom issued debenture bonds totalling CHF 750 million. CHF 250 million were issued for two years with a coupon of 0.75% and CHF 500 million for twelve years with a coupon of 2.625%. Investors are entitled to sell the bonds back to Swisscom if a shareholder other than the Swiss Confederation holds more than 50% of Swisscom's shares and at the same time Swisscom's rating falls below the lowest investment-grade level given by a recognised rating agency (BBB-/Baa3 or comparable level). A debenture bond of CHF 350 million was repaid on the due date in 2010.

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The debenture bonds are listed in Note 5 to the financial statements of Swisscom Ltd. The Swisscom Ltd equity participation scheme is described in Note 11 to the consolidated financial statements.

3 Board of Directors

3.1 Members of the Board of Directors

The Board of Directors of Swisscom Ltd comprises nine members, none of whom holds or has held an executive role within the Swisscom Group in any of the three business years prior to the period under review. The Board members have no significant commercial links with Swisscom Ltd or the Swisscom Group. The Swiss Confederation, represented on the Board of Directors by Hans Werder, is the majority shareholder. Customer and supplier relationships exist between the Swiss Confederation and Swisscom. Details of these are given in Note 37 to the consolidated financial statements.

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On 1 September 2011 Hansueli Loosli took over from Anton Scherrer as Chairman of the Board of Directors. In addition, at the Annual General Meeting on 20 April 2011 Theophil Schlatter was elected to the Board. At the same time Hans Werder replaced the outgoing representative of the Swiss Confederation, Felix Rosenberg.
An overview of the composition of the Board of Directors at 31 December 2011, including the functions of each member within the Board, the year they were first elected and their remaining tenure, is given in the table below.

Name	Year of birth	Function	Initial year of office	Appointed until
Hansueli Loosli [1, 2, 3, 4]	1955	Chairman	2009	2013
Hugo Gerber [2]	1955	Member, representative of the employees	2006	2012
Michel Gobet [1]	1954	Member, representative of the employees	2003	2013
Torsten G. Kreindl [1]	1963	Member	2003	2013
Catherine Mühlemann [1]	1966	Member	2006	2012
Richard Roy [2, 3]	1955	Deputy Chairman	2003	2013
Theophil Schlatter [2]	1951	Member	2011	2013
Othmar Vock [2, 3]	1943	Member	2005	2012
Hans Werder [1, 3, 5]	1946	Member, representative of the Confederation	2011	2013

[1] Member of the Finance Committee.
[2] Member of the Audit Committee.
[3] Member of the Compensation Committee.
[4] Since 21 April 2009 Member, since 1 September 2011 Chairman.
[5] Designated by the Swiss Confederation.

3.2 Education, professional activities and affiliations

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

Board of Directors
from left to right

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

Hansueli Loosli
Swiss citizen
Education: Commercial apprenticeship; Swiss Certified Accountant and Controller
Career history: 1982–1985 Controller, Deputy Director, Mövenpick Produktions AG, Adliswil; 1985–1992 latterly Managing Director, Waro AG, Volketswil; 1992–1996 Director of Non-Food Product Procurement, Coop Switzerland, Wangen; 1992–1997 Managing Director, Coop Zurich, Zurich; 1997–2000 Chairman of the Executive Committee and Coop Group Executive Committee, Coop Switzerland, Basle; January 2001–August 2011 Chief Executive Officer and Chairman of the Executive Committee, Coop Genossenschaft, Basle
Other mandates: Since September 2011 member of the Executive Committee, economiesuisse; since September 2011 Chairman of the Board of Directors, Coop Genossenschaft, Basle; Chairman of the Board of Directors, Transgourmet Holding AG, Basel; Chairman of the Board of Directors, Bell AG, Basel; Chairman of the Board of Directors, Coop Mineraloel AG, Allschwil

Hugo Gerber
Swiss citizen
Education: Diploma in postal services; IMAKA management diploma; diploma in personnel & organisational development, Solothurn University of Applied Sciences, Northwestern Switzerland
Career history: 1986–1990 General Secretary Swiss PTT; 1991–1999 General Secretary VGCV; 2000–2003 General Secretary of the Transfair union; 2003–2008 Chairman of the Transfair union; since 2009 independent consultant
Other mandates: Member of SUVA Board of Directors; member of the Publica federal pensions commission; Vice-President of the support fund for federal employees; President of the Forum Politique Suisse; RUAG Pension Fund Board of Trustees; member of the Managing Committee of Swiss Travel Fund Cooperative (Reka); member of the Board of Directors of Worklink AG; until December 2011 delegate of the Genossenschaft KPT/CPT Versicherungen until December 2011; since December 2011 member of the Board of Directors, KPT Versicherungen AG

Michel Gobet
Swiss citizen
Education: Degree in history
Career history: General Secretary and Deputy General Secretary of the PTT Union; since 1999 General Secretary of the Communication union
Other mandates: Member of Union Network International; member of the UNI Europa ICTS Steering Group; member of the Board of Directors, Swiss Post

Torsten G. Kreindl
Austrian citizen
Education: Doctorate in industrial engineering (Dr. techn.)
Career history: Chemie Holding AG; W. L. Gore & Associates Inc.; member of the Management Board, Booz Allen & Hamilton, Germany; 1996–1999 CEO of Broadband Cable Business, Deutsche Telekom, and Chief Executive Officer, MSG Media Services; 1999–2005 partner, Copan Inc.; since 2005 partner in Grazia Group Equity GmbH, Stuttgart, Germany
Other mandates: Consultant to Pictet Funds, Geneva; member of the Board of Directors of XConnect Networks, London, UK

Catherine Mühlemann
Swiss citizen
Education: Lic. phil I; Swiss Certified PR Consultant
Career history: 1994–1997 Head of Media Research, Swiss Television DRS; 1997–1999 Head of research and program strategy, SF1 and SF2; 1999–2001 Programme Director, TV3; 2001–2003 Managing Director/SVP, MTV Central; 2003–2005 Managing Director/SVP, MTV Central & Emerging Markets; 2005–2008 Managing Director/EVP, MTV Central & Emerging Markets and Viva Media AG (Viacom); since 2008 partner in Andmann Media Holding GmbH, Baar
Other mandates: Member of the Berlin Board; member of the Foundation for the Future of Berlin; member of the Supervisory Board, Messe Berlin; since October 2011 member of the Supervisory Board, Kabel Deutschland; member of the Board, Switzerland Tourism; since May 2011 member of the Advisory Board, Luxodo

Richard Roy

German citizen

Education: Degree in engineering (University of Applied Sciences)

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

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

Theophil Schlatter

Swiss citizen

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

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

Other mandates: Since April 2011 member of the Board of Directors, Implenia AG; since May 2011 Chairman of the Board of Directors, PEKAM AG; since June 2011 member of the Board of Directors, Swiss Cement-Industry-Corporation

Othmar Vock

Swiss citizen

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

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

Other mandates: Member of the Board of Directors, Ivoclar-Vivadent, Schaan, Principality of Liechtenstein; until April 2011 member of the Board of Directors, Cytos Biotechnology AG, Schlieren; since January 2011 member of the Board of Directors, Neue Helvetische Bank AG

Hans Werder

Swiss citizen

Education: Dr. rer. soc.; lic. iur.

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

Other mandates: Member of the Board of Directors, BLS AG

3.4 Composition, election and term of office

With the exception of the representative of the Swiss Confederation, the Board of Directors of Swisscom Ltd is elected by shareholders at the Annual General Meeting. It currently comprises nine members. However, under the terms of the Articles of Incorporation it may comprise between seven and nine members and, if necessary, the number can be increased temporarily. The members are elected individually for a term of two years. Members may retire or be dismissed prior to expiry of that term. The maximum term of office for members elected by the Annual General Meeting is twelve years. Members who reach the age of 70 retire from the Board as of the date of the next Annual General Meeting.
Under the Articles of Incorporation of Swisscom Ltd, the Swiss Confederation is entitled to appoint two representatives to the Board of Directors of Swisscom Ltd. Hans Werder is currently the sole representative. The maximum term of office or age limit for the federal representative is determined by the Federal Council. Under the terms of the Telecommunications Enterprise Act (TEA), employees must be granted appropriate representation on the Board of Directors of Swisscom Ltd. The Articles of Incorporation also state that the Board of Directors must include two employee representatives. These are currently Hugo Gerber and Michel Gobet.

3.5 Internal organisation

The Board of Directors convenes as often as business requires. In the 2011 financial year, it met every one to two months for a total of 15 meetings lasting an average of six hours. It also held two teleconferences. The Board of Directors conducted a training course at the beginning of 2011. During the year various members attended selected lectures and seminars. Wherever possible, the Board of Directors also attends the Swisscom Group's annual management meeting.
The Board of Directors is convened by the Chairman. If he is not available, the meeting is convened by the Deputy Chairman. The CEO, CFO and CSO of Swisscom Ltd are regularly invited to the meetings of the Board of Directors. The agenda is set by the Chairman. Any Board member may request the inclusion of further items on the agenda. Board members receive documents prior to the meeting to allow them to prepare for the items on the agenda. The Board of Directors may invite members of the Group Executive Board, senior employees of Swisscom Ltd, auditors or other experts to attend its meetings in order to ensure appropriate reporting to members of the Board. Furthermore, the Chairman of the Board of Directors and the CEO report to each meeting of the Board of Directors particular occurences, on the general course of business and major business transactions, as well as on any measures that have been implemented. On average 97% of members were present at the meetings of the Board of Directors in the 2011 financial year.
The Board of Directors has three standing committees and one ad-hoc committee tasked with carrying out detailed examinations of matters of importance. The committees generally consist of five members. Each member of the Board of Directors also sits on at least one of the standing committees. The Chairman is a member of all three standing committees; these are chaired by other Board members. The latter brief the Board of Directors ahead of the committee meetings. All members of the Board of Directors also receive copies of all Finance and Audit Committee meeting minutes. The duties and responsibilities of the Board of Directors are defined in the Organisational Regulations, those of the standing committees in the relevant committee regulations. The latest version of these documents can be viewed online at www.swisscom.ch/basicprinciples, and revised or superseded versions can be accessed in the "Download Archive".

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www.swisscom.ch/
basicprinciples

3.6 Committees of the Board of Directors

The composition, tasks and powers of the Board of Directors' committees as at 31 December 2011 are described below. Information is also provided on the frequency of the respective committee meetings, the usual duration of the meeting and the attendance quorum.

Finance Committee

This Committee is chaired by Torsten G. Kreindl; the other members are Michel Gobet, Hansueli Loosli, Catherine Mühlemann and Hans Werder. The CEO, CFO and the CSO regularly attend meetings of the Finance Committee. Depending on the agenda, other members of the Group Executive Board or project managers are also regularly called upon to attend the meetings. The Committee convened six times in the 2011 financial year. The meetings lasted on average four hours and 96% of members were present. No teleconferences were held. On behalf of the Board of Directors, the

Committee prepares information on transaction business, for example, in connection with setting up or dissolving important Group companies, acquiring or disposing of significant shareholdings, or entering into or terminating strategic alliances. The Committee also acts in an advisory capacity on matters relating to major investments and divestments. The Finance Committee has the ultimate decision-making authority when it comes to approving rules of procedure and directives in the areas of Mergers & Acquisitions and Corporate Venturing. As of 1 June 2011 the Board of Directors transferred financing tasks to the Audit Committee.

Audit Committee

This Committee is chaired by Othmar Vock; the other members are Hugo Gerber, Hansueli Loosli, Richard Roy and Theophil Schlatter. The CEO, CFO, Head of Group Accounting & Reporting, Head of Group Internal Audit and the external auditors also attend the Audit Committee meetings. Depending on the agenda, other management members are called upon to attend. The Committee met seven times in the 2011 financial year. All members were present at the meetings, which lasted on average five hours. No teleconferences were held in the year under review. All members are independent, i.e., they neither work nor have worked for Swisscom in an executive capacity nor do they have any significant commercial links with Swisscom Ltd or the Swisscom Group. Othmar Vock and Theophil Schlatter are regarded as financial experts. The Audit Committee handles all financial management business (for example, accounting, financial controlling, financial planning and financing), assurance (risk management, the internal control system, compliance and the internal audit) and the external audit. It also handles matters dealt with by the Board of Directors that call for specific financial expertise (payout policy, for example). The Committee is therefore the Board of Directors' most important controlling instrument and is responsible for monitoring the Group-wide assurance functions. It takes position on business matters which lie within the decision-making authority of the Board of Directors and has the final say on those business matters for which it has the corresponding competence. Details of the Committee's activities are set out in the Audit Committee rules of procedure. The latest version of these documents can be viewed online at www.swisscom.ch/basicprinciples, and revised or superseded versions can be accessed in the "Download Archive".

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Remuneration Committee

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

Nomination Committee

This Committee is formed on an ad-hoc basis for the purpose of preparing the groundwork for electing new members to the Board of Directors and the Group Executive Board. The Committee is presided over by the Chairman and the composition is determined on a case-by-case basis. The Committee carries out its work based on a specific requirements profile defined by the Board of Directors and presents suitable candidates to the Board of Directors. The Board of Directors selects the members of the Group Executive Board or submits a proposal on the election of members of the Board of Directors to the Annual General Meeting. The Committee convened three times during the 2011 financial year. All members were present at the meetings, which lasted on average two hours.

3.7 Assignment of powers

The Telecommunications Enterprise Act (TEA) makes reference to the Swiss Code of Obligations in respect of the non-transferable and irrevocable duties of the Board of Directors of Swisscom Ltd. Pursuant to Art. 716a of the Code of Obligations, the Board of Directors is responsible first and foremost for the overall management and supervision of persons entrusted with managing the company's operations. It decides on the appointment and removal of members of the Group Executive Board of Swisscom Ltd. It also determines the strategic, organisational, financial planning and accounting guidelines, taking into account the four-year targets set by the Federal Council in accordance with the provisions of the Telecommunications Enterprise Act (TEA) and the will of the Federal Council in its role as principal shareholder (see www.swisscom.ch/targets_2010-2013). The Board of Directors has delegated day-to-day business management to the CEO in accordance with the TEA, the Articles of Incorporation and the Organisational Regulations. In addition to its statutory duties, the Board of Directors decides on business transactions of major importance to the Group, such as the acquisition or disposal of companies with a financial exposure in excess of CHF 20 million, or investments or divestments with a financial exposure in excess of CHF 50 mil-

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www.swisscom.ch/targets_2010-2013
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lion. The division of powers between the Board of Directors and the CEO is set out in Annex 2 to the Organisational Regulations (see function table in Rules of Procedure and Accountability). The latest version of these documents can be viewed online at www.swisscom.ch/basicprinciples, and revised or superseded versions can be accessed in the "Download Archive".

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

The Chairman of the Board of Directors and the CEO meet once or twice a month to discuss fundamental issues concerning Swisscom Ltd and its Group companies. The CEO also reports in detail at each ordinary meeting of the Board of Directors on the general course of business, major events and any measures taken. The Board of Directors also receives a monthly report on all key performance indicators of the Group and all segments containing important Group companies. In addition, every quarter the Board of Directors receives detailed information on the course of business and on the financial position, results of operations, cash flows and risk position of the Group and the segments. It also receives projections for the income statement, cash flow statement and balance sheet for the current financial year. Internal financial reporting is carried out in accordance with the same accounting principles and standards as external reporting. Reporting also includes key non-financial information for controlling and steering purposes. Each member of the Board of Directors is entitled to request information on any matters relating to the Group at any time, provided this does not conflict with any abstention provisions or confidentiality obligations. The Board of Directors is also informed immediately of any events of an exceptional nature.
The Board of Directors examines risk management, the internal control system (ICS) and compliance management in detail once a year, on the basis of a written and oral report. The Audit Committee examines risk management in detail four times a year, on the basis of a report covering all significant ICS and compliance risks. The Committee approves the integrated strategic audit plan and examines the Internal Audit reports at least four times a year. In urgent cases the Chairman of the Audit Committee is informed without delay about any significant new risks. He is also informed in a timely manner if there is a significant change in 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 currently being examined.

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

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

3.9.1 Risk management

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

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3.9.2 Internal control system

Swisscom operates an internal control system in order to ensure reliable and comprehensive Group-wide financial reporting and to safeguard against misreporting (disclosure violations or errors) of business transactions. On the basis of the internationally recognised COSO II framework, the internal control system guarantees the necessary procedures and instruments to ensure the timely identification and assessment of risks related to financial accounting, and to control such risks by initiating appropriate measures. Internal rules and instruments such as the Code of Conduct, the Accounting Manual or the whistle-blowing platform support this goal. The internal control system involves all key responsible units and bodies, in particular the Audit Committee. Swisscom sees the internal control system as an ongoing task and an opportunity to continually improve the underlying procedures. A report on the internal control system is drawn up quarterly for the Audit Committee and once a year for the Board of Directors.

3.9.3 Compliance management

Based on guidelines issued by the Board of Directors, Swisscom operates a Group-wide compliance system aimed at ensuring compliance with legal requirements and other external regulations with comparable legal implications as well as compliance with implementing internal rules and regulations. The compliance system was revised during the year under review. Efficiency and effectiveness were enhanced by consistently aligning risk management, the internal control system and the internal audit. In addition, coordination between the compliance units and the traceability of implemented measures was improved. The Board of Directors receives a full Group-wide compliance risk assessment report once a year. The Audit Committee receives a quarterly report on significant compliance risks.

3.9.4 Internal auditing

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

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

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

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

4 Group Executive Board

4.1 Members of the Group Executive Board

In accordance with the Articles of Incorporation, the Group Executive Board must comprise one or more members who may not simultaneously be members of the Board of Directors. Temporary membership of the Board of Directors is only permitted in exceptional cases. Accordingly, the Board of Directors has delegated responsibility for overall executive management of Swisscom Ltd to the CEO. The CEO is entitled to delegate his powers to subordinates, in the first instance to other members of the Group Executive Board.
The members of the Group Executive Board are appointed by the Board of Directors. The Group Executive Board comprises the CEO of Swisscom Ltd, the heads of the Group divisions, the heads of the divisions of Swisscom (Switzerland) Ltd and the CEO of Swisscom IT Services Ltd.
Guido Garrone, Head of Network and IT at Swisscom (Switzerland) Ltd, left the company at the end of December 2010. He was succeeded on 1 January 2011 by Heinz Herren, former Head of Small and Medium-Sized Enterprises at Swisscom (Switzerland) Ltd. Heinz Herren's successor, Roger Wüthrich-Hasenböhler, took up his duties in January 2011. Hans C. Werner joined the company as Chief Personnel Officer in September 2011. Daniel Ritz, Chief Strategy Officer, left the company at the end of January 2012.
An overview of the composition of the Group Executive Board at 31 December 2011, including the year of appointment of each member and their function within the Group, is given below.

Name	Year of birth	Function	Appointed as of
Carsten Schloter [1]	1963	CEO of Swisscom Ltd	January 2006
Ueli Dietiker [2]	1953	CFO and Deputy CEO of Swisscom AG	April 2002
Daniel Ritz	1966	CSO of Swisscom Ltd	September 2006
Kathrin Amacker-Amann	1962	CCO of Swisscom Ltd	October 2010
Hans C. Werner	1960	CPO of Swisscom AG	September 2011
Christian Petit	1963	Head of Residential Customers of Swisscom (Switzerland) Ltd	August 2007
Roger Wüthrich-Hasenböhler	1961	Head of Small and Medium-Sized Enterprises of Swisscom (Switzerland) Ltd	January 2011
Urs Schaeppi [1]	1960	Head of Corporate Business of Swisscom (Switzerland) Ltd	August 2007
Heinz Herren [1]	1962	Head of Network & IT of Swisscom (Switzerland) Ltd	January 2011
Eros Fregonas	1964	CEO of Swisscom IT Services Ltd	May 2007

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

4.2 Education, professional activities and affiliations

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

4.3 Management agreements

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

Group Executive Board
from left to right

Roger Wüthrich-Hasenböhler, Small and Medium-Sized Enterprises
Urs Schaeppi, Corporate Business
Christian Petit, Residential Customers
Kathrin Amacker, Group Communications
Hans C. Werner, Group Human Resources
Carsten Schloter, CEO Swisscom Ltd
Daniel Ritz, Strategy & Business Development
Heinz Herren, Network & IT
Ueli Dietiker, Finance & Controlling
Eros Fregonas, CEO Swisscom IT Services Ltd

Carsten Schloter

German citizen

Education: Degree in business administration

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

Since March 2000 member of the Swisscom Group Executive Board

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

Ueli Dietiker

Swiss citizen

Education: Certified public accountant

Career history: 1972–1988 ATAG Ernst & Young; 1988–1994 various positions at Motor Columbus AG, latterly as CFO; 1995–December 1998 CFO, Cablecom Holding AG; January 1999–June 2001 CEO, Cablecom Holding AG; September 2001–March 2002 Head of Strategic Growth and Related Businesses, Swisscom Ltd; July 2003–June 2004 Head of Group Human Resources, Swisscom Ltd; April 2002–March 2006 CFO of Swisscom Ltd; March 2006–December 2007 CEO, Swisscom Fixnet Ltd; since August 2007 CFO and since April 2002 Deputy CEO, Swisscom Ltd; from September 2010 to August 2011 acting Chief Personnel Officer (CPO), Swisscom Ltd

Since April 2002 member of the Swisscom Group Executive Board

Other mandates: Member of the Board of Directors, Zuckermühle Rupperswil AG; member of the Board of Directors and Chairman of the Audit Committee, Sanitas Krankenkassen; member of the Board of Directors and Chairman of the Audit Committee, Wincare Krankenkassen; since May 2011 member of the Board of Directors, BKW AG; since May 2011 member of the Board of Directors, jobs.ch AG; member of the Board of Directors, Belgacom International Carrier Services S.A., Brussels; Vice-Chairman of the Board of Directors, CT Cinetrade AG; since January 2011 Chairman of the Board of Trustees, comPlan

Daniel Ritz

Swiss citizen

Education: Doctorate in business administration (Dr. oec.), University of St. Gallen

Career history: 1992–1993 project manager, University of St. Gallen; 1994–2001 consultant, Boston Consulting Group AG; 2001–2006 partner, Boston Consulting Group AG; since September 2006 Chief Strategy Officer (CSO), Swisscom Ltd

Since September 2006 member of the Swisscom Group Executive Board

Other mandates: President, Swiss Society for Business Cycle Research (SKG); member of the Board of Directors, Belgacom International Carrier Services, S.A., Brussels

Kathrin Amacker-Amann

Swiss citizen

Education: Swiss certified pharmacist, PhD II

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

Since October 2010 member of the Swisscom Group Executive Board

Other mandates: Member of the Board of Trustees, Merian Iselin Stiftung, Basle; member of the Board of Trustees, Basle-Karlsruhe Forum, Basle; member of the Board of Trustees, World Demographic and Ageing Forum, St. Gallen; since October 2011 member of the Board of Trustees, ETH Zurich Foundation; since November 2011 member of the Board of Trustees, Swiss Foundation for the Protection of Children

Hans C. Werner

Swiss citizen

Education: PhD in business administration, Dr. oec.

Career history: 1997–1999 Rector, Kantonsschule Büelrain; 1999–2000 Head of Technical Training and Business Training; 2001 Divisional Operation Officer, Reinsurance & Risk Division, Swiss Re; 2002–2003 Head of HR Corporate Centre and HR Shared Services, Swiss Re; 2003–2007 Head of Global Human Resources, Swiss Re; 2007–2009 Head of HR and Training, Schindler Aufzüge AG; 2010–2011 HR Vice-President Europe North and East, Schindler; since September 2011 Chief Personnel Officer (CPO), Swisscom Ltd

Since September 2011 member of the Swisscom Group Executive Board

Christian Petit

French citizen

Education: MBA ESSEC Cergy-Pontoise

Career history: 1993–1999 debitel France; 2000–2003 Head of Operations, Swisscom Mobile Ltd; 2003–2006 Head of Product Marketing, Swisscom Mobile Ltd; 2006–June 2007 CEO, Hospitality Services Plus SA; since August 2007 Head of Residential Customers, Swisscom (Switzerland) Ltd

Other mandates: Member of the Board of Directors, CT Cinetrade AG

Since August 2007 member of the Swisscom Group Executive Board

Roger Wüthrich-Hasenböhler

Swiss citizen

Education: Degree in electronic engineering (HTL), Executive MBA HSG

Career history: 2000–2005 Head of Business Customer Sales, Swisscom Mobile Ltd; 2006–2007 Head of Marketing and Sales, Swisscom Solutions Ltd; 2008–2010 Head of Marketing and Sales, Swisscom Corporate Business and CEO of Webcall GmbH; since January 2011 Head of Small and Medium-Sized Enterprises, Swisscom Switzerland

Other mandates: Member of the Board of Directors, Raiffeisenbank am Ricken Genossenschaft

Urs Schaeppi

Swiss citizen

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

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

Since March 2006 member of the Swisscom Group Executive Board

Other mandates: Member of the Board of Directors, BV Group, Berne

Heinz Herren

Swiss citizen

Education: Degree in electronic engineering (HTL)

Career history: 1986–1988 Hasler AG; 1988–1991 XMIT AG; 1991–1993 Ascom Telematik AG; 1993–1994 Bedag Informatik; 1994–2000 3Com Corporation; 2000–2000 Inalp Networks Inc.; 2001–2005 Head of Marketing, Swisscom Fixnet Wholesale; 2005–2007 Head of Small and Medium-Sized Enterprises, Swisscom Fixnet; 2007-2010 Head of Small and Medium-Sized Enterprises, Swisscom Switzerland; since January 2011 Head of Network & IT, Swisscom Switzerland

Since August 2007 member of the Swisscom Group Executive Board

Eros Fregonas

Swiss and Italian citizen

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

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

Since May 2007 member of the Swisscom Group Executive Board

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

5 Remuneration, shareholdings and loans

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

6 Shareholders' participation rights

6.1 Voting rights and representation restrictions

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

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

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

6.2 Statutory quorum requirements

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

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

6.3 Convocation of the Annual General Meeting

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

6.4 Tabling agenda items

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

6.5 Representation at the Annual General Meeting

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

6.6 Registrations in the share register

Shareholders entered in the share register with voting rights are entitled to vote at the Annual General Meeting. As in previous years, the share register was not closed before the Annual General Meeting for the 2010 financial year that was held on 20 April 2011. Shareholders registered in the share register with voting rights by 4 p.m. on 15 April 2011 were entitled to vote.

7 Change of control and defensive measures

7.1 Duty to make an offer

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

7.2 Clause on change of control

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

8 Statutory auditors

8.1 Duration and term of office of the auditor-in-charge

The statutory auditors are appointed annually by the Annual General Meeting. KPMG AG, Gümligen-Berne, has acted as the statutory auditors of Swisscom Ltd and the Group companies (with the exception of Fastweb, which is audited by PriceWaterhouseCoopers S.p.A.) since 1 January 2004. Rolf Hauenstein of KPMG AG has been responsible for the mandate as auditor-in-charge since April 2011. He replaced Hanspeter Stocker, who was required by law to give up the post after seven years. KPMG AG is a licensed, state-supervised auditing firm.

8.2 Unapproved services

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

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

8.3 Audit fees

Fees for auditing services provided by KPMG AG in 2011 amounted to CHF 4.15 million (prior year: CHF 4.32 million). Fees for additional audit-related services amounted to CHF 0.29 million (prior year: CHF 0.02 million). PricewaterhouseCoopers S.p.A. as auditors for Fastweb received remuneration of CHF 0.79 million (prior year: CHF 1.18 million).

8.4 Supplementary fees

Supplementary fees of KPMG AG for non-audit services such as tax and other advisory services (other services) amounted to CHF 0,44 million (prior year: CHF 0.40 million).

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

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

9 Information policy

Swisscom pursues an active and open information policy vis-à-vis the general public and the financial markets and publishes consistent, comprehensive and transparent financial information on a quarterly basis.

Swisscom therefore meets investors regularly throughout the year, presents its financial results at analysts' meetings and road shows, attends selected conferences for financial analysts and investors, and keeps its shareholders regularly informed about its business through press releases and shareholder letters.

9.1 The results for the 2012 financial year will be published on the following dates:

- Interim Report: 2 May 2012
- Interim Report: 8 August 2012
- Interim Report: 8 November 2012
- Annual Report: in February 2013

9.2 The Annual General Meeting will be held on:

- 4 April 2012

The Interim Reports and the Annual Report are available on the Swisscom website under Investor Relations, or may be ordered directly from Swisscom. All press releases, presentations and the latest financial calendar are also available on the Swisscom website under Investor Relations.

Push and pull links for the distribution of ad-hoc communications can be found at www.swisscom.ch/adhoc/en.

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

Remuneration Report

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

Introduction

This Remuneration Report provides a summary of the remuneration system and compensation paid to members of the Board of Directors and Group Executive Board (Management Board as defined in Section 4 of the Articles of Incorporation) of Swisscom Ltd and will be put to a consultative vote at the Annual General Meeting on 4 April 2012.
The Report is based on Article 5 of the Corporate Governance Directive issued by the SIX Swiss Exchange and the recommendations of the Swiss Code of Best Practice for Corporate Governance issued by economiesuisse, the umbrella organisation representing Swiss business. Information and comments on remuneration and shareholdings in accordance with Article 663b^{bis} and Article 663c Para. 3 of the Swiss Code of Obligations can also be found in the financial statements of Swisscom Ltd.

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Remuneration principles

The uniform remuneration principles applied within the Swisscom Group are systematic, transparent and geared to the long term. Salaries at Swisscom are determined by four factors: position, individual performance, company performance and the labour market. This approach takes into consideration the interests of employees, investors and the company.
Swisscom offers competitive salaries in order to attract and retain on a long-term basis highly skilled and motivated specialist staff and managers. The variable performance-related component is an additional management instrument aimed at achieving overarching goals. It serves to motivate employees, including management, to contribute to the company's long-term success. The "Management Incentive Plan", which is mandatory for all members of the Board of Directors and all members of the Group Executive Board, also ensures direct financial participation in the medium-term performance of Swisscom's shares. In addition to the details provided in this section, further information on the Management Incentive Plan can be found in Note 11 to the consolidated financial statements.

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Decision-making powers

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

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

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

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

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

Composition and function of the Remuneration Committee

The Remuneration Committee is chaired by the Deputy Chairman of the Board of Directors, Richard Roy. The other members are the Chairmen of the Finance Committee (Torsten G. Kreindl) and the Audit Committee (Othmar Vock) as well as the representative of the Swiss Confederation, Hans Werder. As Chairman of the Board of Directors, Hansueli Loosli attends committee meetings but has no voting rights.

The Committee convened twice in the 2011 financial year. All members were present at the meetings, each of which lasted approximately two hours. No teleconferences were held. The CEO and Chief Personnel Officer (CPO) regularly attend the meetings in an advisory capacity, unless the agenda items exclusively concern the Board of Directors or themselves, in which case the CEO and CPO are not present. The meetings are minuted. The Chairman reports verbally to the Board of Directors on the activities of the Remuneration Committee at the next meeting of the Board of Directors.

Remuneration paid to the Board of Directors

Principles

The remuneration reflects the level of responsibility and scope of activities performed by each member of the Board of Directors, and is reviewed every December for the following year to ensure ongoing appropriateness. For the first time in nine years, the remuneration was adjusted in December 2010 for the 2011 financial year, with the Board of Directors referring to an analysis commissioned by it in November 2010 but consciously maintaining the basic salary and total remuneration below the market rate. The analysis was carried out by Towers Watson, an international consultancy specialising in top management remuneration; companies listed in the Swiss Market Index (with the exception of financial services companies) were used as benchmarks. In December 2011 the Board of Directors opted not to adjust its remuneration for the 2012 financial year. It based this decision on the publicly accessible comparative analysis by Towers Watson and the study by ethos for the 2010 financial year, which take all SMI companies into consideration.

Remuneration

The remuneration plan provides for a basic salary plus individual allowances and meeting attendance fees. No variable performance-related components are paid out. The Chairman receives a basic salary of CHF 385,000 net (same as the previous year) while the other members of the Board of Directors receive CHF 120,000 net (prior year: CHF 110,000). Additional remuneration is also paid for specific duties (individual allowances): each member of the Finance and Audit Committees is entitled to remuneration of CHF 10,000 net (unchanged), while each member of the Remuneration Committee now receives an equivalent individual allowance. The remuneration paid to the Deputy Chairman of the Board of Directors and the Chairmen of the Finance and Remuneration Committees is unchanged at CHF 20,000 net, The Chairman of the Audit Committee now receives CHF 50,000 net (formerly CHF 20,000). The representative of the Swiss Confederation receives CHF 40,000 net (unchanged) for the special duties related to his function. Meeting attendance fees of CHF 1,250 net for a full day (formerly CHF 750) and CHF 750 net for a half-day (formerly CHF 500) are also paid. Expenses are reimbursed as incurred. No significant fringe benefits are paid.
The members of the Board of Directors are obliged to draw 25% of their basic salary plus individual allowances in the form of shares. Swisscom then increases the amount to be invested in shares by 50%. Two thirds of the remuneration (excluding meeting attendance fees) thus take the form of cash and one third shares. The amount of the share purchase obligation can vary in the case of members who join, leave or take over or give up a function during the year. The shares allocated are calculated on the basis of the tax value, rounded up to whole numbers of shares, and are subject to a three-year blocking period. The shares allocated in April of the reporting year for the reporting year are disclosed at their market value on the purchase date (usually three weeks before allocation) or at the market value on the cut-off date of allocation if treasury shares are issued. In April 2011, 1,895 shares were allocated to the members of the Board of Directors (prior year: 1,712 shares) with a tax value of CHF 346 per share (prior year: CHF 328). The market value was CHF 412 per share (previous year CHF 392).

The individual remuneration paid to the members of the Board of Directors for the financial years 2011 and 2010 is presented in the tables below, broken down into individual components. Since the disclosure of fringe benefits and expenses complies with fiscal law, neither fringe benefits nor expenses are included in the reported remuneration. The increase in remuneration is attributable to the decision to increase the individual components as of the reporting year, and to the higher number of members for a four-month period.

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

[1] Cash compensation is paid pro rata until 31 August 2011 to Coop.
[2] In addition, a cash compensation (inclusive meeting attendance fees) of CHF 9,500 was paid as member of the Board of Directors of Worklink AG.
[3] Resigned as of 20 April 2011.
[4] Resigned as of 31 August 2011.
[5] Elected as of 20 April 2012.
[6] Designated as of 20 April 2011 by the Swiss Confederation.

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

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

Remuneration paid to the Group Executive Board

Principles

In keeping with Swisscom's general remuneration policy, remuneration paid to the Group Executive Board consists of a fixed basic salary component in cash and a variable performance-related component in cash and shares as well as fringe and additional benefits (in particular company car) and retirement benefits. The Board of Directors may also at its own discretion reward exceptional individual performance in the form of a bonus in cash or shares.
As a rule, the Remuneration Committee reviews individual remuneration paid to members of the Group Executive Board every three years. Besides individual performance, the amount of the remuneration depends on the market rate for the position and the function, with the latter carrying greater weight. Relevant benchmarks are used. The following three comparative studies carried out by the renowned consultancies Towers Watson and Aon Hewitt were used as benchmarks: The "Top Executive Remuneration" study by Towers Watson covers 26 companies in Switzerland, primarily from the high-tech and financial sector, and with average revenues of CHF 16 billion and an average workforce of 29,000 (FTEs). The "Swiss Headquarters Executive Total Compensations Study" by Aon Hewitt covers 92 Swiss companies and international groups in all sectors, with global or regional headquarters in Switzerland, average revenues of CHF 3.6 billion and an average workforce of 8,000. The international "European Executive Survey", also produced by Aon Hewitt, covers 28 European groups, mainly telecommunications companies, with average revenues of CHF 34 billion and an average workforce of 77,000 (FTEs). Due to their numerous reference companies, these studies provide the basis for a representative comparison. Swisscom's evaluation took into account factors such as sector, revenue, number of employees and location. Taking into accounting this benchmark, the basic salaries of the CEO and other individual members of the Group Executive Board were adjusted during the course of the reporting year to bring them into line with standard market salary levels.

Targets for the variable performance-related component

The targets underlying the variable performance-related component are reviewed annually in December for the coming year by the Board of Directors following a proposal submitted by the Remuneration Committee. The relevant targets set for the reporting year are based on the Swisscom Group's budget figures for 2011.
Three target levels were defined: "Group without Fastweb", "Customers" and "Segments". All members of the Group Executive Board are measured against Group targets without Fastweb and customer targets and, depending on their function, also against targets of other segments for which they are responsible. Group targets consist of financial targets, while customer targets are measured by improvements in customer interaction and customer satisfaction, taking into account the customer segment for which the member of the Group Executive Board in question is responsible. Additional targets tailored to the relevant position of each Group Executive Board member consist of financial and non-financial targets.

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

Target levels	Weighting of targets level	Objectives	Weighting of targets
Group (excluding Fastweb)	30%–40%	Net revenue	9–12%
		EBITDA margin	9–12%
		Operating free cash flow	12–16%
Customers	30%	Improvement of the customer interaction and customer satisfaction, respectively	30%
Segments	30%–40%	Net revenue	0–20%
		Operating free cash flow	0–15%
		Targets of segments	0–40%
Total	**100%**	**Total**	**100%**

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

Depending on their function, members of the Group Executive Board receive a variable performance-related component of between 40% and 117% of their fixed basic salary if they meet their targets. The amount of performance-related component paid out depends on the extent to which the targets set by the Remuneration Committee are achieved. When defining these targets, the scale of achievement (from overachievement to underachievement) is defined as a basis for calculating the target value. Special factors can also be taken into account such as an unscheduled acquisition or divestment. If targets are exceeded, additional remuneration up to a maximum of double the variable performance-related component may be paid.

Payment of the variable performance-related component

The variable performance-related component is determined in the following year once the consolidated financial statements become available, on the basis of the targets fixed in the year under review, and is paid in April of that following year. Members of the Group Executive Board receive 75% of the variable performance-related component in cash and 25% in Swisscom shares, with the exception of one member who receives 64% in cash and 36% in shares. No bonuses for outstanding individual performance were awarded in the year under review. The shares are allocated on the basis of the tax value, rounded up to whole numbers of shares, and are subject to a three-year blocking period. The share-based remuneration disclosed in the year under review is increased by a factor of 1.19 to reflect the difference between the market value and the tax value. The market value of the shares depends on the purchase date (usually three weeks prior to allocation) or the cut-off date if treasury shares are issued. Shares for the year under review will be allocated in April 2012. A total of 3,128 shares with a tax value of CHF 346 per share and a market value of CHF 412 per share were allocated to members of the Group Executive Board in April 2011 for 2010. In April 2010 2,767 shares with a tax value of CHF 328 per share and a market value of CHF 392 per share were allocated for the 2009 financial year.

Achievement of targets

Group targets without Fastweb were largely achieved in the year under review. Customer targets were achieved in all segments, and in some cases were exceeded. Fastweb's targets were partially achieved. Due to the impairment in the carrying amount of Fastweb, the Board of Directors gave Fastweb a target achievement rating of 0 percent. All other targets of the segments were achieved.

Total remuneration

Since the disclosure of fringe benefits and expenses complies with fiscal law, the disclosed fringe benefits only include a share in a company car. The disclosed retirement benefits (expenses based on entitlement to or increase in retirement benefits) comprise all savings, guarantee and risk contributions paid by the employer to the pension fund.
The following table shows the total remuneration paid to the members of the Group Executive Board for the financial years 2011 and 2010, broken down into individual components and including the highest amount paid to one member. Any remuneration paid to those stepping down from the Group Executive Board includes the respective maximum remuneration up to the end of the notice period in the year under review or previous year. No members of the Group Executive Board stepped down in the year under review. Nor was any additional remuneration paid out and hence no termination benefits are reported. In the year under review the ratio of the basic salary (total CHF 4.594 million) to the variable performance-related bonus (total CHF 3.809 million) was 55% to 45%. The reduction in remuneration paid to members of the Group Executive Board is mainly due to the fact that one Group Executive Board function was vacant, as well as to lower variable compensation as a result of lower target achievement. Total remuneration paid to the CEO fell by 17% due to lower target achievement compared with the previous year and lower retirement benefits. The CEO's basic salary was raised as part of the periodic review in order to bring it into line with the market

In CHF thousand	Total Group Executive Board 2011	Total Group Executive Board 2010	Thereof Carsten Schloter 2011	Thereof Carsten Schloter 2010
Fixed base salary paid in cash	4,594	4,889	830	770
Variable earnings-related compensation paid in cash	2,641	3,333	442	707
Non-cash compensation	87	76	17	17
Share-based payments variable	1,168	1,323	175	280
Benefits paid following retirement from Group Executive Board	–	664	–	–
Retirement benefits	922	1,054	106	125
Severance payments	–	–	–	–
Total compensation to members of the Group Executive Board	**9,412**	**11,339**	**1,570**	**1,899**

Clause on change of control

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

Additional remuneration

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

Remuneration paid to former members of the Board of Directors or the Group Executive Board

In the year under review no remuneration was paid to former members of the Board of Directors or the Group Executive Board. Nor was any remuneration paid to persons closely related to members of the Board of Directors or the Group Executive Board ("related parties", see Note 13 to the financial statements of Swisscom Ltd).

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Loans

In the 2011 financial year, Swisscom Ltd provided no guarantees, loans, advances or credit facilities of any kind either to former or current members of the Board of Directors or Group Executive Board or to persons closely related to them. Nor are there any receivables of any kind whatsoever outstanding.

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

The blocked and non-blocked shares held by the members of the Board of Directors and the Group Executive Board and by persons closely related to them as at 31 December 2011 and 2010 are listed in the table below:

Number	31.12.2011	31.12.2010
Hansueli Loosli [1]	412	271
Hugo Gerber	730	589
Michel Gobet	1,097	956
Torsten G. Kreindl	705	674
Catherine Mühlemann	720	579
Felix Rosenberg	–	2,223
Richard Roy	869	674
Anton Scherrer [2]	–	2,169
Theophil Schlatter [3]	360	–
Othmar Vock	1,058	852
Hans Werder [4]	288	–
Total shares of the members of the Board of Directors	**6,239**	**8,987**
Carsten Schloter (CEO)	4,852	4,172
Ueli Dietiker	3,132	2,720
Daniel Ritz	1,007	778
Kathrin Amacker-Amann [5]	68	40
Hans C. Werner [6]	–	–
Christian Petit	1,346	955
Roger Wüthrich-Hasenböhler [7]	351	–
Urs Schaeppi	1,081	1,005
Heinz Herren	750	515
Eros Fregonas	1,936	1,259
Total shares of the members of the Group Executive Board	**14,523**	**11,444**

[1] Elected as of 21 April 2009 as member and as of 1 September 2011 as Chairman.
[2] Resigned as of 31 August 2011.
[3] Elected as of 20 April 2011.
[4] Designated as of 20 April 2011 by the Swiss Confederation.
[5] Joined as of 1 October 2010.
[6] Joined as of 1 September 2011.
[7] Member of the Excecutive Board as of 1 January 2011.

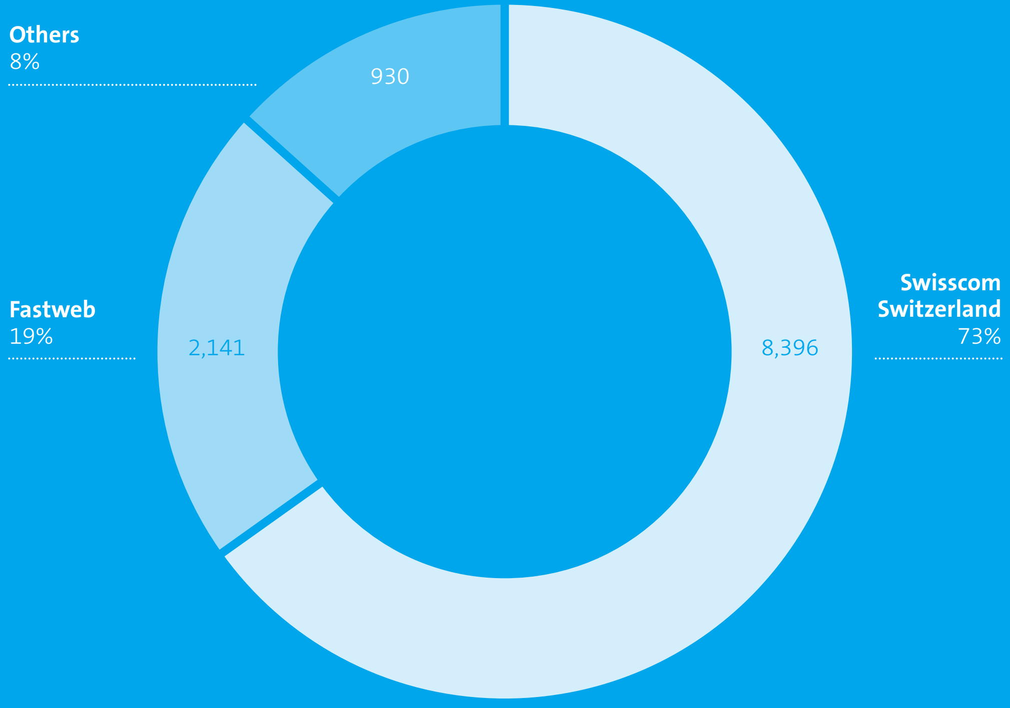
The voting rights of any person subject to the disclosure obligation do not exceed 0.1% of the share capital.

Financial Statements

Swisscom's business activities are concentrated mainly in Switzerland.

Swisscom's activities abroad mainly focus on Italy.

Net revenue in CHF mio.



Consolidated financial statements

Financial statements of Swisscom Ltd

Consolidated income statement

In CHF million, except for per share amounts	Note	2011	2010 restated[1]
Net revenue	6, 7	**11,467**	**11,988**
Goods and services purchased	8	(2,402)	(2,665)
Personnel expense	9, 10, 11	(2,513)	(2,518)
Other operating expense	12	(2,388)	(2,510)
Capitalised self-constructed assets and other income	13	420	304
Operating income before depreciation, amortisation and impairment losses (EBITDA)		**4,584**	**4,599**
Depreciation, amortisation and impairment losses on tangible and other intangible assets	23, 24	(1,903)	(1,972)
Impairment losses on goodwill	24	(1,555)	–
Operating income (EBIT)		**1,126**	**2,627**
Financial income	14	54	93
Financial expense	14	(365)	(458)
Share of results of associates	25	30	28
Income before income taxes		**845**	**2,290**
Income tax expense	15	(151)	(502)
Net income		**694**	**1,788**
Share of net income attributable to equity holders of Swisscom Ltd		683	1,813
Share of net income attributable to non-controlling interests		11	(25)
Basic and diluted earnings per share (in CHF)	16	**13.19**	**35.00**

[1] See Note 3.26 New and amended standards and interpretations.

Consolidated statement of comprehensive income

In CHF million	Note	2011	2010 restated[1]
Net income		**694**	**1,788**
Foreign currency translation adjustments of foreign subsidiaries	31	(149)	(1,022)
Actuarial gains and losses from defined benefit plans	10, 31	(781)	(693)
Change in fair value of available-for-sale financial assets	31	(3)	2
Gains and losses from available-for-sale financial assets transferred to income statement	31	3	–
Change in fair value of cash flow hedges	31	(24)	(9)
Gains and losses from cash flow hedges transferred to income statement	31	31	39
Income tax expense	15, 31	268	426
Total other comprehensive income		**(655)**	**(1,257)**
Comprehensive income		**39**	**531**
Share of comprehensive income attributable to equity holders of Swisscom Ltd		28	585
Share of comprehensive income attributable to non-controlling interests		11	(54)

[1] See Note 3.26 New and amended standards and interpretations.

Consolidated balance sheet

In CHF million	Note	31.12.2011	31.12.2010 restated [1]	1.1.2010 restated [1]
Assets				
Cash and cash equivalents	17	314	483	532
Trade and other receivables	18	2,978	2,742	2,926
Other financial assets	19	73	122	178
Inventories	20	144	150	135
Current income tax assets	15	45	30	48
Other non-financial assets	21	334	329	329
Non-current assets held for sale	22	1	4	6
Total current assets		**3,889**	**3,860**	**4,154**
Property, plant and equipment	23	8,222	7,899	8,176
Goodwill	24	4,664	6,261	6,664
Other intangible assets	24	1,879	2,023	2,358
Investments in associates	25	233	231	228
Other financial assets	19	196	415	424
Deferred tax assets	15	311	342	173
Other non-financial assets	21	56	44	45
Total non-current assets		**15,561**	**17,215**	**18,068**
Total assets		**19,450**	**21,075**	**22,222**
Liabilities and equity				
Financial liabilities	26	804	941	1,270
Trade and other payables	27	2,190	2,215	2,314
Current income tax liabilities	15	37	35	219
Provisions	28	148	146	137
Other non-financial liabilities	30	676	685	701
Total current liabilities		**3,855**	**4,022**	**4,641**
Financial liabilities	26	8,027	8,831	8,949
Defined benefit obligations	10	1,977	1,283	827
Provisions	28	755	716	740
Deferred tax liabilities	15	244	553	523
Other non-financial liabilities	30	296	320	330
Total non-current liabilities		**11,299**	**11,703**	**11,369**
Total liabilities		**15,154**	**15,725**	**16,010**
Share capital	31	52	52	52
Capital reserves		136	370	370
Retained earnings		5,704	6,495	6,310
Treasury shares	31	–	(1)	(1)
Other reserves	31	(1,620)	(1,586)	(830)
Share of equity attributable to equity holders of Swisscom Ltd		**4,272**	**5,330**	**5,901**
Share of equity attributable to non-controlling interests		24	20	311
Total equity		**4,296**	**5,350**	**6,212**
Total liabilities and equity		**19,450**	**21,075**	**22,222**

[1] See Note 3.26 New and amended standards and interpretations.

Consolidated statement of cash flows

In CHF million	Note	2011	2010 restated[1]
Net income		694	1,788
Share of results of associates	25	(30)	(28)
Income tax expense	15	151	502
Depreciation, amortisation and impairment losses	23, 24	3,458	1,972
Expense for share-based payments	11	9	2
Gain on sale of property, plant and equipment	13	(23)	(24)
Loss on disposal of property, plant and equipment	12	5	7
Financial income	14	(54)	(93)
Financial expense	14	365	458
Change in net operating assets and liabilities	34	(442)	(195)
Income taxes paid	15	(182)	(365)
Cash flow provided by operating activities		**3,951**	**4,024**
Capital expenditure for tangible and other intangible assets	23, 24, 34	(2,095)	(1,903)
Proceeds from sale of property, plant and equipment and other intangible assets		22	21
Proceeds from sale of non-current assets held for sale	22	15	13
Acquisition of subsidiaries, net of cash and cash equivalents acquired	5	(21)	(39)
Proceeds from sale of subsidiaries, net of cash and cash equivalents sold		–	9
Investments in associates	25	(2)	–
Purchase of other financial assets		(21)	(69)
Proceeds from other financial assets		123	38
Interest received		16	15
Dividends received	25	34	55
Cash flow used in investing activities		**(1,929)**	**(1,860)**
Issuance of financial liabilities	26	660	2,589
Repayment of financial liabilities	26	(1,383)	(3,133)
Interest paid		(267)	(299)
Dividends paid to equity holders of Swisscom Ltd	32	(1,088)	(1,036)
Dividends paid to non-controlling interests		(7)	(8)
Purchase of non-controlling interests of Fastweb	5	(92)	(246)
Purchase of treasury shares for share-based payments	11, 31	(7)	(2)
Other cash flows from financing activities	34	(4)	(38)
Cash flow used in financing activities		**(2,188)**	**(2,173)**
Net decrease in cash and cash equivalents		**(166)**	**(9)**
Cash and cash equivalents at 1 January		483	532
Foreign currency translation adjustments in respect of cash and cash equivalents		(3)	(40)
Cash and cash equivalents at 31 December		**314**	**483**

[1] See Note 3.26 New and amended standards and interpretations.

Consolidated statement of changes in equity

In CHF million	Share capital	Capital reserves	Retained earnings	Treasury shares	Other reserves	Equity attributable to equity holders of Swisscom	Non-controlling interests	Total equity
Balance at 31 December 2009	**52**	**370**	**6,700**	**(1)**	**(830)**	**6,291**	**319**	**6,610**
Change in accounting policies [3,26]	–	–	(390)	–	–	(390)	(8)	(398)
Balance at 1 January 2010	**52**	**370**	**6,310**	**(1)**	**(830)**	**5,901**	**311**	**6,212**
Net income	–	–	1,813	–	–	1,813	(25)	1,788
Other comprehensive income	–	–	(538)	–	(690)	(1,228)	(29)	(1,257)
Comprehensive income	**–**	**–**	**1,275**	**–**	**(690)**	**585**	**(54)**	**531**
Dividends paid [32]	–	–	(1,036)	–	–	(1,036)	(8)	(1,044)
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
Purchase of non-controlling interests [5]	–	–	(54)	–	(66)	(120)	(229)	(349)
Balance at 31 December 2010	**52**	**370**	**6,495**	**(1)**	**(1,586)**	**5,330**	**20**	**5,350**
Net income	–	–	683	–	–	683	11	694
Other comprehensive income	–	–	(621)	–	(34)	(655)	–	(655)
Comprehensive income	**–**	**–**	**62**	**–**	**(34)**	**28**	**11**	**39**
Dividends paid [32]	–	(234)	(854)	–	–	(1,088)	(7)	(1,095)
Purchase of treasury shares for share-based payments [31]	–	–	–	(7)	–	(7)	–	(7)
Allocation of treasury shares for share-based payments [11,31]	–	–	1	8	–	9	–	9
Balance at 31 December 2011	**52**	**136**	**5,704**	**–**	**(1,620)**	**4,272**	**24**	**4,296**

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

Notes to the consolidated financial statements

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

1 General information

The Swisscom Group (hereinafter referred to as "Swisscom") provides telecommunication services and is active primarily in Switzerland and Italy. A more detailed description of Swisscom's business activities is to be found in Notes 3.17 and 6. The consolidated financial statements of Swisscom as of and for the year ended 31 December 2011 comprise Swisscom Ltd, the parent company and its subsidiaries. A table of the Group subsidiaries is set out in Note 41. Swisscom Ltd is a limited-liability company incorporated in Switzerland under a private statute and has its registered office in Ittigen (Berne). Its address is: Swisscom Ltd, Alte Tiefenaustrasse 6, 3048 Worblaufen. Swisscom Ltd is listed on the SIX Swiss Exchange. As of 31 December 2011, the Swiss Confederation ("Confederation"), as majority shareholder, held 56.9% of the voting rights and issued capital of Swisscom Ltd. The Confederation is obligated by current law to hold the majority of the capital and voting rights. The Board of Directors of Swisscom has approved the issuance of these consolidated financial statements on 14 February 2012. The consolidated financial statements must be approved at the Annual General Meeting of Shareholders of Swisscom Ltd to be held on 4 April 2012.

2 Basis of preparation

The consolidated financial statements of Swisscom have been prepared in accordance with International Financial Reporting Standards (IFRS) and in compliance with the provisions of Swiss law. The reporting period covers twelve months. The consolidated financial statements are presented in Swiss francs (CHF). Unless otherwise indicated, all amounts are stated in millions of Swiss francs. The balance sheet is classified according to maturities. Assets and liabilities due within one year are classified as current. Trade receivables and payables as well as inventories are presented as current items. Deferred tax assets and liabilities are presented as non-current. The income statement is classified based on the nature of the income/expense. Assets have been valued based upon the historic acquisition or production cost, except where a standard or an interpretation requires a differing valuation method for individual balance sheet captions. Preparing the consolidated financial statements in accordance with the relevant provisions of IFRS requires management to make estimates. Furthermore, the application of uniform, Group-wide accounting policies requires assumptions to be made by management. Areas involving a higher degree of judgment or greater complexity, or areas where assumptions and estimates have a critical impact on the consolidated financial statements are disclosed in Note 4. Changes in the financial statement accounting policies are applied retrospectively, unless the transitional provisions of any relevant standard or interpretation require prospective application or unless retrospective application is not practicable.

3 Summary of significant accounting policies

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

3.1 Consolidation

Subsidiaries

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

Investments in associates

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

3.2 Foreign currency translation

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

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

			Closing rate		Average rate
Currency	31.12.2011	31.12.2010	31.12.2009	2011	2010
1 EUR	1.216	1.250	1.484	1.232	1.370
1 USD	0.939	0.936	1.030	0.881	1.038

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 maturity of three months from the acquisition date. This definition is also applied for the cash flow statement. Cash and cash equivalents are accounted for at amortised cost.

3.4 Trade and other receivables

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

3.5 Other financial assets

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

Financial assets at fair value through profit or loss

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

Financial assets held-to-maturity

Held-to-maturity financial assets are fixed-term financial assets for which Swisscom has the ability and intention to hold to maturity. After their initial recognition at amortised cost, financial assets are accounted for using the effective interest method less provisions for impairment. Foreign exchange gains and losses are taken to income.

Loans and receivables

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

Available-for-sale financial assets

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

3.6 Inventories

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

3.7 Property, plant and equipment

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

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

[1] Technical installations

When significant parts of an item of property, plant and equipment comprise individual components with differing useful lives, each component is depreciated separately. The estimated useful lives and residual values are reviewed at least annually as of the balance sheet date and, if necessary, adjusted. In 2011, the useful live of glass-fibre cables was amended – see Note 23. Leasehold improvements and installations in leased premises are amortised on a straight-line basis over the shorter of their estimated useful lives and the remaining minimum lease term. The carrying amount of an item of property, plant and equipment is written off on disposal or whenever no future economic benefits are expected from its use. Gains and losses arising on the disposal of property, plant and equipment are calculated as the difference between the disposal proceeds and the carrying amount of the item of property, plant and equipment. They are taken to income and recorded as other income or other operating expenses.

3.8 Business combinations and goodwill

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

3.9 Other intangible assets

Research and development costs

Research costs are not capitalised but expensed as incurred. Development costs are capitalised under intangible assets only if they can be identified as an intangible asset which will generate future economic benefits and the costs of this asset can be determined reliably. Costs of further development are only capitalised if the original level of performance is increased. Development costs which do not satisfy the requirements for capitalisation are expensed as incurred. Capitalised development costs are amortised using the straight-line method over the estimated useful lives of the related assets.

Other intangible assets

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

Useful lives of other intangible assets

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

Category	Years
Software internally generated and purchased	3 to 7
Customer relationships	7 to 11
Brands	5 to 10
Other intangible assets	3 to 12

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

3.10 Non-current assets held for sale and discontinued operations

A discontinued operation is a component of an entity that has been sold or is classified as being held for sale and represents a separate major line of business or geographical area of operations or a subsidiary acquired exclusively with the intention of resale. The classification as a discontinued operation is made upon disposal or at an earlier date if the operation satisfies the criteria for classification as being held for sale. A non-current asset or a disposal group is classified as being held for sale if its carrying amount will be recovered mainly as a result of a sales transaction and not through continued use. Non-current assets or disposal groups that are held for sale are reported in the balance sheet separately under current assets and liabilities. The assets or asset groups are valued at the lower of their carrying amount and fair value less costs of disposal and any applicable impairment losses resulting from the initial classification are recorded in the income statement. Assets classified as held for sale and disposal groups are no longer depreciated and amortised.

3.11 Impairment losses

Impairment of financial assets

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

In the event of impairment in the value of available-for-sale financial assets, the cumulative losses which had been previously recognised in equity are reclassified from equity and expensed. If, at a subsequent balance sheet date, the fair value objectively increases as a result of events occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed in an equivalent amount. The reversal of impairment losses for financial assets accounted for at amortised cost is recognised in the income statement. In the case of equity instruments classified as available-for-sale, the recovery in value is recognised directly in equity.

Impairment of goodwill

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

Impairment of property, plant and equipment and other intangible assets

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

3.12 Leases

Finance leases

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

Operating leases

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

3.13 Financial liabilities

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

3.14 Trade and other payables

Trade and other payables are recorded at amortised cost.

3.15 Provisions

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

Provisions for termination benefits

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

Provisions for dismantling and restoration costs

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

3.16 Treasury shares

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

3.17 Net revenue

General

Net revenue is measured at the fair value of the consideration received less value-added taxes, price reductions, quantity discounts and other reductions in sales proceeds. Revenues are recognised when it is probable that a future benefit from the transaction will flow to Swisscom and the amount can be reliably estimated. When Swisscom acts as principal, revenues are recorded gross. However, when, from an economic point of view, Swisscom acts only as a broker or agent, revenues are reported net of related costs. In multi-component contracts, revenue is determined and reported separately for each identifiable component part. Total consideration for a multi-component contract is distributed over the various component parts at fair value on a pro-rata basis. If the fair value of services still to be provided can be measured reliably but not the fair value of the services already rendered, the value of the services already rendered is calculated using the residual-value method.

Services by segments

Residential Customers

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

Small and Medium-Sized Enterprises

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

Corporate Business

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

Wholesale

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

Network & IT

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

Fastweb

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

Other Operating Segments

Other Operating Segments mainly comprise Swisscom IT Services, Swisscom Participations and Swisscom Hospitality Services. Swisscom IT Services is a provider of IT services. Its core business consists of the integration and operation of complex IT infrastructures. In addition, Swisscom IT Services provides comprehensive services in the area of system integration and business process outsourcing for the finance sector. Furthermore, Swisscom IT Services offer the complete range of SAP services. Swisscom Participations comprises mainly Swisscom Broadcast Ltd, Swisscom Real Estate Ltd, cablex Ltd, Billag Ltd, Alphapay Ltd and Curabill Ltd as well as the Sicap Group. Swisscom

Broadcast Ltd is the leading provider of radio services, multi-platform services for customers in the media world and emergency radio in Switzerland. Billag Ltd collects radio and TV license fees on behalf of the Swiss Confederation. cablex Ltd operates in the field of construction and maintenance of wired and wireless networks in Switzerland, primarily in the field of telecommunication. Alphapay Ltd and Curabill Ltd are collection agencies specialised in claims management for third parties. The Sicap Group develops and operates mobile radio applications for GSM operators. Swisscom Hospitality Services offers Internet-based services to guests and customers in the hotel and congress sector in Europe and North America.

Revenue generated from services

Fixed networks

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

Mobile

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

Broadband

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

IP-TV

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

Communication and IT solutions

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

3.18 Subscriber acquisition and loyalty-programme costs

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

3.19 Post-employment benefits

Defined benefit obligations and the related pension expense are determined on an actuarial basis using the projected unit credit method. This reflects the number of years of service completed by employees through the date of measurement and the assumptions made concerning future salary growth. The latest actuarial valuation was undertaken using data as at 31 October 2011 with a roll-forward of plan assets to 31 December 2011. Current pension entitlements are charged to income in the period in which they arise. The effects of changes in actuarial assumptions as well as of actuarial gains and losses are recorded in full under other comprehensive income in the reporting period in which they arise. Past-service cost, attributable to pension plan amendments, is recorded as an expense, or a reduction of expense, on a straight-line basis over the average period until the benefits become vested. To the extent the benefits vest immediately, the related costs are expensed immediately.

3.20 Share-based payments

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

3.21 Capitalised costs of self-constructed assets and other income

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

3.22 Financial income and financial expense

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

3.23 Income taxes

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

3.24 Derivative financial instruments

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

3.25 Fair value

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

3.26 New and amended Standards and Interpretations

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

As from 1 January 2011 onwards, Swisscom adopted the following amendments to existing International Financial Reporting Standards (IFRS) and Interpretations, none of which have an impact on financial statement reporting by Swisscom.

- IAS 24 (revised) "Related Party Disclosures": IAS 24 introduces a relief from defined disclosure requirements for entities controlled or jointly managed by or under the significant influence of a government. Swisscom falls under the scope of application, however, it has elected not to apply the simplified disclosure requirements.
- Amendments to IAS 32 "Financial Instruments – Presentation: Classification of Rights Issues".

- Amendments to IFRIC 14 “The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction: Prepayment of a Minimum Funding Requirement”;
- Amendments to IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments”;
- “Improvements to IFRSs 2010”.

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

The following Standards and Interpretations published up to the end of 2011 are mandatory for accounting periods beginning on or after 1 January 2012:

- IFRS 7 “Financial Instruments: Disclosures – Transfer of Financial Assets” (effective as from 1 July 2011): The amendments to IFRS 7 concern expanded disclosure requirements in the case of the transfer of financial assets and are designed to provide the addressees of the financial statements with a better understanding of the impact of the residual risks in the enterprise. Swisscom expects no impact on financial reporting from implementing the amendments.
- IFRS 9 “Financial Instruments: Measurement and Classification” (effective as from 1 January 2015): IFRS 9 replaces the currently effective IAS 39 “Financial Instruments: Recognition and Measurement” and contains changes in the current presentation and valuation practice in relation to financial instruments. Swisscom will review its financial reporting with a view to implementing this new Standard.
- IFRS 10 “Consolidated Financial Statements” (effective as from 1 January 2013): The new Standard creates a uniform definition regarding the concept of control thus setting a uniform basis for the existence of a parent-subsidiary relationship and the related definition of the scope of consolidation. The new Standard replaces IAS 27 “Consolidated and Separate Financial Statements” and SIC-12 “Consolidation – Special Purpose Entities”. Swisscom will review its financial reporting with a view to implementing this new Standard.
- IFRS 11 “Joint Arrangements” (effective as from 1 January 2013): IFRS 11 governs the recording of arrangements where an entity exercises joint control over a joint venture or joint operation. The new Standard supersedes IAS 31 “Interests in Joint Ventures” and SIC-13 “Jointly Controlled Entities – Non-Monetary Contributions by Venturers” as the henceforth relevant provisions governing issues of accounting for jointly held entities. Swisscom will review its financial reporting with a view to implementing this new Standard.
- IFRS 12 “Disclosure of Interests in Other Entities” (effective as from 1 January 2013): IFRS 12 requires that entities must make such disclosures as to enable the addressees of financial statements to assess the nature, risks and financial impact inherent in the entity’s interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities (“Special Purpose Entities”). Swisscom will review its financial reporting with a view to implementing this new Standard.
- IFRS 13 “Fair Value Measurement” (effective as from 1 January 2013): IFRS 13 prescribes uniform framework measurement tools to measure fair value. The Standard does not, however, contain rules as to the cases where fair value is to be used. Swisscom will review its financial reporting with a view to implementing this new Standard.
- IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine” (effective as from 1 January 2013): IFRIC 20 contains directives as to the recognition and measurement of costs incurred in the stripping of an opencast mine during the production phase. The new Interpretation has no impact on reporting as Swisscom is not active in opencast mining.
- Amendments to IAS 1 “Presentation of Financial Statements” (effective as from 1 January 2012): In the future, as a result of the Amendment, the income statement and the statement of other comprehensive income are to be presented together whereby the option exists of presenting them singly or separately. Furthermore, the captions of the statement of other comprehensive income are to be regrouped depending on whether they can possibly be recycled at a later stage through the income statement. The accounting option of presenting the statement of comprehensive income captions either on a pre-tax or after-tax basis will continue to exist: in the case of a pre-tax basis of presentation, the taxes must, however, be shown separately according to whether they relate to items which can be recycled subsequently or to items which are not to be recycled. Swisscom will review its financial reporting with a view to implementing this new Standard.
- Amendments to IAS 12 “Income Taxes: Deferred Income Taxes on the Recovery of Underlying Assets” (effective as from 1 January 2012). The Amendment offers a partial clarification of the treatment of timing differences arising in connection with the application of the fair-value model of IAS 40. In the case of real estate held for investment purposes, it is often difficult to assess whether existing differences will reverse through continued use or as a result of a sale.

The amendment to IAS 12 provides that reversal in principle occurs as a result of a sale. As a consequence of the amendment, SIC 21 "Income Taxes – Recovery of Revalued Depreciable Assets" shall no longer be effective for real estate held for investment purposes measured at fair value. Swisscom anticipates no impact on its financial statements in applying this amendment.

- Amendments to IAS 19 "Employee Benefits" (effective as from 1 January 2013): As a result of the amendments to IAS 19, actuarial gains and losses in future must be recorded directly under other comprehensive income. The previous accounting option to either record them immediately in the income statement or under other comprehensive income or defer recording them in accordance with the so-called corridor method is eliminated. In addition, in future Management shall no longer estimate the return on the pension fund's assets in accordance with anticipated income interest on the basis of the allocation of assets, but the return on the fund's assets may only be recorded to the extent of the discounting rate. In addition, the amended IAS 19 requires more extensive note disclosures. In future, entities must provide disclosures as to the financing strategy of their pension plans and not only describe but also quantify the financing risks inherent in their pension plans. Amongst other things, a sensitivity analysis is required showing to what degree pension obligations fluctuate depending on changes in significant measurement assumptions. In future, the average remaining duration of employment benefit obligations must also be disclosed. If the amendments had already been adopted in the 2011 consolidated financial statements, it is estimated that the costs of defined-benefit pension plans in the income statement would increase by CHF 76 million.
- Amendments to IAS 27 "Separate Financial Statements" (effective as from 1 January 2013): IAS 27 will be renamed from "Consolidated and Separate Financial Statements" to "Separate Financial Statements" and henceforth shall apply only to entities preparing stand-alone financial statements in accordance with IFRS. The new standard has no impact on Swisscom as it does not prepare stand-alone financial statements in accordance with IFRS.
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" (effective as from 1 January 2013): In the amendments to IAS 28, the content of the provisions governing the accounting for shares in associates and joint ventures is expanded. In both cases, they provide for the uniform application of the equity method of accounting. Swisscom will review its financial reporting with a view to implementing this new Standard.
- Amendments to IAS 32 "Financial Instruments: Presentation" and IFRS 7 "Financial Instruments: Disclosures – Offsetting of Financial Assets and Financial Liabilities" (effective as from 1 January 2014): The preconditions set out in IAS 32 regarding the set-off are set out in additional application guidelines. The Amendments to IFRS 7 concern new disclosure requirements in connection with certain netting agreements. Swisscom will review its financial reporting with a view to implementing this new Standard.
- Amendments to IFRS 9 "Financial Instruments, Measurement and Classification" and IFRS 7 "Financial Instruments: Disclosures" – Mandatory Effective Date of Application and Note Disclosures in the Transitional Period: The mandatory date of application of IFRS 9 was moved back to accounting periods beginning on or subsequent to 1 January 2015. In addition, derogations are available in the form of modified disclosures regarding the transition to IFRS 9 instead of restating the prior-year comparative figures. These additional disclosures were added as an amendment to IFRS 7. Swisscom will review its financial reporting with a view to implementing this new Standard.

Voluntary Adoption of Financial-Statement Accounting Principles

In order to enhance the transparency of the consolidated financial statements, actuarial gains and losses arising from defined benefit plans are no longer accounted for using the so-called corridor method but are recorded in full in the accounting period in which they arise in the statement of other comprehensive income. Previously, using the corridor method, actuarial gains and losses were recorded as personnel expense over the assumed remaining service period of the beneficiaries provided that they exceed 10% of the greater of the defined benefit obligations and the pension plan assets. Swisscom applied the change retrospectively. The impact on the balance sheet and income statement is to be analysed as follows:

In CHF million	Reported	Adjustments	Restated
Balance sheet at 1 January 2010			
Deferred tax assets	57	116	173
Defined benefit assets	38	(38)	–
Defined benefit obligations	351	476	827
Equity	**6,610**	**(398)**	**6,212**
Share of equity attributable to equity holders of Swisscom Ltd	6,291	(390)	5,901
Share of equity attributable to non-controlling interests	319	(8)	311

In CHF million	Reported	Adjustments	Restated
Balance sheet at 1 January 2011			
Deferred tax assets	71	271	342
Defined benefit assets	263	(263)	–
Defined benefit obligations	341	942	1,283
Equity	**6,284**	**(934)**	**5,350**
Share of equity attributable to equity holders of Swisscom Ltd	6,256	(926)	5,330
Share of equity attributable to non-controlling interests	28	(8)	20

In CHF million, except for per share amounts	Reported	Adjustments	Restated
Income statement full year 2010			
Personnel expense	(2,520)	2	(2,518)
Net income	**1,786**	**2**	**1,788**
Share of net income attributable to equity holders of Swisscom Ltd	1,811	2	1,813
Share of net income attributable to non-controlling interests	(25)	–	(25)
Basic and diluted earnings per share (in CHF)	34.96	0.04	35.00

In CHF million	Reported	Adjustments	Restated
Comprehensive income full year 2010			
Net income	**1,786**	**2**	**1,788**
Actuarial gains and losses from defined benefit plans	–	(693)	(693)
Income tax expense	271	155	426
Other comprehensive income	**(719)**	**(538)**	**(1,257)**
Comprehensive income	**1,067**	**(536)**	**531**
Share of comprehensive income attributable to equity holders of Swisscom Ltd	1,121	(536)	585
Share of comprehensive income attributable to non-controlling interests	(54)	–	(54)

4 Significant accounting judgments, estimates and assumptions

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

Goodwill

As of 31 December 2011, the carrying amount of goodwill from acquisitions totalled CHF 4,664 million. The recoverability of goodwill is tested for impairment annually during the fourth quarter or earlier if an indication of impairment exists. The value of goodwill is primarily dependent upon projected cash flows, the discount rate (WACC) and long-term growth rate. The significant assumptions are disclosed in Note 24. Changes to these assumptions may result in an impairment loss in the following year.

Post-employment benefits

Defined benefit obligations are calculated on the basis of various financial and demographic assumptions. The key assumptions for valuing the obligations are the discount rate, future salary and pension increases as well as the expected return on plan assets. As of 31 December 2011, the underfunding amounted to CHF 1,977 million which was recognised as a liability in the consolidated balance sheet. A reduction in the discount rate of 0.5% would result in an increase in the pension obligations of CHF 745 million. An increase in average future salary increases of 0.5% would lead to an increase in post-employment benefits of CHF 83 million. A reduction in the expected rate of return of 0.5% would result in an increase in annual pension costs of CHF 36 million. See Note 10.

Provisions for dismantling and restoration costs

Provisions are raised for costs incurred in connection with dismantling and restoring mobile-telephone and broadcasting stations of Swisscom Broadcast. As of 31 December 2011, the carrying amount of these provisions totalled CHF 549 million. The level of the provisions is primarily determined by estimates of future costs for dismantling and restoration and the timing of the dismantling. An increase in the estimated costs by 10% would result in an increase in the provision of CHF 49 million. A postponement of the date of dismantling by ten years would lead to a decrease in the provisions of CHF 91 million. See Note 28.

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

Various proceedings are in course in connection with the setting of prices for interconnection and other access services. Swisscom has raised provisions on the basis of its own estimate of the expected financial outcome thereof. As of 31 December 2011, the provisions for interconnection and other access services aggregated CHF 131 million. Further developments in the proceedings or a decision by the competent court may result in a revised assessment of the financial outcome in subsequent years, thereby leading to an increase or decrease of the recorded provisions. See Note 28.

Proceedings conducted by the Competition Commission

The Competition Commission (ComCo) is conducting an investigation into ADSL prices against Swisscom. The proceeding is described in Note 29. In the event that Swisscom is deemed to have violated Antitrust Law, ComCo is entitled to impose sanctions. On the basis of a legal opinion, Swisscom considers it unlikely that ComCo will impose direct sanctions. Accordingly, no provisions were recognised in the 2011 consolidated financial statements in connection with this proceeding. Further developments in the proceeding may result in a revised assessment of the financial outcome in subsequent years and lead to the need to record provisions.

Allowances for doubtful receivables

Allowances for doubtful receivables are recorded in order to cover foreseeable losses arising from a customer's inability to pay. As of 31 December 2011, the carrying value of allowances for trade and other receivables totalled CHF 261 million. In determining the appropriateness of the allowance, several factors are considered. These include the ageing of receivables, the current financial solvency of the customer and the historical experience with receivable losses. The actual level of receivable losses may be higher than the amount recognised if the actual financial situation of the customers is worse than originally expected. See Note 18.

Deferred taxes

The recognition of deferred tax assets and liabilities is based on the judgment of management. Deferred tax assets on tax loss carry-forwards are only recognised if it is probable that they can be used. Whether or not they can be used depends on whether taxable profits can be achieved which can be offset against the available tax loss carry-forwards. In order to assess the probability of their future use, estimates must be made of various factors such as future profitability. If the actual amounts differ from the estimates, this can lead to a change in the assessment of recoverability of the deferred tax assets. On 31 December 2011, recognised deferred tax assets amounted to CHF 728 million. See Note 15.

Useful lives of property, plant and equipment

As of 31 December 2011, the carrying amount of property, plant and equipment totalled CHF 8,222 million. In assessing the useful life of an item of property, plant and equipment, the expected use of the asset by the company, the expected physical wear and tear, technological developments as well as past experience with comparable assets are considered. The assessment of useful lives is based upon the judgment of management. A change in the useful lives may impact the future level of depreciation and amortisation recorded. See Notes 3.7 and 23.

Business combinations

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

5 Changes in scope of consolidation and purchase of non-controlling interests

Business combinations in 2011

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

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

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

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

Business combinations in 2010

Payments totalling CHF 39 million were made in 2010 for the acquisition of Group companies. Of this amount, CHF 6 million is for deferred considerations for business combinations in prior years and CHF 33 million for businesses acquired in 2010. The newly acquired companies in 2010 are viewed each as non-significant business combinations and they are thus reported on an aggregate basis.

On 30 April 2010, Swisscom Switzerland acquired the Swiss operating and service business of Siemens Enterprise Communications. In addition, on 15 December 2010, Swisscom Switzerland acquired the entire share capital of Axept Ltd which offers services primarily in the fields of consulting and engineering as well as outsourcing. On 7 May 2010, Swisscom IT Services completed the acquisition of the entire share capital of Panatronic Schweiz Ltd which is active in the area of printer solutions as well as servicing and repairs. Following acquisition, Panatronic Schweiz Ltd changed its name to Swisscom IT Services Workplace Ltd. On 23 July 2010, Swisscom Hospitality Services completed the acquisition of 100% of the share capital of Wayport Holding A/S. Wayport provides network-based services to hotels in Europe, the Middle East and Africa (EMEA) for use by their guests.

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

In CHF million	Pre-acquisition carrying amount	Adjustments	Post-acquisition carrying amount
Cash and cash equivalents	8	–	8
Trade and other receivables	15	–	15
Other financial assets	2	–	2
Property, plant and equipment	8	–	8
Other intangible assets	–	22	22
Other current and non-current assets	7	–	7
Financial liabilities	(7)	–	(7)
Trade and other payables	(13)	–	(13)
Defined benefit obligations	(3)	–	(3)
Deferred tax liabilities	–	(4)	(4)
Other current and non-current liabilities	(7)	–	(7)
Identifiable assets and liabilities	**10**	**18**	**28**
Goodwill			15
Purchase consideration			**43**
Cash and cash equivalents acquired			(8)
Deferred payment of purchase price			(2)
Cash outflow from business combinations of the current year			**33**
Cash outflow from business combinations of prior years			6
Total cash outflow from business combinations			**39**

The main reasons for the recognition of goodwill are the additional market shares expected in future and the qualified workforce. From these business combinations, there resulted additional net revenues of CHF 48 million and a loss of CHF 2 million in the 2010 consolidated financial statements. Assuming that the subsidiary companies acquired in 2010 had been included in the consolidated financial statements as from 1 January 2010, there would have resulted consolidated pro-forma net revenue of CHF 12,039 million and a consolidated pro-forma net income of CHF 1,786 million.

Purchase of non-controlling interests

As a result of a friendly takeover bid in May 2007, Swisscom acquired 82.08% of the share capital of Fastweb S.p.A. (Fastweb). On 11 October 2010, Swisscom launched a public takeover bid for the remaining 17.92% of the share capital of Fastweb. The bidding period lasted until 12 November 2010. Swisscom offered a price of EUR 18.00 per Fastweb share. At the end of the bidding period, 12.75% of the shares were tendered, which equates a total purchase consideration of EUR 183 million (CHF 243 million). By the end of 2010, a further 0.16% was acquired on the stock exchange aggregating EUR 2 million (CHF 3 million). A squeeze-out procedure was commenced for the remaining 5.01% of the share capital of Fastweb and a financial liability of EUR 71 million (CHF 96 million) recorded in 2010. As part of the squeeze-out procedure, the offer price for each Fastweb share was EUR 18. During the squeeze-out procedure which ended in March 2011, a further 3.16% of the shares were tendered. In addition, Swisscom acquired the remaining Fastweb shares on the market and de-listed Fastweb on the Milan stock exchange on 22 March 2011. The aggregate acquisition price for the outstanding Fastweb shares amounted to EUR 256 million (CHF 342 million). Transaction costs totalling CHF 7 million were incurred in connection with the purchase of the outstanding non-controlling interests.

6 Segment information

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

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

The services offered by each operating segment are described in Note 3.17. The segment results of the segments Fastweb and Other Operating Segments correspond to the operating result (EBIT) of these units. The latter reflects the net revenues from external customers and other segments less segment expenses and depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets. Segment expenses include the costs of materials and services, personnel costs and other operating costs less capitalised self-constructed assets and other income. Group Headquarters charges no management fees for its financial management services; similarly, the segment Network & IT recharges no network costs to other segments. Other intersegment services are recharged at market prices. Unrealised gains and losses may arise as a result of recharging services and sales of assets between the segments. These are eliminated and are reported in the segment information in the column “Elimination”. Capital expenditures by segment include additions to property, plant and equipment and other intangible assets.

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

2011, in CHF million	Swisscom Switzerland	Fastweb	Other operating segments	Group Head-quarters	Elimi-nation	Total
Net revenue from external customers	8,396	2,141	929	1	–	11,467
Net revenue with other segments	65	10	809	6	(890)	–
Net revenue	**8,461**	**2,151**	**1,738**	**7**	**(890)**	**11,467**
Segment result	**2,786**	**(1,660)**	**161**	**(145)**	**(16)**	**1,126**
Financial income and financial expense, net						(311)
Share of results of associates						30
Income before income taxes						**845**
Income tax expense						(151)
Net income						**694**
Associates	218	2	11	2	–	233
Assets held for sale	–	–	1	–	–	1
Capital expenditure in property, plant and equipment and other intangible assets	1,400	552	169	1	(27)	2,095
Depreciation and amortisation	988	728	173	16	(6)	1,899
Impairment losses	–	1,555	4	–	–	1,559
Gain (loss) on disposal of property, plant and equipment, net	(2)	–	20	–	–	18
Share of results of associates	30	–	–	–	–	30

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

2011, in CHF million	Residential Customers	Small and Medium-Sized Enterprises	Corporate Business	Whole-sale	Network & IT	Elimi-nation	Total Swisscom Switzer-land
Net revenue from external customers	4,906	1,127	1,754	609	–	–	8,396
Net revenue with other segments	241	48	111	388	–	(723)	65
Net revenue	**5,147**	**1,175**	**1,865**	**997**	**–**	**(723)**	**8,461**
Segment result	**2,863**	**869**	**915**	**380**	**(2,242)**	**1**	**2,786**
Associates	150	–	–	68	–	–	218
Capital expenditure in property, plant and equipment and other intangible assets	146	15	111	–	1,128	–	1,400
Depreciation and amortisation	95	5	57	–	832	(1)	988
Gain (loss) on disposal of property, plant and equipment, net	(1)	–	(1)	–	–	–	(2)
Share of results of associates	11	–	–	19	–	–	30

Segment information 2010 of Swisscom is to be analysed as follows:

2010, in CHF million, restated	Swisscom Switzerland	Fastweb	Other operating segments	Group Head-quarters	Elimi-nation	Total
Net revenue from external customers	8,500	2,562	925	1	–	11,988
Net revenue with other segments	66	14	811	5	(896)	–
Net revenue	**8,566**	**2,576**	**1,736**	**6**	**(896)**	**11,988**
Segment result	**2,773**	**(158)**	**148**	**(138)**	**2**	**2,627**
Financial income and financial expense, net						(365)
Share of results of associates						28
Income before income taxes						**2,290**
Income tax expense						(502)
Net income						**1,788**
Associates	218	–	11	2	–	231
Assets held for sale	–	–	4	–	–	4
Capital expenditure in property, plant and equipment and other intangible assets	1,204	585	130	–	(16)	1,903
Depreciation and amortisation	1,022	747	189	14	(11)	1,961
Impairment losses	9	–	2	–	–	11
Gain (loss) on disposal of property, plant and equipment, net	(2)	–	19	–	–	17
Share of results of associates	30	–	–	(2)	–	28

Segment information 2010 of Swisscom Switzerland is to be analysed as follows:

2010, in CHF million	Residential Customers	Small and Medium-Sized Enterprises	Corporate Business	Whole-sale	Network & IT	Elimi-nation	Total Swisscom Switzer-land
Net revenue from external customers	4,897	1,123	1,732	748	–	–	8,500
Net revenue with other segments	293	52	126	505	–	(910)	66
Net revenue	**5,190**	**1,175**	**1,858**	**1,253**	**–**	**(910)**	**8,566**
Segment result	**2,906**	**864**	**935**	**439**	**(2,372)**	**1**	**2,773**
Associates	153	–	–	65	–	–	218
Capital expenditure in property, plant and equipment and other intangible assets	128	9	80	–	988	(1)	1,204
Depreciation and amortisation	102	5	56	–	861	(2)	1,022
Impairment losses	–	–	–	–	9	–	9
Gain (loss) on disposal of property, plant and equipment, net	(1)	–	–	–	(1)	–	(2)
Share of results of associates	10	–	–	20	–	–	30

Disclosures by geographical regions

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

	2011		2010	
In CHF million	Net revenue	Assets	Net revenue	Assets
Switzerland	9,243	13,702	9,340	13,260
Italy	2,150	4,664	2,570	6,548
Other countries in Europe	66	131	67	125
Other countries outside Europe	8	14	11	13
Unallocated	–	939	–	1,129
Total	**11,467**	**19,450**	**11,988**	**21,075**

Disclosures by products and services

In CHF million	2011	2010
Mobile telephony	3,499	3,549
Fixed network	5,758	6,229
Other	2,209	2,209
Unallocated	1	1
Total net revenue	**11,467**	**11,988**

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

Significant customers

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

7 Net revenue

In CHF million	2011	2010
Net revenue from services	10,603	11,043
Net revenue from sale of merchandise	860	940
Net revenue from the right of use of intangible assets	4	5
Total net revenue	**11,467**	**11,988**

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

8 Goods and services purchased

In CHF million	2011	2010
Raw material and supplies	30	24
Services purchased	415	401
Customer premises equipment and merchandise	961	966
National traffic fees	172	241
International traffic fees	278	346
Traffic fees of foreign subsidiaries	546	687
Total goods and services purchased	**2,402**	**2,665**

9 Personnel expense

In CHF million	2011	2010 restated
Salary and wage costs	2,053	2,035
Social security expenses	227	224
Expense of defined benefit plans. See Note 10.	130	137
Expense of defined contribution plans. See Note 10.	11	13
Expense of share-based payments. See Note 11.	9	2
Salary and wage costs of the employment company Worklink	6	10
Termination benefits	–	17
Other personnel expense	77	80
Total personnel expense	**2,513**	**2,518**

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. In 2011, no costs were recorded for termination benefit programmes (prior year: CHF 17 million). The total wage expense for Worklink participants in 2011 aggregated CHF 6 million (prior year: CHF 10 million).

10 Post-employment benefits

Defined benefit plans

Swisscom has a defined benefit plan for employees in Switzerland named comPlan. Further defined benefit obligations exist for retired employees PUBLICA and for Fastweb employees. Expenses of defined benefit plans totalled CHF 130 million in 2011 (prior year: CHF 137 million).

comPlan

The majority of Swisscom's employees are insured for the risks of old age, death and disability by its own pension plan, comPlan. The comPlan pension plan has the legal form of a foundation. Retirement benefits are determined as a function of the individual retirement savings accounts (accumulated retirement savings) at the time of retirement. The standard retirement age is 65. The annual pension is calculated by multiplying the accumulated retirement savings at the date of retirement by a conversion rate laid down in the rules of the foundation. If an employee retires at the normal retirement age of 65, the savings are converted into a retirement pension at a rate of 6.4%. Employees qualify for early retirement at the earliest on their 58th birthday, whereby the rate of conversion is reduced in line with the longer pension expectancy and lower retirement savings. Employees may choose to take their entire pension or part thereof in the form of a capital payment. The regular employer contributions include risk contributions of 3,35% and contributions in the form of credits to individual retirement savings of 5% to 13% of the insured salary, depending on age. In addition, Swisscom also paid additional contributions of 3% of the insured salary from 2006 to 2010 in order to constitute reserves for fluctuations in the value of plan assets. In 2010, these additional contributions aggregated CHF 52 million. In 2010, the Council of the Foundation resolved to make several amendments to the pension plan which are designed to ensure long-term financial stability considering the low interest rates and growing life expectancy. The amendments took effect in 2011 and encompass measures affecting pension benefits as well as contributions. In particular, the level of future retirement benefits for new pensioners will be decreased. The amendments to the pension plan lead to a reduction in defined benefit obligations of CHF 142 million. Of this amount, CHF 6 million was recorded as a gain on plan settlements and CHF 136 million as the unamortised costs of retrospective changes to the pension plan. Of the gain on plan settlements, CHF 5 million was recorded as a reduction of retirement benefit expense and CHF 1 million as a reduction of unamortised actuarial losses.

Retired employees of PUBLICA

Former employees of Swisscom and the predecessor organisation PTT Telecom who retired before 1 January 1999 are insured with the Swiss Federal pension plan PUBLICA. Swisscom may decide annually whether to grant extraordinary pension increases, if the increase in pensions cannot be funded out of PUBLICA's own free reserves. Any extraordinary pension increases must be funded by Swisscom through payment of the necessary covering funds. In order to evaluate the effective obligation, it is assumed that Swisscom will finance pension increases of 0.1% per annum on a long-term average. The defined benefit obligations for future pension payments, including pension increases and administrative costs, are CHF 2,672 million gross (prior year: CHF 2,734 million). Of this, obligations for pension increases and administrative costs amount to CHF 35 million (prior year: CHF 35 million). Since Swisscom bears neither investment nor demographic risks (in particular longevity risks), only the defined benefit commitments for future pension increases and administrative costs are disclosed.

Fastweb

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

Pension cost

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

In CHF million	Funded pension plans	Unfunded pension plans	2011	Funded pension plans	Unfunded pension plans	2010 restated
Current service cost	178	–	178	147	–	147
Interest cost on defined benefit obligations	224	1	225	257	1	258
Expected return on plan assets	(250)	–	(250)	(272)	–	(272)
Gains resulting from plan settlement	–	–	–	(5)	–	(5)
Amortisation of retroactive plan amendments	(25)	–	(25)	(5)	–	(5)
Employment termination benefits	2	–	2	14	–	14
Total pension cost from defined benefit plans	**129**	**1**	**130**	**136**	**1**	**137**

Expenses in 2011 for defined contribution plans aggregated CHF 11 million (prior year: CHF 13 million).

Status of pension plans

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

In CHF million	Funded pension plans	Unfunded pension plans	2011	Funded pension plans	Unfunded pension plans	2010 restated
Defined benefit obligations						
Balance at 1 January	**8,358**	**56**	**8,414**	**7,578**	**62**	**7,640**
Current service cost	178	–	178	147	–	147
Interest cost	224	1	225	257	1	258
Plan participant' contributions	140	–	140	139	–	139
Benefits paid	(334)	(4)	(338)	(322)	(2)	(324)
Actuarial (gains) losses	467	–	467	672	–	672
Additions from acquisition of subsidiaries	3	–	3	11	–	11
Plan amendements	1	–	1	(138)	–	(138)
Employment termination benefits	2	–	2	14	–	14
Foreign currency translation adjustments	–	–	–	–	(5)	(5)
Balance at 31 December	**9,039**	**53**	**9,092**	**8,358**	**56**	**8,414**
Plan assets						
Balance at 1 January	**7,254**	**–**	**7,254**	**6,810**	**–**	**6,810**
Expected return on plan assets	250	–	250	272	–	272
Employer contributions	216	–	216	370	–	370
Plan participant' contributions	140	–	140	139	–	139
Benefits paid	(334)	–	(334)	(322)	–	(322)
Actuarial (gains) losses	(314)	–	(314)	(23)	–	(23)
Additions from acquisition of subsidiaries	–	–	–	8	–	8
Balance at 31 December	**7,212**	**–**	**7,212**	**7,254**	**–**	**7,254**
Net defined benefit obligations						
Net defined benefit obligations at 31 December	**1,827**	**53**	**1,880**	**1,104**	**56**	**1,160**
Unrecognised costs of retrospective changes in pension plans	97	–	97	123	–	123
Net defined benefit obligations recognised at 31 December	**1,924**	**53**	**1,977**	**1,227**	**56**	**1,283**

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

In CHF million	Funded pension plans	Unfunded pension plans	2011	Funded pension plans	Unfunded pension plans	2010 restated
Balance at 1 January	**1,227**	**56**	**1,283**	**765**	**62**	**827**
Pension cost, net	129	1	130	136	1	137
Employer contributions and benefits paid	(216)	(4)	(220)	(370)	(2)	(372)
Additions from acquisition of subsidiaries	3	–	3	3	–	3
Actuarial (gains) losses	781	–	781	693	–	693
Foreign currency translation adjustments	–	–	–	–	(5)	(5)
Balance at 31 December	**1,924**	**53**	**1,977**	**1,227**	**56**	**1,283**

The plan assets include shares of Swisscom Ltd with a fair value of CHF 5 million (prior year: CHF 5 million). The effective return on plan assets was CHF –63 million (prior year: CHF 249 million).

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

Category	Investment strategy	31.12.2011	31.12.2010
Third-party debt instruments	51.0%	50.1%	53.3%
Equity instruments	28.0%	28.0%	27.5%
Real estate	10.0%	11.2%	8.5%
Cash and cash equivalents and other investments	11.0%	10.7%	10.7%
Total plan assets	**100.0%**	**100.0%**	**100.0%**

Swisscom expects to make payments to the pension funds for ordinary employee contributions in 2012 totalling CHF 206 million.

Actuarial assumptions

	2011		2010	
Assumptions	Funded pension plans	Unfunded pension plans	Funded pension plans	Unfunded pension plans
Discount rate at 31 December	2.35%	3.21%	2.74%	2.87%
Expected rate of salary increases	2.24%	–	2.24%	–
Expected rate of return on plan assets	3.45%	–	3.96%	–
Expected rate of pension increases	0.10%	0.10%	0.10%	0.10%
Longevity at age of 65 – men (number of years)	19.56	19.56	19.65	19.65
Longevity at age of 65 – women (number of years)	21.89	21.89	22.81	22.81

The expected yield on plan assets is based upon current market interest rates plus a long-term risk premium rate of return weighted according to investment strategy. This is derived from historic yield differences between the individual asset classes.

Additional disclosures on the defined benefit obligations and plan assets

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

In CHF million	2011	2010	2009	2008	2007
Defined benefit obligations	(9,092)	(8,414)	(7,640)	(7,110)	(7,715)
Plan assets	7,212	7,254	6,810	6,065	6,863
Underfunding	**(1,880)**	**(1,160)**	**(830)**	**(1,045)**	**(852)**
Experience adjustments arising from defined benefit obligations	(109)	58	24	(7)	(9)
Experience adjustments arising from plan assets	(314)	(23)	378	(1,200)	(272)

Amounts recognised in other comprehensive income

In 2011, actuarial pre-tax losses of CHF 781 million (prior year: CHF 693 million) were recognised in other comprehensive income. As of 31 December 2011, cumulative actuarial pre-tax losses recognised in other comprehensive income totalled CHF 1,986 million (prior year: CHF 1,205 million).

11 Share-based payments

In CHF million	2011	2010
Share-based payments to the members of the Board of Directors	0.8	0.7
Share-based payments to the members of the Group Executive Board	1.2	1.1
Change in accrual for share-based payments to the members of the Group Executive Board	–	0.2
Other share-based payments	6.9	–
Total expense of share-based payments	**8.9**	**2.0**

Management Incentive Plan

The Management Incentive Plan is an equity-share plan for members of the Group Executive Board and Board of Directors. A part of the remuneration and of the variable earnings-related compensation of the Members of the Board of Directors and Group Executive Board, respectively, is settled in the form of Swisscom shares. The shares are allocated based on their tax values. The level of the earnings-related compensation and the number of shares allocated are determined in the subsequent business year once the financial statements are finalised. The shares allocated to the members of the Group Executive Board are based on the variable earnings-related compensation of the prior year as reported. The tax value per share amounts to CHF 346 (prior year: CHF 328). The shares are subject to a retention period of three years from the grant date. The shares are vested immediately upon delivery.
The allocation and cost of share-based payments excluding the change in the accrual for share-based payments payable to the members of the Group Executive Board are to be analysed as follows:

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

[1] Allocation for the fiscal year 2010.

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

[1] Allocation for the fiscal year 2009.

Other share-based payments plans

As recognition for exceptional services rendered during the financial year, equity share premiums may now be awarded to a maximum of 10% of managerial employees and those employees covered by the collective employment agreement. In 2011, 16,654 shares with a market price of CHF 412 were issued gratuitously and an expense of CHF 7 million was recorded.

12 Other operating expense

In CHF million	2011	2010
Rental expense	321	350
Repair and maintenance expense	272	273
Loss on disposal of property, plant and equipment	5	7
Energy costs	108	110
Information technology cost	182	187
Advertising and selling expenses	219	222
Dealer commissions	408	386
Consultancy expenses and freelance employees	224	202
Allowances for receivables	111	132
General and administrative expenses	180	204
Miscellaneous operating expenses	358	437
Total other operating expense	**2,388**	**2,510**

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

13 Capitalised costs of self-constructed assets and other income

In CHF million	2011	2010
Capitalised self-constructed assets	266	234
Gain on sale of property, plant and equipment	23	24
Income from employment company Worklink (personnel hire)	6	10
Miscellaneous income	125	36
Total capitalised self-constructed assets and other income	**420**	**304**

Capitalised costs of self-constructed assets include personnel costs for the production of technical installations, the construction of network infrastructures and the development of software for internal use. In September 2011, the Italian subsidiary Fastweb settled legal disputes with another telecom service provider. As a result thereof, Fastweb reduced its customer base by 197,000 and transferred the customer relationships to the other telecom service provider. In turn, Fastweb will receive a one-time payment of EUR 56 (CHF 69 million) in 2012, which was recorded as other income in the third quarter of 2011.

14 Financial income and financial expense

In CHF million	2011	2010
Interest income	25	46
Capitalised borrowing costs	11	12
Foreign exchange gains	3	–
Other financial income	15	35
Total financial income	**54**	**93**
Interest expense	(299)	(307)
Present-value adjustments on provisions	(17)	(30)
Foreign exchange losses	–	(58)
Costs for termination of hedges	–	(34)
Other financial expense	(49)	(29)
Total financial expense	**(365)**	**(458)**
Financial income and financial expense, net	**(311)**	**(365)**

Other financial income in 2011 includes changes in the fair value of options in connection with company acquisitions in an amount of CHF 9 million (prior year: CHF 14 million). Other financial expense includes interest on arrears amounting to CHF 21 million (prior year: CHF 3 million). In the second half-year of 2010, hedging relationships designated as cash flow hedges in connection with the early repayment of bank loans were terminated. The cumulative revaluation losses amounting to CHF 34 million were taken out of other reserves within equity and recorded as other financial expenses in the income statement. In 2010, settlements were reached with various telecommunication service providers in connection with proceedings by regulatory authorities. As a result of the settlements, provisions for interest aggregating CHF 18 million were released and credited to other financial income in the fourth quarter of 2010. See Note 28.
Net interest expense is to be analysed as follows:

In CHF million	2011	2010
Interest income on cash and cash equivalents	4	1
Interest income on other financial assets	21	32
Change in fair value of interest hedging instruments	–	13
Total interest income	**25**	**46**
Interest expense on bank loans, debenture bonds and private placements	(218)	(244)
Interest expense on finance lease liabilities	(42)	(46)
Interest expense on other financial liabilities	(1)	(17)
Change in fair value of interest hedging instruments	(38)	–
Total interest expense	**(299)**	**(307)**
Net interest expense	**(274)**	**(261)**

15 Income taxes

In CHF million	2011	2010
Current income tax expense	272	424
Adjustments recognised for current tax of prior periods	(2)	68
Deferred tax expense	(119)	10
Total income tax expense recognised in income statement	**151**	**502**

In addition, income taxes of CHF 268 million (prior year: CHF 426 million) were recorded as income directly in other comprehensive income as follows:

In CHF million	2011	2010 restated
Foreign currency translation adjustments of foreign subsidiaries	111	270
Actuarial gains and losses from defined benefit plans	160	155
Change in fair value of cash flow hedges	3	3
Gains and losses from cash flow hedges transferred to income statement	(6)	(2)
Total income tax expense recognised in other comprehensive income	**268**	**426**

In 2010 and 2011, as a result of lower foreign exchange translation rates, valuation allowances on foreign shareholdings were recorded in the stand-alone financial statements of Group companies which are deducted for tax purposes. For consolidation purposes, these valuation allowances are again eliminated. As a consequence of the tax deduction for the foreign currency-related allowances, income tax expense recognised in other comprehensive income was reduced by CHF 111 million (CHF 270 million).

The applicable income tax rate for the purposes of the following analysis of income tax expense is the weighted average income tax rate calculated on the basis of the operating companies of the Group in Switzerland. The applicable income tax rate amounts to 20.6% (prior year: 20.9%). The reduction in the applicable income tax rate is a result of lower tax rates in various Swiss cantons.

In CHF million	2011	2010 restated
Income before income taxes	845	2,290
Applicable income tax rate	20.6%	20.9%
Income tax expense at the applicable income tax rate	**174**	**479**
Reconciliation to reported income tax expense		
Effect of share of results of associates	(6)	(6)
Effect of tax rate changes on deferred taxes	(15)	4
Effect of use of different income tax rates in Switzerland	5	(4)
Effect of use of different income tax rates in foreign countries	3	9
Effect of non-recognition of tax loss carry-forwards	14	8
Effect of recognition and offset of income loss carry-forwards not recognised in prior years	(7)	(23)
Effect of initial recognition of deferred tax assets	–	(52)
Effect of deferred tax assets written off	31	54
Effect of impairment losses on goodwill	(46)	–
Effect of exclusively tax-deductible expenses and income	1	20
Effect of non-taxable income and non-deductible expenses	(1)	(1)
Effect of income tax of prior periods	(2)	14
Total income tax expense	**151**	**502**
Effective income tax rate	17.9%	21.9%

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

In CHF million	2011	2010
Current income tax liabilities at 1 January, net	**5**	**171**
Recognised in income statement	270	492
Recognised in other comprehensive income	(109)	(271)
Income taxes paid	(182)	(365)
Interest on arrears	8	–
Recording of tax assets previously unrecognised	–	(22)
Current (income tax assets) income tax liabilities at 31 December, net	**(8)**	**5**
Thereof current income tax assets	(45)	(30)
Thereof current income tax liabilities	37	35

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

	31.12.2011			31.12.2010, restated		
In CHF million	Assets	Liabilities	Net amount	Assets	Liabilities	Net amount
Trade and other receivables	51	(20)	31	48	(21)	27
Property, plant and equipment	44	(211)	(167)	50	(312)	(262)
Intangible assets	–	(407)	(407)	–	(447)	(447)
Defined benefit obligations	392	–	392	290	(54)	236
Tax loss carry-forwards	139	–	139	169	–	169
Other	102	(23)	79	106	(40)	66
Total tax assets (tax liabilities)	**728**	**(661)**	**67**	**663**	**(874)**	**(211)**
Thereof deferred tax assets			311			342
Thereof deferred tax liabilities			(244)			(553)

Deferred tax assets and liabilities have changed as follows:

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

In CHF million	Balance 31.12.2009 restated	Recognised in income statement	Recognised in other comprehensive income	Change in scope of consolidation	Foreign currency translation adjustments	Balance 31.12.2010 restated
Trade and other receivables	29	7	–	–	(9)	27
Property, plant and equipment	(205)	(48)	–	–	(9)	(262)
Intangible assets	(530)	32	–	(4)	55	(447)
Defined benefit obligations	122	(39)	155	–	(2)	236
Tax loss carry-forwards	250	(47)	–	–	(34)	169
Other	(16)	85	–	–	(3)	66
Total	**(350)**	**(10)**	**155**	**(4)**	**(2)**	**(211)**

As a result of a change in tax legislation, the tax status of one foreign subsidiary changed in the prior year. As a result of the change in tax status, deferred tax assets of CHF 52 million were recognised in 2010. 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 2011, various subsidiaries recognised deferred tax assets on tax loss carry-forwards and other temporary differences totalling CHF 728 million (prior year: CHF 663 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 90 million (prior year: CHF 61 million) were recognised by subsidiaries reporting a loss in 2011 or 2010. On the basis of the approved business plans of these subsidiaries, Swisscom considers it probable that the tax loss carry-forwards and temporary differences can be offset against future taxable profits.
Tax loss carry-forwards and other temporary differences for which no deferred tax assets were recorded, expire as follows:

In CHF million	31.12.2011	31.12.2010
Expiring within 1 year	37	59
Expiring within 1 to 2 years	33	41
Expiring within 2 to 3 years	9	46
Expiring within 3 to 4 years	56	47
Expiring within 4 to 5 years	27	45
Expiring within 5 to 6 years	20	21
Expiring within 6 to 7 years	43	45
Expiring without limitation	203	46
Total unrecognised tax loss carry-forwards	**428**	**350**

No deferred tax liabilities were recognised on the undistributed earnings of subsidiaries as of 31 December 2011 (prior year: CHF 2 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	2011	2010 restated
Share of net income attributable to equity holders of Swisscom Ltd	683	1,813
Weighted average number of shares outstanding (number)	51,800,573	51,797,945
Basic and diluted earnings per share (in CHF)	**13.19**	**35.00**

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	31.12.2011	31.12.2010
Cash and sight balances	314	483
Total cash and cash equivalents	**314**	**483**

In 2011, Swisscom had no term deposits outstanding, as in the prior year.

18 Trade and other receivables

In CHF million	31.12.2011	31.12.2010
Billed revenue	2,637	2,518
Accrued revenue	169	139
Allowances	(249)	(247)
Total trade receivables, net	**2,557**	**2,410**
Accrual from international roaming traffic	370	263
Receivables from collection activities	21	24
Receivables from construction contracts	22	44
Other receivables	20	16
Allowances	(12)	(15)
Total other receivables, net	**421**	**332**
Total trade and other payables	**2,978**	**2,742**

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

In CHF million	31.12.2011	31.12.2010
Switzerland	1,699	1,544
Italy	1,092	1,100
Other countries	15	13
Total billed and accrued revenue	**2,806**	**2,657**
Switzerland	(51)	(54)
Italy	(197)	(192)
Other countries	(1)	(1)
Total allowance for receivables	**(249)**	**(247)**
Total trade receivables, net	**2,557**	**2,410**

Analysis of maturity and allowances

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

In CHF million	31.12.2011 Gross amount	31.12.2011 Allowance	31.12.2010 Gross amount	31.12.2010 Allowance
Not overdue	1,851	(7)	1,673	(9)
Past due up to 3 months	423	(7)	471	(6)
Past due 4 to 6 months	97	(6)	103	(8)
Past due 7 to 12 months	122	(28)	152	(31)
Past due over 1 year	313	(201)	258	(193)
Total	**2,806**	**(249)**	**2,657**	**(247)**

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

In CHF million	Trade receivables	Other receivables
Balance at 31 December 2009	**251**	**15**
Additions to allowances	142	1
Write-off of irrecoverable receivables subject to allowance	(102)	–
Release of unused allowances	(11)	(1)
Foreign currency translation adjustments	(33)	–
Balance at 31 December 2010	**247**	**15**
Additions to allowances	119	–
Write-off of irrecoverable receivables subject to allowance	(105)	–
Release of unused allowances	(7)	(3)
Foreign currency translation adjustments	(5)	–
Balance at 31 December 2011	**249**	**12**

Construction contracts

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

In CHF million	2011	2010
Contract costs of current projects	90	94
Recognised gains less losses	10	23
Contract costs including share of gains and losses, net	**100**	**117**
Less progress billings	(81)	(78)
Total net receivables from construction contracts	**19**	**39**
Thereof receivables from construction contracts	22	44
Thereof liabilities from construction contracts	(3)	(5)
Advance payments received	29	27

In 2011, construction contracts generated net revenues of CHF 259 million (prior year: CHF 295 million).

19 Other financial assets

In CHF million	Loans and receivables	Held-to-maturity	Available-for-sale	Derivative financial instruments	Total
Balance at 31 December 2009	**568**	**8**	**26**	**–**	**602**
Additions	135	–	6	–	141
Disposals	(189)	(8)	(2)	–	(199)
Change in scope of consolidation	2	–	–	–	2
Change in fair value recognised in equity	–	–	2	–	2
Change in fair value recognised in income statement	–	–	–	24	24
Foreign currency translation adjustments recognised in income statement	(35)	–	–	–	(35)
Balance at 31 December 2010	**481**	**–**	**32**	**24**	**537**
Additions	27	–	3	–	30
Disposals	(299)	–	(1)	–	(300)
Change in fair value recognised in equity	–	–	(3)	5	2
Change in fair value recognised in income statement	–	–	–	(1)	(1)
Foreign currency translation adjustments recognised in income statement	1	–	–	–	1
Balance at 31 December 2011	**210**	**–**	**31**	**28**	**269**
Thereof other current financial assets	38	–	7	28	73
Thereof other non-current financial assets	172	–	24	–	196

Loans and receivables

As of 31 December 2011, term deposits totalled CHF 5 million (prior year: CHF 98 million). In 2011, following an agreement with the counterparty, receivables totalling USD 166 million (CHF 146 million) were offset against financial liabilities in the same amount and derecognised from the balance sheet. In the prior year, financial assets aggregating CHF 252 million pledged to secure liabilities were not freely available.

Held-to-maturity financial assets

As of 31 December 2011, Swisscom had no held-to-maturity assets. In 2010, the remaining recognised cross-border lease agreements were terminated. See Note 26.

Available-for-sale financial assets

Available-for-sale financial assets primarily include financial investments in equity instruments. As a general rule, shares not quoted on stock exchanges are recorded at cost since their fair value cannot be reliably determined. As of 31 December 2011, the carrying amount of investments in shares recorded at cost totalled CHF 13 million (prior year: CHF 11 million).

Derivative financial instruments

As at 31 December 2011, derivative financial instruments with a positive market value of CHF 28 million were recognised (prior year: CHF 24 million). As of 31 December 2011, options relating to company acquisitions with a fair value of CHF 23 million (prior year: CHF 14 million) were recorded. Other derivative financial instruments comprise interest rate swaps and forward-exchange contracts. See Note 33.

20 Inventories

In CHF million	31.12.2011	31.12.2010
Raw material and supplies	5	4
Customer premises equipment and merchandise	146	156
Finished and semi-finished goods	5	3
Total inventories, gross	**156**	**163**
Allowances on inventories	(12)	(13)
Total inventories, net	**144**	**150**

In 2011, inventory-related costs amounting to CHF 991 million (prior year: CHF 990 million) were recorded under the cost of goods and services purchased.

21 Other non-financial assets

In CHF million	31.12.2011	31.12.2010
Prepaid expenses	130	146
Value-added taxes receivable	134	128
Advance payments made	36	18
Other assets	34	37
Total other current non-financial liabilities	**334**	**329**
Prepaid expenses	12	8
Other assets	44	36
Total other non-current non-financial assets	**56**	**44**

22 Non-current assets held for sale

Non-current assets held for sale include real estate from the segment Other Operating Segments in an amount of CHF 1 million (prior year: CHF 4 million). Disposal is anticipated within the next twelve months. In 2011, non-current assets held for sale were sold for a total of CHF 14 million (prior year: CHF 13 million). A gain on disposal of CHF 9 million (prior year: CHF 11 million) was recorded under other income.

23 Property, plant and equipment

In CHF million	Land, buildings and leasehold improvements	Technical installations	Other assets	Advances made and assets under construction	Total
At cost					
Balance at 31 December 2009	**3,025**	**23,172**	**2,972**	**300**	**29,469**
Additions	8	946	188	309	1,451
Disposals	(30)	(424)	(115)	3	(566)
Additions from acquisition of subsidiaries	–	2	6	–	8
Adjustment to dismantlement and restoration costs	–	40	–	–	40
Reclassifications	3	138	47	(187)	1
Foreign currency translation adjustments	(15)	(517)	3	(5)	(534)
Balance at 31 December 2010	**2,991**	**23,357**	**3,101**	**420**	**29,869**
Additions	7	982	223	414	1,626
Disposals	(18)	(920)	(198)	–	(1,136)
Additions from acquisition of subsidiaries	–	–	1	–	1
Adjustment to dismantlement and restoration costs	2	57	–	–	59
Reclassifications to non-current assets held for sale	(10)	–	–	–	(10)
Reclassifications	4	152	88	(244)	–
Foreign currency translation adjustments	(2)	(81)	1	–	(82)
Balance at 31 December 2011	**2,974**	**23,547**	**3,216**	**590**	**30,327**
Accumulated depreciation and impairment losses					
Balance at 31 December 2009	**2,124**	**17,182**	**1,987**	**–**	**21,293**
Depreciation	26	1,058	270	–	1,354
Impairment losses	–	–	7	–	7
Disposals	(23)	(420)	(106)	–	(549)
Foreign currency translation adjustments	(2)	(138)	5	–	(135)
Balance at 31 December 2010	**2,125**	**17,682**	**2,163**	**–**	**21,970**
Depreciation	29	1,011	254	–	1,294
Impairment losses	1	–	–	–	1
Disposals	(16)	(920)	(189)	–	(1,125)
Reclassifications to non-current assets held for sale	(8)	–	–	–	(8)
Foreign currency translation adjustments	–	(27)	–	–	(27)
Balance at 31 December 2011	**2,131**	**17,746**	**2,228**	**–**	**22,105**
Net carrying amount					
Net carrying amount at 31 December 2011	**843**	**5,801**	**988**	**590**	**8,222**
Net carrying amount at 31 December 2010	**866**	**5,675**	**938**	**420**	**7,899**
Net carrying amount at 31 December 2009	**901**	**5,990**	**985**	**300**	**8,176**

As a result of agreements between Swisscom and regional electrical utilities concerning the joint construction of glass fibre networks, the estimated useful life of glass fibre cables was subjected to review. Until then, Swisscom had used an estimated economic life of 20 years for glass fibre cables. As a result of the review and from an economic perspective, the estimated economic life of glass fibre cables was extended from 20 to 30 years. In compliance with IAS 8, the change was applied prospectively as from 1 January 2011. The impact on depreciation and amortisation for the whole of 2011 amounted to CHF 14 million.

Impairment losses on property, plant and equipment are a consequence of changes in estimated future cash flows anticipated from the use and ultimate disposal of these items of property, plant and equipment. In 2011, impairment losses on property, plant and equipment amounted to CHF 1 million (prior year: CHF 7 million).

In 2011, borrowing costs amounting to CHF 11 million were capitalised (prior year: CHF 12 million). The average interest rate used for the capitalisation of borrowing costs was 2.5% (prior year: 2.6%). As of 31 December 2011, real estate with a carrying amount of CHF 10 million (prior year: CHF 11 million) was pledged to secure mortgage credits. As of 31 December 2011, the carrying amount of property, plant and equipment acquired under finance leases amounted to CHF 581 million (prior year: CHF 604 million). For further information on the adjustments to the costs of dismantling and restoration – see Note 28.

24 Goodwill and other intangible assets

In CHF million	Goodwill	Internally generated software	Purchased software	Customer relationships	Brands	Other intangible assets	Total
Acquisition costs							
Balance at 31 December 2009	**6,675**	**867**	**1,247**	**1,307**	**332**	**445**	**10,873**
Additions	–	121	192	–	–	162	475
Disposals	–	(10)	(39)	–	–	(3)	(52)
Purchase price adjustments	5	–	–	–	–	–	5
Reclassifications	–	58	39	–	–	(98)	(1)
Additions from acquisition of subsidiaries	15	2	–	14	–	6	37
Foreign-currency translation adjustments	(423)	(15)	(108)	(199)	(51)	(10)	(806)
Balance at 31 December 2010	**6,272**	**1,023**	**1,331**	**1,122**	**281**	**502**	**10,531**
Additions	–	131	184	–	–	169	484
Disposals	–	(82)	(30)	(4)	(6)	(27)	(149)
Reclassifications	–	92	78	–	–	(170)	–
Additions from acquisition of subsidiaries	15	5	–	6	–	–	26
Foreign-currency translation adjustments	(60)	(2)	(19)	(29)	(7)	(1)	(118)
Balance at 31 December 2011	**6,227**	**1,167**	**1,544**	**1,095**	**268**	**473**	**10,774**
Accumulated amortisation and impairment losses							
Balance at 31 December 2009	**11**	**534**	**712**	**406**	**90**	**98**	**1,851**
Depreciation and amortisation	–	155	239	140	31	42	607
Impairment losses	–	3	1	–	–	–	4
Disposals	–	(10)	(38)	–	–	(2)	(50)
Foreign-currency translation adjustments	–	(10)	(60)	(72)	(16)	(7)	(165)
Balance at 31 December 2010	**11**	**672**	**854**	**474**	**105**	**131**	**2,247**
Depreciation and amortisation	–	181	226	126	27	45	605
Impairment losses	1,555	–	3	–	–	–	1,558
Disposals	–	(82)	(28)	(4)	(6)	(26)	(146)
Foreign-currency translation adjustments	(3)	(2)	(11)	(13)	(3)	(1)	(33)
Balance at 31 December 2011	**1,563**	**769**	**1,044**	**583**	**123**	**149**	**4,231**
Net carrying amount							
Net carrying amount at 31 December 2011	**4,664**	**398**	**500**	**512**	**145**	**324**	**6,543**
Net carrying amount at 31 December 2010	**6,261**	**351**	**477**	**648**	**176**	**371**	**8,284**
Net carrying amount at 31 December 2009	**6,664**	**333**	**535**	**901**	**242**	**347**	**9,022**

As of 31 December 2011, other intangible assets included advance payments and assets under construction of CHF 150 million (prior year: CHF 186 million). Apart from the position goodwill, there are no intangible assets with indefinite useful lives. As of 31 December 2011, accumulated impairment losses on goodwill of CHF 1,563 million were recorded. Goodwill arising from investments in associates is classified as part of the investments in associates.

Goodwill impairment testing

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

In CHF million	31.12.2011	31.12.2010
Residential Customers	2,495	2,496
Small and Medium-Sized Enterprises	656	656
Corporate Business	734	734
Wholesale	45	45
Cash-generating units of Swisscom Switzerland	**3,930**	**3,931**
Fastweb	598	2,210
Other cash-generating units	136	120
Total goodwill	**4,664**	**6,261**

Goodwill was tested for impairment in the fourth quarter of 2011 after the business planning had been completed. The recoverable amount of a cash-generating unit is determined based on its value in use, using the discounted cash flow (DCF) method. The projected cash flows are estimated on the basis of the business plans approved by management in general covering a three-year period. A planning horizon of five years is used for the impairment test of Fastweb. For the free cash flows extending beyond the detailed planning period, a terminal value was computed by capitalising the normalised cash flows using a constant growth rate. The growth rates applied are those customarily assumed for the country or market. The key assumptions underlying the calculations are as follows:

Disclosures in %	WACC pre-tax	WACC post-tax	Long-term growth rate
Residential Customers	5.76	3.77	(1.0)
Small and Medium-Sized Enterprises	5.76	3.77	(1.1)
Corporate Business	5.96	3.77	(0.9)
Wholesale	5.78	3.77	(1.2)
Fastweb	9.70	7.75	1.0
Other cash-generating units	6.3 to 11.4	5.4 to 9.1	1.0 to 1.5

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

Swisscom Switzerland

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

Fastweb

The impairment test in Fastweb conducted in the fourth quarter of 2011 resulted in an impairment loss of EUR 1,276 million (CHF 1,555 million). 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 2012 to 2016. The latter takes into consideration historical empirical values and management's expectations regarding the future development of the relevant market. The impairment test took into account the following assumptions.

Assumptions	Description
Average annual growth in revenue during the detailed planning period	In the business plan, an average annual growth in revenue of 2.5% is expected for the detailed planning period 2012–2016. In the prior year, an average annual growth in revenue of 5.1% had been expected for the detailed planning period 2011–2015. Revenue drivers are primarily the partnership with the pay-TV provider Sky, and an expansion in distribution channels and in the range of mobile phone services.
Projected EBITDA margin in 2016 (EBITDA as % of net revenue)	The projected EBITDA margin in 2016 is 34%. The projection is based on the assumption that cost reductions resulting from efficiency increases and a further reduction in bad debt.
Projected capital expenditure rate in 2016 (capex as % of net revenue)	In the period up to 2016, it is anticipated that capital expenditure in relation to net revenue will decline to less than 18% as a high level of capital expenditure in the network infrastructure has already been made.
Post-tax discount rate (WACC post-tax)	The post-tax discount rate is 7.75% and the related pre-tax discount rate is 9.70%. 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 discount rate is based on the risk free rate for ten year bonds issued by the German government with a zero interest rate. A risk premium for the country risk of Italy is then added.
Long-term growth rate	The normalised free cash flows in the terminal value were capitalised with a constant growth rate of 1.0%. 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.

The impairment loss results principally from the worsening overall economic environment and the ensuing reduced growth prospects as well as higher interest rates which lead to higher capital costs in Italy. In the field of residential customers, an increasing saturation in the broadband market and a very intensive price competition in the wake of the market entry of new service providers triggered declining average customer revenues. The high level of government indebtedness, weak economic growth and the high level of competition in the field of residential customers are risk factors which affects the future growth and thus the enterprise value of Fastweb. Should the post-tax discount rate of 7.75% be raised by 0.5%, the impairment loss would increase by EUR 213 million (CHF 260 million).

25 Investments in associates

In CHF million	2011	2010
Balance at 1 January	**231**	**228**
Additions	3	1
Dividends	(29)	(15)
Share of net results	30	28
Foreign currency translation adjustments	(2)	(11)
Balance at 31 December	**233**	**231**

The most significant participations classified as associates are LTV Yellow Pages, Cinetrade, and Belgacom International Carrier Services. In the fourth quarter of 2009, Belgacom International Carrier Services resolved to reduce its share capital and distribute a dividend, both of which were settled only in 2010 and 2011. Swisscom's share of these payments was CHF 44 million (share capital reduction of CHF 29 million, dividend CHF 15 million). Dividends received totalling CHF 29 million (prior year: CHF 15 million) are attributable mainly to the dividends paid by LTV Yellow Pages, Cinetrade and Belgacom International Carrier Services.
The following table provides selected summarised key financial data of the associates:

In CHF million	2011	2010
Income statement		
Net revenue	2,258	2,520
Operating expense	(2,131)	(2,380)
Operating income	127	140
Net income	**104**	**103**
Balance sheet at 31 December		
Current assets	970	891
Non-current assets	318	343
Current liabilities	(806)	(760)
Non-current liabilities	(22)	(24)
Equity	**460**	**450**

26 Financial liabilities

In CHF million	31.12.2011	31.12.2010
Money market borrowings	130	700
Bank loans	158	16
Debenture bonds	326	76
Private placements	151	1
Finance lease liabilities	20	14
Other interest-bearing financial liabilities	9	12
Derivative financial instruments. See Note 33.	6	33
Other non-interest-bearing financial liabilities	4	89
Total current financial liabilities	**804**	**941**
Bank loans	1,019	1,444
Debenture bonds	4,873	5,119
Private placements	1,248	1,408
Finance lease liabilities	640	661
Other interest-bearing financial liabilities	5	8
Derivative financial instruments. See Note 33.	225	166
Other non-interest-bearing financial liabilities	17	25
Total non-current financial liabilities	**8,027**	**8,831**
Total financial liabilities	**8,831**	**9,772**

Money market borrowings

As of 31 December 2011, Swisscom had money market borrowings outstanding of CHF 130 million (prior year: CHF 700 million). The money market borrowings have maturities of less than 30 days. The effective interest rate of money market borrowings is 0.16%. Swisscom employs this instrument for short-term liquidity management.

Bank loans and credit limit

			Carrying amount	
In CHF million	Due within	Par value in CHF	31.12.2011	31.12.2010
Bank loans in CHF variable interest-bearing	2012–2015	580	580	686
Bank loans in EUR variable interest-bearing	2015	426	426	437
Bank loans in USD fixed interest-bearing	2013–2028	123	171	337
Total			**1,177**	**1,460**

In 2011, Swisscom took up variable interest rate bank loans with a nominal amount of CHF 150 million maturing in one year. In 2011, following an agreement with the counterparty, receivables totalling USD 166 million (CHF 146 million) were offset against financial liabilities in the same amount and removed from the balance sheet. Furthermore, in 2011, Swisscom repaid bank loans amounting to CHF 255 million (prior year: CHF 2,200 million). As a result of the early repayment of bank loans in the prior year, cash flow hedges relating to hedged items of an aggregate of CHF 1,300 million were closed out. The cumulative revaluation losses of CHF 34 million were taken out of other reserves within equity and recognised as other financial expense in the income statement. The total bank EUR-denominated loans were swapped into variable interest-bearing CHF financing through foreign currency swaps. As of 31 December 2011, transaction costs relating to the outstanding bank loans of CHF 1 million (prior year: CHF 1 million) were recognised. The transaction costs are amortised over the terms of the bank loans using the effective interest method. The effective interest rate of the CHF denominated bank loans is 0.67%. For the bank loans in USD and EUR, the rate is 4.53% and 0.39%, respectively. The bank loans may become due for immediate repayment if the shareholding of the Swiss Confederation in the capital of Swisscom falls below one third or if another shareholder can exercise control over Swisscom. Swisscom has a guaranteed line of credit of CHF 2,000 million from banks maturing in 2015. As of 31 December 2011, this line of credit had not been drawn down (prior year: CHF 250 million).

Debenture bonds

In CHF million	Maturity Years	Par value	Coupon	Carrying amount 31.12.2011	Carrying amount 31.12.2010
Debenture bonds in CHF	2007–2013	550	3.50%	562	564
Debenture bonds in CHF	2007–2017	600	3.75%	611	611
Debenture bonds in CHF	2008–2015	500	4.00%	504	503
Debenture bonds in CHF	2009–2014	1,250	3.50%	1,279	1,277
Debenture bonds in CHF	2009–2018	1,500	3.25%	1,498	1,495
Debenture bonds in CHF	2010–2012	250	0.75%	250	250
Debenture bonds in CHF	2010–2022	500	2.63%	495	495
Total				**5,199**	**5,195**

In 2010, Swisscom issued debenture bonds aggregating CHF 750 million. The issue was made in two tranches with the first tranche of CHF 250 million bearing a coupon rate of 0.75% and a term of two years and the second tranche of CHF 500 million with a coupon rate of 2.625% and a term of twelve years. In 2010, debenture bonds aggregating CHF 350 million were redeemed upon maturity. The effective interest rate on the debenture bonds is 3.26%. The investors are entitled to sell the debentures back to Swisscom if a shareholder other than the Swiss Confederation gains a majority share in Swisscom and at the same time, the company's rating falls below BBB–/Baa3.

Private placements

In CHF million	Due within	Par value in CHF	Carrying amount 31.12.2011	Carrying amount 31.12.2010
Private placements in CHF abroad	2017–2019	600	560	560
Private placements in CHF domestic	2012–2016	500	500	500
Private placements in EUR abroad	2013–2014	334	339	349
Total			**1,399**	**1,409**

In 2010, financing was received in the amount of CHF 300 million in the form of variable interest bearing private placements. CHF 150 million mature in 2012 and CHF 150 million in 2016. The interest rate risk of the tranche maturing in 2016 was hedged with an interest rate swap and was designated as a cash flow hedge for hedge accounting purposes. In addition, the interest rate risk of one private placement of CHF 200 million taken up in 2009 was hedged in 2011 with an interest rate swap and designated as a cash flow hedge for hedge accounting. The duration of both hedges is identical to the duration of the hedged private placements. In 2010, Swisscom repaid both tranches of the EUR-denominated private placement totalling EUR 225 million upon maturity. The total EUR-denominated private placement was swapped to variable CHF financing using currency swaps. The swap of fixed interest-bearing EUR financing into variable CHF financing was designated as a fair value hedge. As in the prior year, no transaction costs were recorded as of 31 December 2011 in connection with the private placements. The effective interest rate on the private placements in CHF is 1.35%. For the EUR private placements, the rate is 0.74%. The Swiss-franc-denominated private placements arising in 2007 of CHF 600 million may become due for immediate repayment if the shareholding of the Swiss Confederation in the capital of Swisscom falls below 35% or if another shareholder can exercise control over Swisscom. The investors in the remaining private placements are entitled to resell their investments to Swisscom should the Swiss Confederation permanently give up its majority shareholding in Swisscom.

Financial liabilities from cross-border lease agreements

Between 1996 and 2002, Swisscom entered into various cross-border lease agreements under the terms of which parts of its fixed and mobile phone networks were sold or leased on a long-term basis and leased back. Swisscom defeased a significant part of the lease obligations through the acquisition of investment-grade financial investments. The financial assets were irrevocably deposited with a trust. In accordance with Interpretation SIC 27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease", these financial investments and payment undertaking agreements and the liabilities in the same amount are offset and not recorded in the balance sheet.

In 2010, the remaining recorded financial liabilities arising from cross-border lease agreements were repaid. At 31 December 2011, the financial liabilities and assets including accrued interest which arose from cross-border lease agreements amounted to USD 42 million or CHF 39 million, respectively, which, in compliance with SIC 27, were not recognised in the balance sheet (prior year: USD 104 million or CHF 98 million).

Liabilities arising from finance leases

In addition to the cross-border lease agreements described above, Swisscom concluded two agreements in 2001 for the sale of real estate. At the same time, Swisscom entered into long-term agreements to lease back part of the real estate sold which, in part, qualify as finance leases. The gain realised on real estate classified as finance leases was deferred. As of 31 December 2011, the deferred gains totalled CHF 191 million (prior year: CHF 196 million). The deferred gains are released to other income over the term of the individual leases. In 2011, CHF 5 million (prior year: CHF 6 million) of the deferred gains was released. The effective interest rate of the finance lease liabilities was 6.57%. The minimum lease payments relating to these leaseback agreements are included in the table below. The remaining real estate has been leased back under operating leases over periods ranging from 5 to 20 years. See Note 35. In 2011, contingent rental payments of CHF 4 million (prior year: CHF 4 million) were recorded as rental expense.

As of the balance sheet date, future minimum lease payments and financial liabilities aggregated:

In CHF million	31.12.2011	31.12.2010
Within 1 year	61	56
Within 1 to 2 years	51	65
Within 2 to 3 years	46	48
Within 3 to 4 years	46	46
Within 4 to 5 years	46	46
After 5 years	1,659	1,704
Total future minimum lease payments	**1,909**	**1,965**
Less future finance costs	(1,249)	(1,290)
Total finance lease liabilities	**660**	**675**
Thereof current finance lease liabilities	20	14
Thereof non-current finance lease liabilities	640	661

The future payments of the liabilities arising under finance leases, expressed in terms of their present value, as of 31 December 2010 and 2011 were as follows:

In CHF million	31.12.2011	31.12.2010
Within 1 year	20	14
Within 1 to 2 years	10	24
Within 2 to 3 years	6	7
Within 3 to 4 years	6	6
Within 4 to 5 years	6	6
After 5 years	612	618
Total present value of finance lease liabilities	**660**	**675**

Other financial liabilities

Other financial liabilities as of 31 December 2011 include debts of CHF 5 million (prior year: CHF 6 million) which are secured by mortgages over real estate with a carrying amount of CHF 10 million (prior year: CHF 11 million). Other financial liabilities as of 31 December 2010 include an amount payable of EUR 71 million (CHF 89 million) in connection with the squeeze-out proceedings involving the minority shareholders of Fastweb. See Note 5.

27 Trade and other payables

In CHF million	31.12.2011	31.12.2010
Supplier invoices received	1,260	1,317
Goods and services received not yet invoiced	379	369
Total trade payables	**1,639**	**1,686**
Accrual from international roaming traffic	268	180
Liabilities from collection activities	27	23
Liabilities from construction contracts	3	5
Miscellaneous liabilities	253	321
Total other liabilities	**551**	**529**
Total trade and other payables	**2,190**	**2,215**

28 Provisions

In CHF million	Termination benefits	Dismantlement and restoration costs	Regulatory proceedings	Other	Total
Balance at 31 December 2009	**35**	**439**	**251**	**152**	**877**
Additions to provisions	33	44	76	154	307
Present-value adjustments	–	12	14	4	30
Release of unused provisions	(18)	(6)	(66)	(30)	(120)
Use of provisions	(25)	(2)	(116)	(81)	(224)
Foreign currency translation adjustments	–	–	–	(8)	(8)
Balance at 31 December 2010	**25**	**487**	**159**	**191**	**862**
Additions to provisions	9	62	27	69	167
Present-value adjustments	–	11	3	3	17
Release of unused provisions	(11)	(8)	(9)	(23)	(51)
Use of provisions	(13)	(3)	(49)	(25)	(90)
Foreign currency translation adjustments	–	–	–	(2)	(2)
Balance at 31 December 2011	**10**	**549**	**131**	**213**	**903**
Thereof current provisions	10	–	18	120	148
Thereof non-current provisions	–	549	113	93	755

Provisions for termination benefits

The provisions for termination benefits comprise the costs for the programmes defined in the social plans of 2001 and 2006. For further information see Note 9.

Provisions for dismantling and restoration costs

The provisions for dismantling and restoration costs relate to the dismantling of mobile phone and broadcasting stations of Swisscom Switzerland and Swisscom Broadcast and the restoration to its original state of the land owned by third parties on which the transmitters are located. The provisions are computed by reference to estimates of future dismantling costs and are discounted using an average interest rate of 1.88% (prior year: 2.79%). The effect of using different interest rates amounted to CHF 56 million (prior year: CHF 42 million). In 2011, adjustments aggregating CHF 59 million (prior year: CHF 40 million) were recorded under the dismantling costs capitalised as part of property, plant and equipment and CHF 4 million (prior year: CHF 5 million) was recognised in the income statement. The non-current portion of the provisions is expected to be settled subsequent to 2020.

Provisions for regulatory proceedings

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

Swisscom provides interconnection services and other services to other telecommunication service providers in Switzerland. Interconnection regulates the joint hook-up of Swisscom's networks and those of other telecommunication service providers. Since 2000, Swisscom charges its interconnection prices in accordance with the cost-accounting method of long-run incremental costs (LRIC) prescribed in the Ordinance on Telecommunication Services (FDV). The amended Telecommunications Act (TCA) and its implementing ordinances obligate Swisscom, from 1 April 2007 onwards, to offer further access services to the other providers of telecommunication services at prices which – with the exception of charges for subscriber connections over fixed landlines – are also computed in accordance with the LRIC cost-accounting method prescribed in the Ordinance on Telecommunication Services (FDV).
During recent years, several legal proceedings pursuant to telecommunications law have been initiated against Swisscom. As at 31 December 2011, provisions for the proceedings relating to interconnection and other access services of Swisscom (Switzerland) Ltd have been raised totalling CHF 131 million. Payments in 2011 totalled CHF 49 million. Payments for the remaining commitments depend on the date when enforceable rulings and decisions are taken.

TCA access proceedings concerning interconnection prices for 2000-2008
Since 2000, several telecommunication service providers have filed petitions with the Federal Communications Commission (ComCom) for the reduction of the interconnection prices charged to them by Swisscom. As a result of various rulings and decisions, the interconnection prices for the years 2000 to 2008 were fixed in a legally binding manner. As a consequence of the decision of the Federal Tribunal of 21 April 2006, the risk existed that those telecommunication service providers having accepted the charges will demand retrospectively a reduction in their interconnection prices from Swisscom. In 2006, provisions were therefore raised to cover this risk of claim. With two rulings of 9 October 2008, ComCom ruled that, by virtue of law, the price rulings are effective retrospectively for all telecommunication service providers (retrospective third-party clause) but declined to rule on retrospective third-party clauses (as requested by the parties). Swisscom contested these rulings with its appeal of 10 November 2008. With its decisions of 1 and 19 February 2010, the Federal Administrative Court allowed the appeals of Swisscom as it is of the opinion that the price rulings shall apply only to the parties to the proceedings and not additionally to third parties by virtue of law. In two rulings of 21 June 2010, ComCom laid down, in future cases, retrospective third-party clauses without limiting the period for their retrospective application. ComCom thus left to the civil courts the decision as to the period of application of the retrospective third-party clause. In the second half of 2010, out-of-court settlements were reached with several telecommunication service providers. In the third quarter of 2011, a further out-of-court settlement was reached with one telecommunication service provider which was settled. The provisions which had been raised covered the costs of the settlement.

TCA access proceedings concerning interconnection prices for 2009 and 2010, fully unbundled access to subscriber connections and collocation

In 2009, three telecommunication service providers filed access petitions with ComCom for the reduction of the prices charged to them by Swisscom in 2009 and 2010 for interconnection, fully unbundled access to subscriber connections and collocation. In its rulings of 13 December 2010, ComCom set the prices for 2009 and 2010 and lowered them. Swisscom appealed against these rulings on 28 January 2011. The proceedings are pending with the Federal Administrative Court.

TCA access proceedings concerning interconnection prices for 2011, fully unbundled access to subscriber connections and collocation

On 28 February 2011, one telecommunication service provider filed an access petition with ComCom for the reduction of the prices charged to it by Swisscom for 2011 for interconnection, fully unbundled access to subscriber connections and collocation. With its ruling of 7 December 2011, ComCom set the prices for interconnection, fully unbundled access to subscriber connections and collocation for 2011 and lowered the prices for interconnection, involving the largest turnover, by up to 1–2%, the price for subscriber connections by some 7% and the price for collocation by some 2%.

Rental lines

Following a petition by two telecommunication service providers, ComCom established in its rulings of 10 March 2010 that Swisscom occupies a position of market dominance regarding all transmission technologies capable of being used for rental lines of all bandwidths throughout Switzerland. The only exception was connections between localities where the services of at least two alternative service providers are available in addition to those supplied by Swisscom. For this reason, ComCom ruled on cost-based prices for rental lines with bandwidths of 2 Mbit/s to 10 Gbit/s for the years 2007-2009 and thus lowered the related prices charged by Swisscom by 15–30%. On 26 April 2010, Swisscom appealed against these rulings. The appeal is pending with the Federal Administrative Court.

Other provisions

Other provisions include provisions for environmental, contractual and tax risks, as well as provisions for insurance claims. The non-current portion of the provisions will most likely be settled between 2013 and 2015.

Tax risks Fastweb

On 23 February 2010, the Italian investigatory authorities, based upon an investigatory report concerning VAT fraud and criminal organisation, initiated penal proceedings against Fastweb and other individuals and companies. In addition, tax audits by the Italian Tax Police took place in respect of the years 2003 through 2009. The object of the investigations was, inter alia, the purchase and resale of telephone cards by Fastweb in 2003 as well as interconnection services of Fastweb in 2005 through the beginning of 2007. The outcome of the investigation is difficult to predict and involves many uncertainties. On the basis of a legal opinion, Swisscom estimates that an outflow of funds for the aggrieved Fastweb is probable and has therefore set up a provision of EUR 70 million (CHF 102 million) in the first quarter of 2010. The establishment of the provision, however, does not constitute a recognition of guilt. The amount of the provision was arrived at on the basis of a computation which took into account the possible financial risks and uncertainties arising from the proceedings and represented the best estimate which could be made on the basis of the information then available. In the fourth quarter of 2010, an accord was reached with the public prosecutor's office for part of the VAT proceedings and provisions in the amount of EUR 46 million (CHF 61 million) were settled. As of 31 December 2011, the provisions relating to the VAT proceedings amounted to EUR 28 million (CHF 34 million).

The further development of the proceedings or a decision of the competent authorities in subsequent years may lead to a differing assessment of the financial outcome and thus to an increase or decrease of the recorded provision. Furthermore, it is possible that, as a result of the tax audit, further matters may be contested by the tax authorities which are unrelated to the alleged VAT fraud and which could have a financial impact on income taxes and value-added taxes.

29 Contingent liabilities

Proceedings conducted by the Competition Commission

The Competition Commission (ComCo) is currently investigating a number of companies in the Swisscom Group which are described below. If it is proven that Swisscom has violated Antitrust Law, ComCo is entitled to impose sanctions. This sanction depends on the length and severity and nature of the violation and may amount to up to 10% of the revenue generated by the company in question in the relevant markets in Switzerland over the last three financial years.

Investigation concerning mobile phone termination fees

On 15 October 2002, the Competition Commission (ComCo) initiated an investigation into mobile termination fees against three mobile phone operators, Swisscom, Sunrise and Orange. In its investigation, ComCo came to the conclusion that Swisscom has a dominant market position and has abused its position by enforcing unreasonably high prices from the other telecommunication service providers during the period from 1 April 2004 to 31 May 2005. On 5 February 2007, ComCo imposed a fine against Swisscom of CHF 333 million. At the same time, ComCo continued its investigation against Swisscom, Sunrise and Orange into mobile termination charges for the period subsequent to 31 May 2005.

Following the appeal of Swisscom, in a decision dated 24 February 2010, whilst confirming the market-dominant position of Swisscom in mobile termination, the Federal Administrative Court refuted the allegation by ComCo of improper practices and rescinded the fine imposed. Swisscom lodged an appeal with the Federal Tribunal against the allegation of market dominance, whilst the Federal Department of Economic Affairs (EVD) challenged the decision to refute the allegation of market dominance and the rescission of the fine imposed. In its decision of 11 April 2011, the Federal Tribunal rejected the appeal of the EVD and upheld the appeal of Swisscom against the allegation of market dominance. In its findings on the case, the Federal Tribunal stated that Swisscom had not acted in an improper manner in setting mobile termination charges and no legal basis existed for asserting the market dominance of Swisscom. The Federal Tribunal thus follows the reasoning of Swisscom and quashed in full the fine imposed by ComCo for mobile termination charges. As a consequence, Swisscom will no longer be obliged to pay the fine of CHF 333 million imposed by ComCo. Swisscom has raised no provisions for this sanctioning procedure.

With its ruling of 12 December 2011, ComCo discontinued its investigation against Swisscom, Sunrise and Orange as regards matters subsequent to 31 May 2005. Swisscom has raised no provisions for these proceedings either.

Investigation into the relationship of ADSL wholesale prices to retail prices

On 20 October 2005, ComCo launched an investigation into Swisscom Ltd and Swisscom (Switzerland) Ltd into abuse of a dominant market position. The object of the investigation is the question whether Swisscom has set the prices for ADSL pre-services for Internet service providers at such a high level that no scope remains for an adequate profit margin in relation to the end-customer prices charged by Swisscom itself (price squeezing). Swisscom contests the allegation of market dominance and refutes the accusation of price squeezing. It is of the opinion that the prices for its ADSL pre-services leave its ADSL competitors enough room for a reasonable profit margin. With its decision of 5 November 2009, ComCo sanctioned Swisscom for abuse of a market-dominant position in the case of ADSL services and levied a fine of CHF 220 million. Swisscom appealed against the ruling at the Federal Administrative Court on 7 December 2009. On the basis of a legal opinion, Swisscom concludes that, from the present-day perspective, it is not probable that a court of final appeal will levy sanctions. It thus has raised no provisions in the consolidated financial statements as of 31 December 2010 and 2011. In the event of a legally binding decision on abuse, claims could be asserted against Swisscom under civil law. Swisscom considers it unlikely that such civil claims can be enforced.

Regulatory proceedings

Other access proceedings in accordance with the revised Swiss Federal Telecommunications Act (TCA)

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

30 Other non-financial liabilities

In CHF million	31.12.2011	31.12.2010
Deferred revenue	354	351
Value-added taxes payable	144	104
Advance payments received	21	60
Other current non-financial liabilities	157	170
Total other current non-financial liabilities	**676**	**685**
Deferred gain on sale and leaseback of real estate	191	196
Other non-current non-financial liabilities	105	124
Total other non-current non-financial liabilities	**296**	**320**

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

31 Additional information concerning equity

Share capital and treasury shares

As of 31 December 2011, the total number of shares issued remained unchanged from the prior year at 51,801,943 shares. All shares have a par value of CHF 1 and are fully paid up. Each share entitles the holder to one vote. Shares with a market value aggregating CHF 9 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 2009	**3,832**	**331**	**1**
Purchases on the market	4,506	392	2
Allocated for share-based compensation	(4,479)	392	(2)
Balance at 31 December 2010	**3,859**	**332**	**1**
Purchases on the market	18,253	404	7
Allocated for share-based compensation	(21,677)	391	(8)
Balance at 31 December 2011	**435**	**404**	**–**

After deducting 435 treasury shares (prior year: 3,859 shares), the balance of shares outstanding as at 31 December 2011 totalled 51,801,508 (prior year: 51,798,084 shares).

Other reserves

In CHF million	Hedging reserve	Fair value reserve	Foreign currency translation adjustments	Total other reserves
Balance at 31 December 2009	**(69)**	**–**	**(761)**	**(830)**
Foreign currency translation adjustments of foreign subsidiaries	–	–	(993)	(993)
Purchase of non-controlling interests	–	–	(66)	(66)
Change in fair value of available-for-sale financial assets	–	2	–	2
Change in fair value of cash flow hedges	(9)	–	–	(9)
Ineffective portion of cash flow hedges transferred to income statement	39	–	–	39
Income tax expense	1	–	270	271
Balance at 31 December 2010	**(38)**	**2**	**(1,550)**	**(1,586)**
Foreign currency translation adjustments of foreign subsidiaries	–	–	(149)	(149)
Change in fair value of available-for-sale financial assets	–	(3)	–	(3)
Gains and losses from available-for-sale financial assets transferred to income statement	–	3	–	3
Change in fair value of cash flow hedges	(24)	–	–	(24)
Fair value losses of cash flow hedges transferred to income statement	31	–	–	31
Income tax expense	(3)	–	111	108
Balance at 31 December 2011	**(34)**	**2**	**(1,588)**	**(1,620)**

The hedging reserves comprise the changes in the fair value of hedging instruments which were designated as cash flow hedges. Changes in the fair value of available-for-sale financial assets are recognised in the fair value reserves. Reserves arising from foreign currency translation adjustments comprise the differences from the foreign currency translation of the financial statements of subsidiaries and associates from the functional currency into Swiss francs. On 31 December 2011, cumulative foreign currency translation losses at Fastweb amounted to CHF 1,951 million (prior year: CHF 1,815 million).

Other comprehensive income

Other comprehensive income in 2010 and 2011 is to be analysed as follows:

2011, in CHF million	Retained earnings	Hedging reserve	Fair value reserve	Foreign currency translation adjustments	Equity holders of Swisscom	Non-controlling interests	Total other comprehensive income
Foreign currency translation adjustments of foreign subsidiaries	–	–	–	(149)	(149)	–	(149)
Actuarial gains and losses from defined benefit plans	(781)	–	–	–	(781)	–	(781)
Change in fair value of available-for-sale financial assets	–	–	(3)	–	(3)	–	(3)
Gains and losses from available-for-sale financial assets transferred to income statement	–	–	3	–	3	–	3
Change in fair value of cash flow hedges	–	(24)	–	–	(24)	–	(24)
Fair value losses of cash flow hedges transferred to income statement	–	31	–	–	31	–	31
Income tax expense	160	(3)	–	111	268	–	268
Total other comprehensive income	**(621)**	**4**	**–**	**(38)**	**(655)**	**–**	**(655)**

2010, in CHF million	Retained earnings	Hedging reserve	Fair value reserve	Foreign currency translation adjustments	Equity holders of Swisscom	Non-controlling interests	Total other compre-hensive income
Foreign currency translation adjustments of foreign subsidiaries	–	–	–	(993)	(993)	(29)	(1,022)
Actuarial gains and losses from defined benefit plans	(693)	–	–	–	(693)	–	(693)
Change in fair value of available-for-sale financial assets	–	–	2	–	2	–	2
Change in fair value of cash flow hedges	–	(9)	–	–	(9)	–	(9)
Ineffective portion of cash flow hedges transferred to income statement	39		–	39	–	–	39 –
Income tax expense	155	1	–	270	426	–	426
Total other comprehensive income	**(538)**	**31**	**2**	**(723)**	**(1,228)**	**(29)**	**(1,257)**

32 Dividends

Distributable reserves are determined on the basis of equity as reported in the statutory financial statements of the parent company, Swisscom Ltd, and not on the equity as reported in the consolidated financial statements. At 31 December 2011, Swisscom Ltd's distributable reserves amounted to CHF 4,472 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 2011 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 2010 and 2011:

In CHF million, except where indicated	2011	2010
Number of registered shares eligible for dividend (in millions of shares)	51.802	51.798
Ordinary dividend per share (in CHF)	21.00	20.00
Dividends paid	**1,088**	**1,036**

In 2011, dividends of CHF 234 million were paid from capital reserves and CHF 854 million from retained earnings. In the prior year, dividends were paid exclusively out of retained earnings. See notes to the annual financial statements of Swisscom Ltd. The Board of Directors proposes to the Annual Shareholders' Meeting to be held on 4 April 2012 the payment of an ordinary dividend of CHF 22 per share in respect of the 2011 financial year. This equates a total dividend distribution of CHF 1,140 million. The dividend payment is foreseen on 13 April 2012.

33 Financial risk management and supplementary disclosures regarding financial instruments

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

Market price risks

Foreign exchange risks

Swisscom is exposed to foreign exchange risks; these can impact the Group's financial results and consolidated equity. Foreign exchange risks which have an impact on cash flows (transaction risks) are partially hedged by financial instruments and designated for hedge accounting. However, foreign exchange risks with an impact on equity (translation risks) are in principle not hedged. The aim of Swisscom's foreign exchange risk management policy is to limit the volatility of planned cash flows. Forward currency contracts, currency options and currency swaps are employed to hedge transaction risks. Mainly affected are USD and EUR. As of 31 December 2011, Swisscom did not hedge foreign currency translation risks in connection with the translation of financial statements expressed in foreign currency (translation risk) using financial instruments.
The currency risks and hedging contracts for foreign currencies as of 31 December 2011 are to be analysed as follows:

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

The currency risks and hedging contracts for foreign currencies as of 31 December 2010 are to be analysed as follows:

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

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	31.12.2011	31.12.2010
Income impact on balance sheet items		
EUR volatility of 9.86% (previous year: 11.99%)	123	100
USD volatility of 15.56% previous year: 12.68%)	8	6
Hedges for balance sheet items		
EUR volatility of 9.86% (previous year: 11.99%)	(75)	(94)
USD volatility of 15.56% previous year: 12.68%)	(6)	(5)
Planned cash flows		
EUR volatility of 9.86% (previous year: 11.99%)	64	82
USD volatility of 15.56% previous year: 12.68%)	54	43
Hedges for planned cash flows		
EUR volatility of 9.86% (previous year: 11.99%)	(32)	(41)
USD volatility of 15.56% previous year: 12.68%)	(25)	(20)

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

Interest rate risks

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

In CHF million	31.12.2011	31.12.2010
Fixed interest-bearing financial liabilities	5,978	6,141
Variable interest-bearing financial liabilities	2,537	3,247
Total interest-bearing financial liabilities	**8,515**	**9,388**
Fixed interest-bearing financial assets	(115)	(331)
Variable interest-bearing financial assets	(359)	(633)
Total interest-bearing financial assets	**(474)**	**(964)**
Total interest-bearing financial assets and liabilities, net	**8,041**	**8,424**
Variable interest-bearing	2,178	2,614
Fixed through interest rate swaps	(350)	(150)
Variable through interest rate swaps	58	59
Variable interest-bearing, net	**1,886**	**2,523**
Fixed interest-bearing	5,863	5,810
Fixed through interest rate swaps	350	150
Variable through interest rate swaps	(58)	(59)
Fixed interest-bearing, net	**6,155**	**5,901**
Total interest-bearing financial assets and liabilities, net	**8,041**	**8,424**

Sensitivity analysis

The following sensitivity analysis shows the effects on the income statement and equity if CHF interest rates move by 100 base points. Negative interest rates were ignored in the sensitivity computation for equity.

	Income statement		Equity	
In CHF million	Increase 100 base points	Decrease 100 base points	Increase 100 base points	Decrease 100 base points
At 31. December 2011				
Variable financing	(22)	22	–	–
Interest rate swaps	3	(3)	16	(8)
Cash flow sensitivity, net	**(19)**	**19**	**16**	**(8)**
At 31. December 2010				
Variable financing	(26)	26	–	–
Interest rate swaps	1	(1)	7	(8)
Cash flow sensitivity, net	**(25)**	**25**	**7**	**(8)**

Credit risks

Credit risks from operating activities

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

Credit risks from financial transactions

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

In CHF million	Note	31.12.2011	31.12.2010
Cash and cash equivalents	17	314	483
Trade and other receivables	18	2,978	2,742
Loans and receivables	19	210	481
Derivative financial instruments	19	28	24
Total carrying amount of financial assets		**3,530**	**3,730**

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

In CHF million	31.12.2011	31.12.2010
AAA	1	9
AA	–	123
AA–	168	342
A+	87	133
A	9	57
A–	11	67
BBB+	1	–
BBB	2	–
Without rating, with government guarantee	189	163
Without rating	84	94
Total	**552**	**988**

Liquidity risk

Prudent liquidity management includes the holding of adequate reserves of cash and cash equivalents and marketable securities as well as the provision of adequate financing. Swisscom has processes and policies in place that guarantee sufficient liquidity in order to settle current and future obligations. Swisscom has an unchanged confirmed line of credit from banks with a maturity ending in 2015 of CHF 2,000 million. As of 31 December 2011, this line of credit had not been drawn-down (prior year: CHF 250 million).
The contractual maturities of financial liabilities including estimated interest payments are as follows:

In CHF million	Carrying amount	Contractual payments	Due within 1 year	Due within 1 to 2 years	Due within 3 to 5 years	Due after 5 years
At 31. December 2011						
Non-derivative financial liabilities						
Money market borrowings	130	130	130	–	–	–
Bank loans	1,177	1,268	166	17	891	194
Debenture bonds	5,199	6,025	420	718	2,087	2,800
Private placements	1,399	1,473	163	144	566	600
Finance lease liabilities	660	1,909	61	51	138	1,659
Other interest-bearing financial liabilities	14	14	10	2	1	1
Other non-interest-bearing financial liabilities	21	21	4	15	2	–
Trade and other payables	2,190	2,190	2,190	–	–	–
Derivative financial liabilities						
Derivative financial instruments	231	309	4	85	129	91
Total	**11,021**	**13,339**	**3,148**	**1,032**	**3,814**	**5,345**

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

Estimation of fair values

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

Asset/liability categories and fair value of financial instruments

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

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

Fair value hierarchy

The fair value hierarchy has the following three levels:

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

In CHF million	Level 1	Level 2	Level 3	Total
At 31. December 2011				
Financial assets				
Available-for-sale financial assets	2	–	16	18
Derivative financial assets	–	28	–	28
Financial liabilities				
Derivative financial liabilities	–	231	–	231
At 31. December 2010				
Financial assets				
Available-for-sale financial assets	4	–	17	21
Derivative financial assets	–	24	–	24
Financial liabilities				
Derivative financial liabilities	–	199	–	199

In addition, available-for-sale financial assets as of 31 December 2011 with a carrying amount of CHF 13 million (prior year: CHF 11 million) were accounted for at cost. The level-3 assets consist of investments in various investment funds. The fair value was arrived at using a valuation model. In 2010 and 2011, there were no reclassifications between the various levels.

Asset/liability categories and results of financial instruments

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

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

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

In addition, in 2011, allowances for trade and other receivables amounting to CHF 111 million (prior year: CHF 132 million) were recorded under other operating expenses.

Derivative financial instruments

At 31 December 2010 and 2011, the following derivative financial instruments were recorded:

	Contract value		Positive fair value		Negative fair value	
In CHF million	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Fair value hedges	58	59	–	–	(17)	(15)
Cash flow hedges	835	561	5	–	(43)	(41)
Other derivative financial instruments	1,489	2,058	23	24	(171)	(143)
Total derivative financial instruments	**2,382**	**2,678**	**28**	**24**	**(231)**	**(199)**
Thereof current derivative financial instruments			28	–	(6)	(33)
Thereof non-current derivative financial instruments			–	24	(225)	(166)

Fair Value Hedges

	Contract value		Positive fair value		Negative fair value	
In CHF million	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Cross currency interest rate swaps in EUR	58	59	–	–	(17)	(15)
Total fair value hedges	**58**	**59**	**–**	**–**	**(17)**	**(15)**

In 2007, for the purpose of hedging the foreign currency and interest rate risks of financing in EUR, cross-currency swaps for EUR 77 million were entered into which were designated as fair value hedges for hedge accounting. In 2010 cross-currency swaps of EUR 29 million were due. As of 31 December 2011, the instruments designated for hedge accounting had negative fair values of CHF 17 million (prior year: CHF 15 million).

Cash Flow Hedges

	Contract value		Positive fair value		Negative fair value	
In CHF million	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Cross currency interest rate swaps in USD	37	37	–	–	(22)	(22)
Interest rate swaps in CHF	350	150	–	–	(17)	(1)
Forward currency contracts in USD	162	155	5	–	–	(7)
Forward currency contracts in EUR	286	219	–	–	(4)	(11)
Total cash flow hedges	**835**	**561**	**5**	**–**	**(43)**	**(41)**

As of 31 December 2011, derivative financial instruments include cross-currency swaps to hedge foreign exchange risks with respect to USD-denominated bank loans. These hedging instruments were designated for hedge accounting purposes. As of the balance sheet date, they had negative fair values of CHF 22 million (prior year: CHF 22 million). CHF 5 million (prior year: CHF 6 million) was recorded in the hedging reserve within consolidated equity. The maximum remaining term of the hedges is two years.

In 2011, Swisscom entered into interest rate swaps with final maturities in 2016 in order to hedge interest rate risks of CHF 200 million of the variable CHF-denominated interest-bearing private placements. In the prior year, in order to hedge interest rate risk, Swisscom had entered into interest rate swaps with a term of 2016 for CHF 150 million of variable interest rate CHF-denominated private placements. Both hedges were designated as cash flow hedges for hedge accounting purposes. As of 31 December 2011, these interest rate swaps were recorded with a negative fair value of CHF 17 million (prior year: CHF 1 million). CHF 18 million was recognised in the hedging reserve within consolidated equity for these hedging instruments (prior year: CHF 2 million). In 2009, interest rate swaps designated for hedge accounting for the premature hedging of the interest rate risk for the intended issuance of debenture loans totalling CHF 500 million were closed out. The effective share of CHF 24 million was left in the other reserves and is being released to interest expense over the hedged duration of debenture bonds issued in 2009. As of 31 December 2011, an amount of CHF 15 million (prior year: CHF 19 million) is recognised in the hedging reserve as part of consolidated equity.

As of 31 December 2011, derivative financial instruments include forward currency contracts of EUR 235 million and USD 172 million which serve to hedge future purchases of goods and services in the respective currencies. The hedges in EUR have a negative fair value of CHF 4 million, those in USD disclose a positive fair values of CHF 5 million. CHF 1 million was recorded in the hedging reserve within consolidated equity for these designated hedging instruments (prior year: CHF 16 million).

Other derivative financial instruments

	Contract value		Positive fair value		Negative fair value	
In CHF million	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Cross currency interest rate swaps in EUR	702	722	–	–	(145)	(126)
Interest rate swaps in CHF	700	1,100	–	10	(24)	(10)
Forward currency contracts in EUR	–	87	–	–	–	(4)
Currency swaps in USD	–	24	–	–	–	–
Currency swaps in EUR	37	–	–	–	(2)	–
Currency options in EUR	–	75	–	–	–	(3)
Options related to business combinations	50	50	23	14	–	–
Total other derivative finanicial instruments	**1,489**	**2,058**	**23**	**24**	**(171)**	**(143)**

In 2010 and in order to hedge currency and interest rate risks arising in connection with EUR-denominated financing, interest rate swaps were entered into for EUR 350 million with a duration of up to 5 years. These hedges were not designated for hedge accounting. Already in 2007, interest rate swaps for EUR 423 million had been entered into in order to hedge currency and interest rate risks arising in connection with EUR-denominated financing and which had not been designated for hedge accounting. Of these, currency swaps amounting to EUR 196 million matured in 2010. Furthermore, derivative financial instruments as at 31 December 2011 include a basis interest rate swap covering CHF 500 million maturing in 2012 with a market value of zero (prior year: negative market value of CHF 1 million) as well as interest rate swaps for CHF 200 million maturing in 2040 with a negative market value of CHF 24 million (prior year: positive market value of CHF 10 million) which were not designated for hedge accounting. In the prior year, there were further interest rate swaps which were not designated for hedge accounting totalling CHF 400 million with a negative fair value of CHF 9 million, which matured in 2011.

In addition, included in derivative financial instruments are foreign currency forward contracts, currency swaps and currency options for EUR and USD which serve to hedge future transactions in connection with Swisscom's operating activities and which were not designated for hedge accounting purposes. Included in derivative financial instruments are also options in connection with company acquisitions with a positive market value of CHF 23 million (prior year: CHF 14 million).

Management of equity resources

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

In CHF million	31.12.2011	31.12.2010 restated
Share of equity attributable to equity holders of Swisscom Ltd	4,272	6,256
Share of equity attributable to non-controlling interests	24	28
Total capital	**4,296**	**6,284**
Total assets	19,450	21,075
Equity ratio in %	22.1%	29.8%

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

In CHF million	31.12.2011	31.12.2010
Money market borrowings	130	700
Debenture bonds	5,199	5,195
Bank loans	1,177	1,460
Private placements	1,399	1,409
Finance lease liabilities	660	675
Other financial liabilities	266	333
Total financial liabilities	**8,831**	**9,772**
Cash and cash equivalents	(314)	(483)
Current financial assets	(73)	(122)
Non-current fixed interest-bearing deposits	(135)	(319)
Net debt	**8,309**	**8,848**
Operating income before depreciation and amortisation (EBITDA)	4,584	4,599
Ratio net debt/EBITDA	1.8	1.9

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

34 Supplementary information on the statement of cash flows

In CHF million	2011	2010
Trade and other receivables	(256)	28
Inventories	6	(14)
Other non-financial assets	(24)	(12)
Trade and other payables	(7)	62
Provisions	(37)	(56)
Other non-financial liabilities	(33)	26
Defined benefit obligations	(91)	(229)
Total changes in operating assets and liabilities	**(442)**	**(195)**

Other cash flows from financing activities

In 2011, other cash flows from financing activities aggregated CHF 4 million (prior year: CHF 38 million) which relate mainly to payments of hedging contracts.

Material non-cash investing and financing transactions

Additions to property, plant and equipment include additions from finance leases amounting to CHF 5 million (prior year: CHF 12 million). See Note 23. In 2011, following an agreement with the counterparty, receivables totalling USD 166 million (CHF 146 million) were offset against financial liabilities in the same amount and derecognised from the balance sheet.
In the years 2003 and 2006, Fastweb sold income tax and value-added tax receivables to financial institutions. Through the sale, substantially all of the risks and opportunities related to these tax assets were transferred. In 2010, a new contract was entered into with the financial institutions and the tax assets, including accrued interest, were taken back. As a result thereof income tax receivables of CHF 22 million, value-added tax receivables of CHF 25 million as well as other financial liabilities of CHF 47 million were recorded. The value-added tax receivables are recorded in the caption "other non-financial assets". See Notes 15, 21 and 26.

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 2011 aggregated CHF 658 million (prior year: CHF 399 million).

Operating leases

Operating leases relate primarily to the rental of real estate for business purposes. See Note 26. In 2011, payments for operating leases amounted to CHF 312 million (prior year: CHF 299 million). Future minimum lease payments in respect of operating lease contracts are as follows:

In CHF million	31.12.2011	31.12.2010
Within 1 year	135	280
Within 1 to 2 years	115	110
Within 2 to 3 years	81	75
Within 3 to 4 years	65	59
Within 4 to 5 years	55	51
After 5 years	176	157
Total future minimum lease payments	**627**	**732**

36 Research and development

Costs aggregating CHF 27 million for research and development were expensed in 2011 (prior year: CHF 28 million).

37 Related parties

Majority shareholder

Pursuant to the Swiss Federal Telecommunication Enterprises Act ("Telekommunikationsunternehmungsgesetz, TUG"), the Swiss Confederation ("the Confederation") is obligated to hold a majority of the share capital and voting rights of Swisscom. On 31 December 2011, the Confederation as majority shareholder held 56.9% of the issued shares of Swisscom Ltd. Any reduction of the Confederation's holding below a majority would require a change in law which would need to be voted upon the Federal Assembly, which would also be subject to a facultative referendum by Swiss voters. As the majority shareholder, the Confederation has the power to control the decisions of the general meetings of shareholders which are taken by the absolute majority of effectively cast votes. This relates in particular to the approval of dividend distributions and the election of the members of the Board of Directors. Swisscom supplies telecommunication services to and procures services from the Confederation, the majority shareholder in Swisscom. The Confederation comprises the various departments and administrative bodies of the Confederation, governmental agencies and the other companies controlled by the Confederation (primarily the Post, Swiss Federal Railways, RUAG, and Skyguide) and the Swiss Broadcasting Corporation, SRG-SSR. All transactions are conducted on the basis of normal relationships with customers and suppliers and on conditions applicable to unrelated third parties. In addition, financing transactions were entered into with the Swiss Post on normal commercial terms.

Associates

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

Minority shareholders

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

Post-employment benefits funds

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

Transactions and balances

Transactions and year-end balances with related parties in 2010 and 2011 are as follows:

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

In CHF million	Income	Expense	Receivables	Liabilities
Confederation	371	149	198	723
Associates	67	163	8	12
Other minority shareholders	28	14	2	2
Total in 2010/balance at 31 December 2010	**466**	**326**	**208**	**737**

Key management compensation

In CHF million	2011	2010
Current compensation	1.7	1.4
Share-based payments	0.8	0.7
Social security contributions	0.2	0.2
Total compensation to members of the Board of Directors	**2.7**	**2.3**
Current compensation	7.3	8.3
Share-based payments	1.2	1.3
Benefits paid following retirement from Group Executive Board	–	0.7
Pension contributions	0.9	1.1
Social security contributions	1.0	1.1
Total compensation to members of the Group Executive Board	**10.4**	**12.5**
Total compensation to members of the Board of Directors and of the Group Executive Board	**13.1**	**14.8**

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

38 Service concession agreements

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

39 Risk assessment process

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

40 Events after the balance sheet date

Approval of the consolidated financial statements

The Board of Directors of Swisscom approved the release of these consolidated financial statements on 14 February 2012. As of this date, no significant post-balance sheet events occurred.

Mobile phone frequency auction

The GSM and UMTS concessions expire at the end of 2013 and of 2016, respectively. In November 2010, the Federal Council delegated to the Federal Communications Commission (ComCom) the task of auctioning off all mobile phone frequencies which are currently available or which will become available by the end of 2013 and 2016, respectively. In this process, all mobile phone frequencies will be auctioned off under concessions which expire uniformly in 2018. Swisscom Switzerland submitted its applications in 2011. The results of the auction are anticipated in the first quarter of 2012.

41 List of Group companies

Registered name	Registered office	Shareholding in %	Currency	Share capital in millions	Segment
Switzerland					
Alphapay Ltd	Zurich	100	CHF	0.5	Other
Athon SA	Bioggio	100	CHF	0.4	Other
Axept Ltd	Opfikon	100	CHF	0.2	Swisscom Switzerland
BFM Business Fleet Management Ltd	Ittigen	100	CHF	1.0	Other
Billag Ltd	Fribourg	100	CHF	0.1	Other
cablex Ltd	Ostermundigen	100	CHF	5.0	Other
CT Cinetrade Ltd	Zurich	49	CHF	0.5	Swisscom Switzerland
Curabill Ltd	Zurich	100	CHF	1.9	Other
Evita Ltd	Ittigen	100	CHF	0.5	Other
Hospitality Services Plus Ltd	Geneva	100	CHF	10.0	Other
local.ch Ltd	Zurich	51	CHF	3.0	Swisscom Switzerland
LTV Yellow Pages Ltd	Zurich	49	CHF	10.0	Swisscom Switzerland
Medgate Holding Ltd	Zug	40	CHF	6.2	Other
Mona Lisa Capital Ltd	Ittigen	99.5	CHF	5.0	Group Headquarters
MyStrom Ltd	Berne	100	CHF	0.1	Other
Sicap Ltd	Berne	81.5	CHF	2.0	Other
Swisscom Broadcast Ltd	Berne	100	CHF	25.0	Other
Swisscom Directories Ltd	Berne	51	CHF	1.5	Swisscom Switzerland
Swisscom Event & Media Solutions Ltd	Ittigen	100	CHF	0.1	Other
Swisscom Real Estate Ltd	Ittigen	100	CHF	100.0	Other
Swisscom IT Services Ltd	Berne	100	CHF	150.0	Other
Swisscom IT Services Enterprise Solutions Ltd	Frauenfeld	100	CHF	0.3	Other
Swisscom IT Services Finance Ltd	Zurich	100	CHF	0.1	Other
Swisscom IT Services Finance Custom Solutions Ltd	Olten	100	CHF	0.1	Other
Swisscom IT Services Sourcing Ltd	Münchenstein	60	CHF	3.0	Other
Swisscom IT Services Workplace Ltd	Berne	100	CHF	0.5	Other
Swisscom Switzerland Ltd	Ittigen	100	CHF	1,000.0	Swisscom Switzerland
Transmedia Communications Ltd	Geneva	36.5	CHF	0.5	Swisscom Switzerland
Webcall GmbH	Zurich	100	CHF	0.1	Swisscom Switzerland
Wingo Ltd	Fribourg	100	CHF	3.0	Swisscom Switzerland
Worklink AG	Berne	100	CHF	0.5	Group Headquarters

Registered name	Registered office	Shareholding in %	Currency	Share capital in millions	Segment
Belgium					
Belgacom International Carrier Services	Brussels	22.4	EUR	1.5	Swisscom Switzerland
Hospitality Services Belgium SA	Brussels	100	EUR	0.6	Other
Swisscom Belgium N.V.	Brussels	100	EUR	4,330.2	Group Headquarters
China					
Swisscom Hospitality Hong Kong Ltd	Hong Kong	100	HKD	–	Other
Denmark					
Swisscom Hospitality Denmark A/S	Hellerup	100	DKK	0.6	Other
Germany					
Hospitality Services Germany GmbH	Munich	100	EUR	0.1	Other
Swisscom Telco GmbH	Eschborn	100	EUR	–	Group Headquarters
Finland					
Vilant Systems Oy	Espoo	20	EUR	–	Other
France					
Sicap France SA	Lyon	81.5	EUR	0.5	Other
Hospitality Services France SA	Paris	96	EUR	5.6	Other
Great Britain					
Hospitality Networks and Services UK Ltd	London	100	GBP	1.6	Other
Italy					
e.BisMedia S.p.A.	Milan	100	EUR	15.3	Fastweb
Fastweb S.p.A.	Milan	100	EUR	41.3	Fastweb
Fastweb Wholesale S.r.l.	Milan	100	EUR	5.0	Fastweb
Hospitality Services Italia S.r.l.	Milan	100	EUR	0.1	Other
Qualified eXchange Network S.c.p.A.	Rome	60	EUR	0.5	Fastweb
Swisscom ICT Italia S.r.l.	Milan	100	EUR	3.0	Fastweb
Swisscom Italia S.r.l.	Milan	100	EUR	2,502.6	Fastweb
Liechtenstein					
Swisscom Re Ltd	Vaduz	100	CHF	5.0	Group Headquarters
Luxembourg					
Swisscom IT Services Finance SE	Senningerberg	100	EUR	0.1	Other
Hospitality Services Luxembourg SA	Luxembourg	100	EUR	–	Other
Malaysia					
Sicap Malaysia SdnBhd	Kuala Lumpur	81.5	MYR	0.5	Other
Netherlands					
AUCS Communications Services v.o.f.	Hoofddorp	33.3	EUR	–	Group Headquarters
HSIA Hospitality Services Netherlands B.V.	The Hague	100	EUR	–	Other
Swisscom Investments B.V.	Hoofddorp	100	EUR	–	Group Headquarters
Norway					
Swisscom Hospitality Norway A/S	Stavanger	100	NOK	0.3	Other
Austria					
Hospitality Services GmbH	Vienna	100	EUR	0.3	Other

Registered name	Registered office	Shareholding in %	Currency	Share capital in millions	Segment
Portugal					
HSIA Hospitality Services Portugal	Lisbon	100	EUR	1.1	Other
Romania					
Hospitality Services s.r.l.	Bucarest	100	RON	–	Other
Russia					
Swisscom Hospitality Russia LLC	Moscow	100	RUB	0.1	Other
Sweden					
Diino AB	Stockholm	46.7	SEK	12.0	Group Headquarters
Spain					
Hospitality Networks and Services Espana SA	Madrid	100	EUR	0.1	Other
Whisher S.L.	Barcelona	40	EUR	–	Group Headquarters
Singapore					
Sicap Asia Pacific Pte Ltd	Singapore	81.5	SGD	0.1	Other
Swisscom IT Services Finance Pte Ltd	Singapore	100	SGD	0.1	Other
South Africa					
Sicap Africa Pty Ltd	Johannesburg	81.5	ZAR	0.1	Other
USA					
Hospitality Services North America Corp.	Dulles	98	USD	1.6	Other

Report of the statutory auditor

Report of the statutory auditor on the consolidated financial statements to the General Meeting of Shareholders of Swisscom Ltd, Ittigen (Berne)

As statutory auditor, we have audited the accompanying consolidated financial statements on pages 161 to 233 of Swisscom Ltd, which comprise income statement, statement of comprehensive income, balance sheet, statement of changes in equity, statement of cash flows and notes for the year ended 31 December 2011.

Board of Directors' Responsibility

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2011 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.
In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

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

KPMG AG

Rolf Hauenstein Licensed Audit Expert Auditor in Charge	Daniel Haas Licensed Audit Expert

Gümligen-Berne, 14 February 2012

Financial statements of Swisscom Ltd Income statement

In CHF million	Note	2011	2010
Net revenue from sale of goods and services		232	228
Other income		38	34
Total net revenue and other income		**270**	**262**
Personnel expense		(85)	(82)
Other operating expense		(121)	(99)
Depreciation and amortisation		(4)	(5)
Total operating expenses		**(210)**	**(186)**
Operating income		**60**	**76**
Financial expense		(249)	(283)
Financial income		255	291
Income from participations		150	2,131
Income tax expense		(28)	(14)
Extraordinary income	12	286	–
Net income		**474**	**2,201**

Balance sheet

In CHF million	Note	31.12.2011	31.12.2010
Assets			
Cash and cash equivalents		210	231
Other financial assets	10	25	97
Treasury shares	6	–	1
Receivables from Group companies		164	326
Dividends receivable from subsidiaries	9	110	2,100
Other receivables from third parties		5	3
Other assets		11	13
Total current assets		**525**	**2,771**
Property, plant and equipment	3	1	3
Participations	9	6,951	6,930
Loans to third parties		113	120
Loans to Group companies		7,502	7,425
Total non-current assets		**14,567**	**14,478**
Total assets		**15,092**	**17,249**
Liabilities and equity			
Financial liabilities to third parties	5	690	732
Financial liabilities to Group companies		1,996	2,593
Trade payables due to third parties		9	6
Other payables to third parties	4	164	157
Other payables to Group companies		13	14
Total current liabilities		**2,872**	**3,502**
Financial liabilities to third parties	5	7,347	7,966
Financial liabilities to Group companies		269	284
Provisions		67	344
Other liabilities		2	4
Total non-current liabilities		**7,685**	**8,598**
Total liabilities		**10,557**	**12,100**
Share capital		52	52
Capital surplus reserves		21	255
Reserve for treasury shares		–	1
Retained earnings		4,462	4,841
Total equity	7	**4,535**	**5,149**
Total liabilities and equity		**15,092**	**17,249**

Notes to the financial statements

1 General information

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

2 Contingent liabilities

At 31 December 2011, guarantees in favour of third parties for the account of Group companies aggregated CHF 305 million (prior year: CHF 186 million).

3 Fire insurance values of property, plant and equipment

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

4 Amounts payable to pension funds

As of 31 December 2011, the amounts payable to pension funds amounted to CHF 1 million (prior year: CHF 6 million).

5 Debenture bonds issued

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

	31.12.2011		31.12.2010	
In CHF million	Par value	Interest rate	Par value	Interest rate
Debenture bond 2007 to 2013	550	3.50	550	3.50
Debenture bond 2007 to 2017	600	3.75	600	3.75
Debenture bond 2008 to 2015	500	4.00	500	4.00
Debenture bond 2009 to 2014	1,250	3.50	1,250	3.50
Debenture bond 2009 to 2018	1,500	3.25	1,500	3.25
Debenture bond 2010 to 2012	250	0.75	250	0.75
Debenture bond 2010 to 2022	500	2.63	500	2.63

6 Treasury shares

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

7 Equity

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

In CHF million	Number of shares	Share capital	Capital surplus reserves	Reserve for treasury shares	Retained earnings	Total equity
Balance at 1 January 2010	**51,801,943**	**52**	**255**	**1**	**3,676**	**3,984**
Net income	–	–	–	–	2,201	2,201
Dividends paid	–	–	–	–	(1,036)	(1,036)
Balance at 31 December 2010	**51,801,943**	**52**	**255**	**1**	**4,841**	**5,149**
Net income	–	–	–	–	474	474
Dividends paid	–	–	(234)	–	(854)	(1,088)
Proceeds from treasury shares	–	–	–	(1)	1	–
Balance at 31 December 2011	**51,801,943**	**52**	**21**	**–**	**4,462**	**4,535**

Swisscom Ltd is a holding company established under Swiss law. According to the provisions of law governing the appropriation of retained earnings by holding companies, the share capital and appropriations to the general legal reserve to the extent of 20% of share capital as well as the reserve for treasury shares may not be distributed. As of 31 December 2011, distributable reserves aggregated CHF 4,472 million. Any dividend distribution must be proposed by the Board of Directors and approved by the Annual General Meeting of Shareholders.

8 Significant shareholders

In accordance with an announcement dated 19 January 2011, the Swiss Confederation (Confederation), as majority shareholder, held 56.9% of the issued share capital of Swisscom Ltd. The Federal Telecommunication Enterprises Act (TUG) stipulates that the Confederation must hold the majority of the capital and voting rights of Swisscom Ltd.

9 Participations and recording of dividends from subsidiaries

Participations are accounted for at acquisition cost less provisions for impairment, as required. Dividends from fully-consolidated subsidiaries of Swisscom Ltd are recognised in the year in respect of which the dividend is proposed. The dividends of the subsidiary companies have been approved at their respective Annual General Shareholder Meetings. A list of direct and indirect shareholdings of Swisscom Ltd is provided in Note 41 to the consolidated financial statements.

10 Assets subject to restriction

As of 31 December 2011, there were no restrictions on the availability of any assets. In the prior year, term deposits of CHF 93 million were not freely available. The deposits in question served to secure liabilities arising from cross-border lease arrangements. See Note 26 to the consolidated financial statements.

11 Information on risk assessment process

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

12 Net release of hidden reserves

In 2011, hidden reserves totalling CHF 194 million were released.

13 Management compensation

Compensation for the members of the Board of Directors

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

[1] Cash compensation is paid pro rata until 31 August 2011 to Coop.
[2] In addition, a cash compensation (inclusive meeting attendance fees) of CHF 9,500 was paid as member of the Board of Directors of Worklink AG.
[3] Resigned as of 20 April 2011.
[4] Resigned as of 31 August 2011.
[5] Elected as of 20 April 2012.
[6] Designated as of 20 April 2011 by the Swiss Confederation.

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

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

The compensation plan provides for basic emoluments as well as functional allowances and meeting attendance fees. No variable profit-related emoluments are paid. The basic emolument for the Chairman of the Board of Directors, as in the prior year, was CHF 385,000 net, and CHF 120,000, net, (prior year: CHF 110,000) for the other Board members. Furthermore, additional fees are paid for specific duties (functional allowances). Accordingly, each member of the Finance and Audit Committees is entitled to an allowance of CHF 10,000, net, unchanged from the prior year. From 2011 onwards, the members of the Compensation Committee also receive a functional allowance in the same amount. In addition, the Vice-Chairman and Chairman of the Finance and Compensation Committees are each entitled to an allowance in an unchanged amount of CHF 20,000 net. In 2011, the Chairman of the Audit Committee receives an amount of CHF 50,000 (previously CHF 20,000). The representative of the Swiss Confederation receives an unchanged amount of CHF 40,000, net, for the special duties related to his function. Furthermore, meeting attendance fees of CHF 1,250 (prior year: CHF 750) are paid for each full day and CHF 750 (prior year: CHF 500) for each half-day. Out-of-pocket expenses are reimbursed on the basis of actual costs incurred. No significant non-cash benefits are paid.

The members of the Board of Directors are obligated to draw 25% of their basic emoluments including functional allowances in the form of equity shares, whereby Swisscom augments the amount to be invested in shares by 50%. In this manner, the compensation (excluding meeting attendance fees) is made up of a two-thirds cash portion and one-third equity share portion. The amount of the share purchase obligation can vary in the case of members who join, leave or take over or give up a function during the year. The shares are allocated on the basis of their value accepted for tax purposes – rounded up to the next whole number of shares – and are subject to a three-year retention period. The shares which are allocated in April of each reporting year are recorded at their market value as of the acquisition date, if purchased (usually three weeks before allocation) or at the market value on the date of allocation, if treasury shares are allocated. In April 2011, a total of 1,895 shares were allocated to the members of the Board of Directors (prior year: 1,712 shares) for a tax value of CHF 346 per share (prior year: CHF 328). Their market value was CHF 412 per share (prior year: CHF 392).

As regards the disclosure of non-cash benefits and expenses, these are dealt with from a tax point of view. Accordingly, neither non-cash benefits nor expenses are included in reported compensation. No compensation was paid to former members of the Board of Directors in connection with their earlier activities as a member of a governing body of the Company and which is not at arm's length. The compensation disclosed does not include the employer's share of social security contributions in particular for old age, accident and unemployment insurance. The social security contributions for the Board of Directors in 2011 totalled CHF 0.2 million (prior year: CHF 0.2 million).

Compensation for the members of the Group Executive Board

In CHF thousand	Total Group Executive Board 2011	Total Group Executive Board 2010	Thereof Carsten Schloter 2011	Thereof Carsten Schloter 2010
Fixed base salary paid in cash	4,594	4,889	830	770
Variable earnings-related compensation paid in cash	2,641	3,333	442	707
Non-cash compensation	87	76	17	17
Share-based payments variable	1,168	1,323	175	280
Benefits paid following retirement from Group Executive Board	–	664	–	–
Retirement benefits	922	1,054	106	125
Severance payments	–	–	–	–
Total compensation to members of the Group Executive Board	**9,412**	**11,339**	**1,570**	**1,899**

The compensation paid to the Group Executive Board consists of a basic salary, a variable performance-related share of profits as well as non-cash benefits and additional benefits (primarily company car) as well as pension benefits. The variable performance-related share of profits is fixed in the subsequent year once the consolidated financial statements are available on the basis of the incentive targets fixed in the year under review and is paid out in April of the same subsequent year. Apart from one Board member who receives a cash portion of 64% and an equity share portion of 36%, 75% of the variable performance-related share of profits is paid out in cash and 25% in Swisscom shares to the remaining members of the Group Executive Board. During the period under review, no premiums for individual services rendered were awarded. The shares are allocated on the basis of their value accepted for tax purposes – rounded up to the next whole number of shares – and are subject to a three-year retention period. The share-based compensation for the reporting period is augmented by a factor of 1.19 in order to take account of the difference between the market value and the tax value. The market value is determined as of the acquisition date of the shares in case of their purchase (usually three weeks before their allocation) or, if treasury shares are allocated, as of the date of their allocation. Shares in respect of the current year are allocated in April 2012. As regards the financial year 2010, a total of 3,128 shares (prior year: 2,767 shares) with a tax value of CHF 346 (prior year: CHF 328) were allocated to the members of the Group Executive Board in April 2011. The market value was CHF 412 per share (prior year: CHF 392). As regards the disclosure of non-cash benefits and expenses, these are dealt with from a tax point of view. Of the non-cash benefits reported, only a share of the use of a company car is thus included in the reported compensation. Reported pension benefits (amounts which give rise to pension entitlements or increase pension benefits) encompass all savings, guarantee and risk contributions paid by the employer to pension plans.

All compensation was accrued in accordance with the International Financial Reporting Standards (IFRS). The highest compensation in the reporting year and prior year was paid to the CEO of Swisscom Ltd, Carsten Schloter. Swisscom has granted no sureties, guaranties or pledges in favour of third parties or other collateral to any of the persons impacted by the reporting obligation. No compensation was paid to former members of the Group Executive Board in connection with their earlier activities as a member of a governing body of the Company and which is not at arm's length. The compensation disclosed does not include the employer's share of social security contributions in particular for old age, accident and unemployment insurance. The social security contributions for the Group Executive Board in 2011 totalled CHF 1.0 million (prior year: CHF 1.1 million).

Payments to related parties

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

Loans and credits granted

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

Further information

Further information on compensation paid to management members is set out in the Remuneration Report on page 150.

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

The table below discloses the shares held by the members of the Board of Directors and the Group Executive Board as of 31 December 2010 and 2011.

Number	31.12.2011	31.12.2010
Hansueli Loosli [1]	412	271
Hugo Gerber	730	589
Michel Gobet	1,097	956
Torsten G. Kreindl	705	674
Catherine Mühlemann	720	579
Felix Rosenberg	–	2,223
Richard Roy	869	674
Anton Scherrer [2]	–	2,169
Theophil Schlatter [3]	360	–
Othmar Vock	1,058	852
Hans Werder [4]	288	–
Total shares of the members of the Board of Directors	**6,239**	**8,987**
Carsten Schloter (CEO)	4,852	4,172
Ueli Dietiker	3,132	2,720
Daniel Ritz	1,007	778
Kathrin Amacker-Amann [5]	68	40
Hans C. Werner [6]	–	–
Christian Petit	1,346	955
Roger Wüthrich-Hasenböhler [7]	351	–
Urs Schaeppi	1,081	1,005
Heinz Herren	750	515
Eros Fregonas	1,936	1,259
Total shares of the members of the Group Executive Board	**14,523**	**11,444**

[1] Elected as of 21 April 2009 as member and as of 1 September 2011 as Chairman.
[2] Resigned as of 31 August 2011.
[3] Elected as of 20 April 2011.
[4] Designated as of 20 April 2011 by the Swiss Confederation.
[5] Joined as of 1 October 2010.
[6] Joined as of 1 September 2011.
[7] Member of the Excecutive Board as of 1 January 2011.

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

Proposed appropriation of available earnings

Proposal of the Board of Directors

The Board of Directors proposes to the Annual General Meeting of Shareholders to be held on 4 April 2012 that the retained earnings of CHF 4,462 million for the year ended 31 December 2011 shall be appropriated as follows:

In CHF million	31.12.2011
Appropriation of retained earnings	
Balance carried forward from prior year	3,987
Proceeds from treasury shares	1
Net income for the year	474
Total retained earnings	**4,462**
Ordinary dividend of CHF 22.00 per share to 51,801,508 shares in total [1]	(1,140)
Balance to be carried forward	**3,322**

[1] Excluding treasury shares.

In the event that the proposal is approved, a dividend per share will be paid to shareholders on 13 April 2012 as follows:

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

Report of the statutory auditor

Report of the statutory auditor on the financial statements to the General Meeting of Shareholders of Swisscom Ltd, Ittigen (Berne)

As statutory auditor, we have audited the accompanying financial statements on pages 236 to 243 of Swisscom Ltd, which comprise the income statement, balance sheet and notes for the year ended 31 December 2011.

Board of Directors' responsibility

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

Auditor's responsibility

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

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

Opinion

In our opinion, the financial statements for the year ended 31 December 2011 comply with Swiss law and the Company's articles of incorporation.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.
In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

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

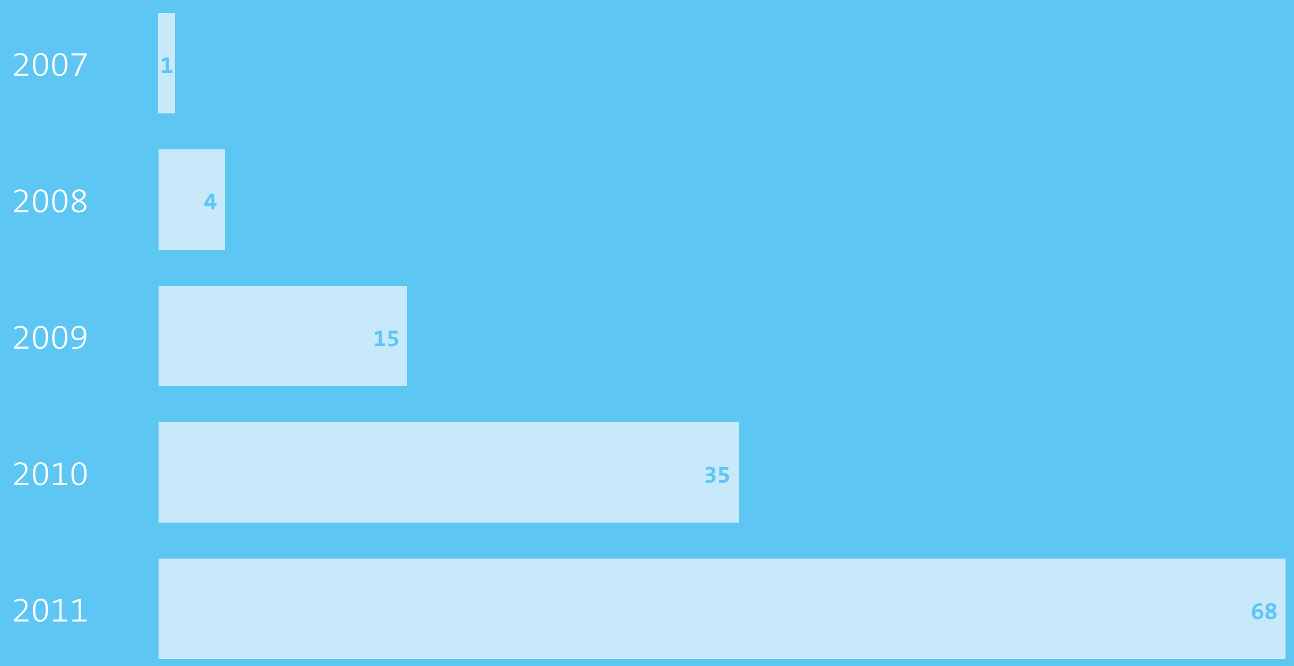
KPMG AG

Rolf Hauenstein Licensed Audit Expert Auditor in Charge	Daniel Haas Licensed Audit Expert

Gümligen-Berne, 14 February 2012

Discovering new things, implementing ideas, improving existing products – those are key drivers for Swisscom.

In only four years, mobile data traffic grew by a factor of 68.



Glossary

Technical terms

ADSL (Asymmetric Digital Subscriber Line): A broadband data transmission technology that uses the existing copper telephone cable for broadband access to the data network. A filter at the customer end and in the network prevents reciprocal 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 network based on Internet Protocol (IP). In the medium and long term, Swisscom intends to migrate all existing communications networks to IP to enable all telecommunications services (telephony, data traffic, TV, mobile communications, etc.) to be offered over IP. All-IP means that all services such as television, the Internet or telephony run over the same IT network based on Internet Protocol. Phone calls are no longer transmitted using analogue signals but instead take the form of data packets, as is the case for existing Internet services. Thanks to the uniform All-IP network infrastructure, devices and services can communicate with one another and exchange data.

Bandwidth: Bandwidth refers to the transmission capacity of a medium; also known as the data transmission rate. The higher the bandwidth, the more information units (bits) can be transmitted per unit of time (second). It is defined in bps, kbps or Mbps.

Connectivity: Connectivity is the generic term used to denote IP services or 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 copper-based subscriber lines. Examples of DSL technologies: ADSL, ADSL2+ or VDSL2.

EDGE (Enhanced Data Rates for GSM Evolution): EDGE is a radio modulation technology used to enhance data transmission speeds in GSM mobile networks and TDMA (Time Division Multiple Access). EDGE enables higher data transmission speeds based on the GSM standard. Thanks to improved encoding, EDGE permits data rates of up to 48,000 bits per channel compared to the maximum 14,400 bps currently available in the GSM network. EDGE allows mobile customers to work or use high-bandwidth applications (video and audio transmission, for example) while on the move. Today EDGE covers 99.8% of the population.

Fibre to the Home (FTTH)/Fibre to the Office (FTTO): FTTH/FTTO denotes the use of fibre-optic cables instead of copper cables to connect homes and offices.

GPRS (General Packet Radio Service): GPRS significantly accelerates the transmission speed in GSM mobile communications networks. Currently, GPRS enables speeds of 30 to 40 kbps. GPRS is ideal for WAP services and entertainment offerings as well as sending and receiving e-mails.

GSM (Global System for Mobile communications) network: GSM is a digital mobile communications standard which, in addition to voice and data transmission, enables services such as SMS messaging and connections to and from countries abroad (international roaming).

HSPA (High-Speed Packet Access): HSPA is a further development of the UMTS mobile communications standard. 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. HSPA is upgraded to HSPA+ at locations where mobile Internet use is particularly concentrated. This technology speeds up transmission to a maximum rate of 42 Mbps.

ICT (Information and Communication Technology): A term coined in the 1980s, bringing together the terms information technology and communication technology. The combined term denotes the convergence of information technology (information and data processing and the related hardware) and communication technology (technically aided communications).

IP (Internet Protocol): IP enables different types of services to be integrated on a network. Typical applications are virtual private networks (VPN), telephony (Voice over IP) and fax (Fax over IP).

IPTV (Internet Protocol Television): IPTV refers to the digital broadcasting of broadband applications (e.g. television programmes, films) over a IP network.

ISDN (Integrated Services Digital Network): ISDN is a digital communications network for transferring data, text, voice and images over the same telephone line. There are two or more transmission channels, allowing users to make several calls simultaneously or transfer data at the same time as they make a voice call. The transmission speed is 64 kbps per channel.

ISP (Internet Service Provider): An ISP is a provider of Internet-based services. Also commonly referred to as Internet Provider. Services include Internet connection (using DSL, for example), hosting (registration and operation of Internet addresses, websites and web servers) and content provision.

LAN (Local Area Network): A LAN is a local network for interconnecting computers, usually based on Ethernet.

LTE (Long Term Evolution): LTE is the successor technology to HSPA. LTE enables mobile broadband data speeds of up to 300 Mbps.

MVNO (Mobile Virtual Network Operator): MVNO is a business model for mobile communications in which a company (the MVNO) with no network infrastructure or a limited network infrastructure is able to access the infrastructure of other mobile communications providers.

Optical fibre: Optical fibre is used as a transport medium for optical data transmission.

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.

Outbound Roaming: Outbound roaming refers to the connecting of mobile subscribers while moving around in a third-party network.

PSTN (Public Switched Telephone Network): PSTN is a collective term that covers the public fixed telephone network in its entirety.

PWLAN (Public Wireless Local Area Network): A PWLAN is a public local area network. It enables data access using different wireless transmission technologies. Swisscom customers can use more than 1,200 hotspots in Switzerland and over 65,000 worldwide. All that is required is a laptop, PDA or mobile telephone, a WLAN card and access via a telecommunications provider. Maximum transmission capacity in the PWLAN is 2 Mbps.

Quadruple Play: Quadruple Play refers to the four services – telephony, broadband Internet, television and mobile communication – bundled together in a single package.

Roaming: The term "roaming" originally comes from the GSM world. Traditional GSM roaming is defined as the ability of a mobile network subscriber to make and receive automatic calls in a network other than their own, to automatically send and receive data or have access to other mobile network services. Roaming enables mobile network subscribers to use their mobile phones when travelling abroad. The mobile telephone of a subscriber outside Switzerland automatically selects the best-quality partner network. Information indicating the country and region where the mobile phone is located at any given time is sent to the exchange in Switzerland where the mobile phone is registered. On receipt of the calling signal, the exchange in Switzerland transmits it within a fraction of a second to the right region in the respective country, where the signal is forwarded to the base station in whose vicinity the mobile phone is located. The base station then forwards the signal to the mobile phone and the call can be taken. Roaming only works if all countries involved operate on the same frequency bands. In Europe all GSM networks use the same frequency bands. Other countries such as the USA or countries in South America use a different frequency range. Most mobile telephones today are triband or quadband and support 900 MHz and 1800 MHz networks (which are most commonly used in Europe) as well as 850 MHz and 1900 MHz networks.

Router: A router is a device for combining or separating several computer networks. The router analyses incoming data packets according to their destination address, and either blocks them or forwards them accordingly (packet routing).

TDM (Time Division Multiplexing): Multiplexing is a method which allows simultaneous transmission of a number of different information signals over a common medium (line, cable or radio link), e.g. by means of classic telephony (using an ISDN or analogue line). Multiplexing methods are often combined to achieve even higher utilisation. At the receiver end the information signal is first demultiplexed and then demodulated.

TIME (Telecommunications, Information, Media, Entertainment): The TIME market covers applications in the areas of telecommunications, IT, media and entertainment.

Triple play: The provision of three services – telephony, broadband Internet and TV – over the telephone line.

UMTS (Universal Mobile Telecommunications System): UMTS is an international third-generation mobile communications standard that combines mobile multimedia and telematic services within the 2 GHz frequency spectrum. A further development of GSM, UMTS complements GSM and Public Wireless LAN in urban regions of Switzerland. Data transmission speeds of up to 384 kbps can be achieved, enabling the transmission of short video clips, for example. Swisscom has set up its own UMTS mobile network. Today the UMTS network covers around 92% of the Swiss population. UMTS can only be used with special handsets.

Unified Communications: An attempt used to integrate the wide variety of modern communication technologies. Different telecommunication services such as e-mail, unified messaging, telephony, mobile, PDAs, instant messaging and presence functions are coordinated to enhance the reachability of dispersed communication partners, thereby speeding up business processes.

VDSL (Very High Speed Digital Subscriber Line): VDSL is currently the fastest DSL technology, allowing data transmission speeds of over 50 Mbps.

Video-on-Demand: A service that allows subscribers to choose from a selection of films and to watch the selected film at any time. The film is delivered to the subscriber either over the broadband cable network or over DSL and the telephone network.

VoIP (Voice over Internet Protocol): VoIP is used to set up telephone connections via the Internet.

VPN (Virtual Private Network): VPN is generally used to refer to logical private subnetworks set up within a public network. The most common interpretation of VPN at present is IP-VPN, where subscribers are connected over IP tunnels.

WLAN (Wireless Local Area Network): A WLAN is a network. It connects several computers wirelessly and links them to a central information system, printer or scanner.

Networks

Access network: Swisscom's access network largely consists of twisted copper wire pairs and extends to practically every household in Switzerland. It also deploys add-on technologies such as microwave radio and fibre optics. In 2000 Swisscom rolled out ADSL broadband technology, which today delivers reliable, top-quality services to over 98% of households in Switzerland. Local and geographical redundancy in the network elements and data centres assures high availability. Swisscom also guarantees nationwide broadband Internet access as part of its universal service provision mandate. In addition to fibre-optic and DSL technologies, Swisscom uses wireless technologies such as UMTS and satellite to fulfil this mandate. To facilitate the provisioning of new bandwidth-hungry services such as IPTV and video telephony while also meeting the growing demand for faster Internet connections, Swisscom started supplementing its broadband offerings with VDSL technology in 2006. This technology allows the transmission of multiple TV streams in standard quality or in high-definition quality (HDTV) at the same time as using a high-speed Internet connection. Today, a large number of Swiss households already receive live TV, video-on-demand, pay-per-view and radio in excellent quality. Three geographically dispersed data centres serve to ensure high availability. Swisscom also continuously implements measures to provide service quality of an even higher standard. Customer satisfaction was again raised demonstrably in 2011.

Data networks: Swisscom has several leased-line networks. These are supplemented by an SDH (Synchronous Digital Hierarchy) and an Ethernet platform. These support bandwidths of 2 Mbps to 10 Gbps and are ideal for business customers requiring permanent point-to-point broadband connectivity free from the risk of overload. Redundancies are adapted to customers' individual availability and security needs.

Fixed network: Swisscom operates a nationwide PSTN/ISDN network infrastructure, different data networks and a broadband and IP network. The infrastructure comprises the access and transport network as well as different service platforms for telephony and data services.

Mobile network: Swisscom operates a nationwide mobile network in Switzerland. The mobile services it provides are based on GSM and UMTS, the two dominant digital standards across Europe and much of the world. Swisscom's GSM network covers 99% of the population and operates in the 900 MHz and 1800 MHz frequency bands, while the UMTS network uses the 2,100 MHz frequency band. The Federal Communications Commission has extended Swisscom's GSM mobile licence, which expired in 2008, to the end of 2013. The extension is of a provisional nature due to a complaint concerning the licence renewal procedure. In 2012 an auction will be held for new licences in all frequency bands. Swisscom has implemented different technologies that enable transmission between handsets and base stations. In 2005, it enhanced all active GSM antennas with EDGE technology, a further development of GPRS. EDGE enables bandwidths of between 150 kbps and 200 kbps and currently covers 99% of the population. Swisscom began rolling out UMTS as far back as 2004 and since 2006 has continued to expand its mobile network using HSPA/HSPA+. This allows download speeds of up to 21 Mbps or even up to 42 Mbps in some areas. By the end of 2011, UMTS/HSPA was available to around 93% of the Swiss population. Swisscom thus possesses the most efficient mobile network in Switzerland and will continue to expand its technological lead. Swisscom took another major step in 2011 when it became the first mobile provider in Switzerland to launch a field trial with LTE, which supports bandwidths of up to 100 Mbps.

Next-generation network: To enable new services such as VoIP and convergent solutions to be offered more cost-effectively in the future, Swisscom is investing in an All-IP network infrastructure. This structure will allow services to be provided irrespective of the type of access technology selected, be it copper, wireless or fibre optic. Thanks to its migration of the data transport network to IP, the commissioning of an IP-based telephony and multimedia platform, and the launch of its first IP-based services such as Swisscom TV and VoIP, Swisscom has already gained experience in the area of All-IP offerings. The first products based solely on IP were already rolled out in 2009 and supplemented in 2010 by a wide range of new services and bundled offerings.

PSTN network: The PSTN network connects virtually all private households and a large proportion of business customers in Switzerland. Four-fold redundancy in the core network and two-fold redundancy in the switching layer ensure excellent voice quality and optimum security and availability.

Transport network: The transport network is an exclusively digital network that supports the transmission of voice, video and data services between access networks. All transmission points are equipped with optical fibres. They enable the provision of Ethernet services for business customers as well as VDSL connectivity.

Other terms

Bit-stream access (BSA): Regulated bitstream access refers to a high-speed link (on a metallic pair cable from the local exchange to the home) which Swisscom operates. 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.

Competition Commission (ComCo): ComCo enforces the Federal Cartel Act, the aim of which is to safeguard against the harmful economic or social impact of cartels and other constraints on competition, and in so doing foster competition. The ComCo combats harmful cartels and monitors market-dominant companies for signs of anti-competitive conduct. It is also responsible for examining mergers and issuing statements on official decrees that affect competition.

COSO/COSO ERM (Committee of Sponsoring Organizations of the Treadway Commission): COSO is a voluntary, private-sector US organisation. Its goal is to qualitatively improve financial reporting through ethical conduct, effective internal controls and good corporate management. The Enterprise Risk Management (ERM) Framework is an extension of COSO's Internal Control Framework.

ERM (Enterprise Risk Management): ERM is a Group-wide management system that ensures the assessment, handling and reporting of significant risks at Group level as well as Group-company level.

Ex-ante: In an ex-ante regime, the particulars of the regulated offerings (commercial, technical and operating conditions) must be approved by a government authority (authorisation obligation). The conditions approved by the authority (e.g. price) are known to the parties using the regulated services. There is legal provision for the affected providers to establish that the price has been correctly determined.

Ex-post: In an ex-post regime, the parties must agree all possible aspects of the contractual content (primacy of negotiation). In the event of a dispute, the authorities decide only on the points on which the parties have been unable to agree (objection principle).

Federal Communications Commission (ComCom): 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.

Federal Office of Communications (OFCOM): The OFCOM deals with issues related to telecommunications and broadcasting (radio and television), and performs official and regulatory tasks in these areas. OFCOM prepares the groundwork for decisions by the Federal Council, the Federal Department for Environment, Transport, Energy and Communications (DETEC) and the Federal Communications Commission (ComCom).

Full access: Full access 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.

Interconnection: Interconnection means linking up the systems and services of two TSPs so as to enable the logical interaction of the connected telecoms components and services and to provide access to third-party services. Interconnection allows the customer of one provider to communicate with the subscribers of another provider. Under the terms of the Federal Telecommunications Act, market-dominant telecommunications service providers are required to allow their competitors interconnection at cost-based (LRIC) prices.

ISO (9001, 14001-14064, 15504, 27001, 31000): ISO is the International Organization for Standardization. It draws up international standards in all fields with the exception of electricity and electronics, for which the International Electrotechnical Commission (IEC) is responsible, and with the exception of telecommunications, for which the International Telecommunication Union (ITU) is responsible. Together, these three organisations form the WSC (World Standards Cooperation). The relevant ISO standards are ISO 9001: Quality Management System – Requirements; ISO 14001 to ISO 14064: Environmental Management System; ISO 15504 Software Process Improvement and Capability Determination (SPICE); 27001 Information Technology – IT-Security Techniques – Information Security Management Systems – Requirements; ISO 31000: Risk Management Principles and Guidelines. These standards govern the principles and general requirements for the risk management process.

Last mile: Also referred to as the local loop, the last mile denotes the subscriber access line between the subscriber access point and the local exchange. In Switzerland, as in most other countries, access to the last mile is regulated.

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.

Telecommunications Act (TCA): The TCA stipulates that the Swiss population and the business community are to be provided with a wide range of affordable, high-quality telecommunications services that are nationally and internationally competitive. In particular, it guarantees the framework for the reliable, mandatory provision of basic telecommunications services for all sections of the population in all regions of the country. It provides fault-free telecommunications traffic that respects personal and intellectual property rights, enables effective competition among providers of telecommunications services, and protects users of telecommunications services against unfair mass advertising and misuse of value-added services.

Termination charges: Termination charges are levied by the network operator for forwarding calls to other third-party networks (e.g. calls from Orange to Swisscom or from Sunrise to Orange).

Unbundling: Unbundling of the last mile (Unbundling of the Local Loop, ULL) enables fixed-network competitors without their own access infrastructure to access customers directly at non-discriminatory conditions based on original cost. The prerequisite for ULL is the presence of a market-dominant provider.

Index of keywords

Swisscom Group five-year review

In CHF million, except where indicated		2007	2008	2009	2010	2011
Net revenue and results						
Net revenue		11,089	12,198	12,001	11,988	11,467
Operating income before depreciation and amortisation (EBITDA)		4,536	4,806	4,702	4,599	4,584
EBITDA as % of net revenue	%	40.9	39.4	39.2	38.4	40.0
Operating income (EBIT) before impairment losses on goodwill		2,544	2,651	2,707	2,627	2,681
Operating income (EBIT)		2,544	2,651	2,707	2,627	1,126
Net income		2,084	1,749	1,938	1,788	694
Share of net income attributable to equity holders of Swisscom Ltd		2,081	1,754	1,941	1,813	683
Earnings per share	CHF	40.17	33.87	37.47	35.00	13.19
Balance sheet and cash flows						
Equity at end of year		5,570	4,926	6,212	5,350	4,296
Equity ratio at end of year	%	23.3	21.3	28.0	25.4	22.1
Cash flow provided by operating activities		3,604	4,126	4,395	4,024	3,951
Capital expenditure in property, plant and equipment and other intangible assets		2,025	2,050	1,987	1,903	2,095
Net debt		10,550	10,071	9,141	8,848	8,309
Employees						
Full-time equivalent employees at end of year	number	19,844	19,943	19,479	19,547	20,061
Average number of full-time equivalent employees	number	18,755	19,801	19,813	19,464	19,832
Operational data						
Telephone access lines PSTN/ISDN in Switzerland	in thousand	3,686	3,556	3,391	3,233	3,120
Broadband access lines retail in Switzerland	in thousand	1,602	1,334	1,478	1,584	1,842
Mobile access lines in Switzerland	in thousand	5,007	5,359	5,602	5,828	6,049
Swisscom TV access lines in Switzerland	in thousand	59	118	232	421	608
Unbundled fixed access lines in Switzerland	in thousand	–	31	153	255	306
Broadband access lines in Italy	in thousand	1,263	1,483	1,644	1,724	1,595 [1]
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	56.719	53.441	51.802	51.802	51.802
Closing price at end of period	CHF	442.00	339.50	395.60	411.10	355.90
Closing price highest	CHF	486.00	442.75	400.90	420.80	433.50
Closing price lowest	CHF	402.50	292.00	293.50	358.00	323.10
Market capitalisation at end of year		22,896	17,587	20,491	21,296	18,436
Ordinary dividend per share	CHF	18.00	19.00	20.00	21.00	22.00 [2]
Extraordinary dividend per share	CHF	2.00	–	–	–	–
Ratio payout/earnings per share	%	49.79	56.10	53.38	60.06	166.85

[1] As a result of the settlement of litigations Fastweb reduced the number of access lines by 197,000.
[2] In accordance with the proposal of the Board of Directors to the Annual General Meeting.

Publishing details

Key dates

- **15 February 2012**
  Annual Press Conference 2012, Zurich
- **4 April 2012**
  Annual General Meeting of Shareholders, Hallenstadion, Zurich
- **10 April 2012**
  Ex-dividend date
- **13 April 2012**
  Dividend payment
- **2 May 2012**
  2012 First-Quarter Report
- **8 August 2012**
  2012 Half-Year Report
- **8 November 2012**
  2012 Third-Quarter Report
- **in February 2013**
  Annual Press Conference 2013, Zurich

Publication and production

Swisscom Ltd, Berne

Translation
CLS Communication AG, Basel

Photos
Jürg Isler, Basel
Stephan Schacher, New York
Marc Wetli, Zurich

Production
MDD Management Digital Data AG, Lenzburg

Content and creative conception
PETRANIX
Corporate and Financial Communications AG
Adliswil-Zurich

Prepress and printing
Multicolor Print AG, Baar

Printed on chlorine-free paper

The Annual Report is published in English, French and German.

Further copies of the Annual Report can be ordered from
E-mail: annual.report@swisscom.com
A Swisscom company brochure is also available in English, French, German, and Italian.

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German: www.swisscom.ch/bericht2011
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